中國銀行
BANK OF CHINA

# SERVING SOCIETY
# DELIVERING EXCELLENCE

## 2016 Annual Report

**Bank of China Limited**

(a joint stock company incorporated in the People's Republic of China with limited liability)

Ordinary H-Share Stock Code: 3988

Offshore Preference Share Stock Code: 4601

# Bank of China Global Network

Bank of China is the most internationalised bank in China. After establishing the London Agency in 1929, which was the first overseas institution of Chinese financial institutions, the Bank gradually expanded its overseas network to major global financial centres including Tokyo, Singapore and New York. At present, the Bank provides a comprehensive range of financial services to customers across the Chinese mainland as well as 51 countries and regions.






CALGARY
VANCOUVER
TORONTO
MONTREAL
CHICAGO
NEW YORK
LOS ANGELES
GRAND CAYMAN
COLON
PANAMA
LIMA
RIO DE JANEIRO
SAO PAULO
AUCKLAND

# Introduction

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, drawing on its long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure by its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2016, Bank of China was again designated as a Global Systemically Important Bank, thus becoming the sole financial institution from emerging economies to be designated as a Global Systemically Important Bank for six consecutive years.

As China's most internationalised and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland as well as 51 countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Limited, a controlled subsidiary, is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its history of over one century. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. Faced with new historic opportunities, the Bank will meet its social responsibilities, strive for excellence, and make further contributions to achieving the China Dream and the great rejuvenation of the Chinese nation.

# Development Strategy

## Core Values

Pursuing excellence

Integrity Performance Responsibility Innovation Harmony

## Strategic Goal

Serving Society, Delivering Excellence

## Overall Requirements of the Development Strategy

To build Bank of China into an excellent bank driven by the pursuit of noble values, a bank that shoulders significant responsibility for the nation's revival, a bank that possesses a competitive edge in the globalisation process, a bank that leads lifestyle changes through technological innovations, a bank that earns customer loyalty through market competition and a bank that meets the expectations of shareholders, employees and society in the course of its sustained development.

# Contents

# Definitions

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

| | |
|---|---|
| The Bank/the Group | Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited |
| Articles of Association | The performing Articles of Association of the Bank |
| A Share | Domestic investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on SSE (Stock Code: 601988) |
| Basis Point (Bp, Bps) | Measurement unit of changes in interest rate or exchange rate. 1 basis point is equivalent to 0.01 percentage point |
| BOC Aviation | BOC Aviation Limited, a public company limited by shares incorporated in Singapore under the Singapore Companies Act, the shares of which are listed on the Hong Kong Stock Exchange |
| BOC Insurance | Bank of China Insurance Company Limited |
| BOC Life | BOC Group Life Assurance Co., Ltd. |
| BOCG Insurance | Bank of China Group Insurance Company Limited |
| BOCG Investment | Bank of China Group Investment Limited |
| BOCHK | Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings) |
| BOCHK (Holdings) | BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the ordinary shares of which are listed on the Hong Kong Stock Exchange |
| BOCI | BOC International Holdings Limited |
| BOCIM | Bank of China Investment Management Co., Ltd. |
| BOCI China | BOC International (China) Limited |
| BOC-Samsung Life | BOC-Samsung Life Ins. Co., Ltd. |
| CBRC | China Banking Regulatory Commission |
| Central and Southern China | The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan |
| Company Law | The Company Law of PRC |
| CSRC | China Securities Regulatory Commission |
| Domestic Preference Share | Domestic preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are traded on SSE (Stock Code: 360002, 360010) |
| Eastern China | The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi, Shandong and Qingdao |
| HKEx | Hong Kong Exchanges and Clearing Limited |
| Hong Kong Listing Rules | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited |
| H Share | Overseas-listed foreign investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars (Stock Code: 3988) |
| Huijin | Central Huijin Investment Ltd. |
| Independent Director | Independent director under the listing rules of SSE and the Articles of Association, and independent non-executive director under the Hong Kong Listing Rules |
| MOF | Ministry of Finance, PRC |
| Northeastern China | The area including, for the purpose of this report, the branches of Heilongjiang, Jilin, Liaoning and Dalian |
| Northern China | The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office |
| Offshore Preference Share | Offshore preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are listed on the Hong Kong Stock Exchange and traded in US dollars (Stock Code: 4601) |
| PBOC | The People's Bank of China, PRC |
| PRC | The People's Republic of China |
| RMB | Renminbi, the lawful currency of PRC |
| SAFE | State Administration of Foreign Exchange, PRC |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| SSE | The Shanghai Stock Exchange |
| Western China | The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang |

# Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank warrant that the information in this report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and jointly and severally accept full responsibility for the information in this report.

The 2016 Annual Report and Annual Results Announcement of the Bank have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 31 March 2017. The number of directors who should attend the meeting is thirteen, with twelve directors attending the meeting in person. Chairman of the Board of Directors TIAN Guoli did not attend the meeting because of other important business engagements and appointed Vice Chairman of the Board of Directors CHEN Siqing as his authorised proxy to attend and vote on his behalf at the meeting. All of the thirteen directors of the Bank exercised their voting rights at the meeting. Some supervisors and senior management members of the Bank attended the meeting as non-voting attendees.

The 2016 financial statements prepared by the Bank in accordance with Chinese Accounting Standards ("CAS") and International Financial Reporting Standards ("IFRS") have been audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international auditing standards, respectively. Both auditors issued an unqualified opinion.

Chairman of the Board of Directors TIAN Guoli, President CHEN Siqing, Executive Vice President responsible for the Bank's finance and accounting ZHANG Qingsong and General Manager of the Accounting and Information Department ZHANG Jianyou warrant the authenticity, accuracy and completeness of the financial statements in this report.

The Board of Directors has recommended a final dividend on ordinary shares for 2016 of RMB0.168 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 29 June 2017. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and procedures.

This report may contain forward-looking statements that involve risks and future plans. These forward-looking statements are based on the Bank's own information and information from other sources the Bank believes to be reliable. They relate to future events or the Bank's future financial, business or other performance and are subject to a number of factors and uncertainties that may cause our actual results to differ materially. Any future plans mentioned do not constitute a substantive commitment by the Bank to its investors. Investors and people concerned should be fully aware of the risks and understand the differences between plans, forecast and commitment.

The Bank is faced with risks arising from changes in the macroeconomic environment and from political and economic conditions in different countries and regions as well as risks arising from its day-to-day operations, including the risk arising from changes in the credit status of borrowers, adverse changes in market prices and operational risk. It shall at the same time meet regulatory and compliance requirements. The Bank actively adopts various measures to effectively manage all types of risks. Please refer to the section "Management Discussion and Analysis — Risk Management" for details.

# Honours and Awards

*Directors & Boards*
Golden Prize of Round Table for Best Board of Directors

HKICPA
2016 Best Corporate Governance Award — Gold Award

*The Banker*
Ranked 4th in Top 1,000 World Banks
Ranked 6th in Top 500 Global Banking Brands

*FORTUNE*
Ranked 35th in Global 500 (2016)
Ranked 8th in China Top 500 Companies (2016)

*Forbes*
Ranked 6th in Global 2000

*Global Finance*
Best Global RMB Service Bank

*The Asian Banker*
Ranked 3rd among the Best 20 Offshore RMB Bond Issuers
2016 Best Mobile Phone Banking Application

*Euromoney*
Best Regional Cash Manager in Asia

*The Asset*
Best Bond in Asia
Best Financial Institution Green Bond in Asia

Thomson Reuters
Asian Bank of the Year (2016)
China Bond House
SRI Bond of the Year

China Foreign Exchange Trade System
Best Market Maker

WPP Group
Ranked 11th in BrandZ Top 100 Most Valuable Chinese Brands

World Brand Lab
Ranked 11th in China's 500 Most Valuable Brands

Hurun Research Institute
Ranked 8th in Top 200 Brands

China Banking Association
Most Socially Responsible Financial Institution

China News Service
Most Socially Responsible Enterprise

*Southern Weekly*
Outstanding Chinese Enterprise in Social Responsibilities

The Beijing News
2016 Best Social Responsibility Bank

Eastmoney.com
Most Socially Responsible Bank

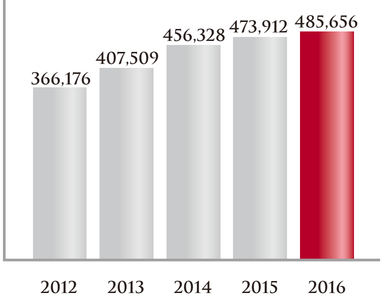
ChinaHR
Best Employer in Financial Industry in the Opinion of Chinese University Students

Ta Kung Wen Wei Media Group
China Securities Golden Bauhinia Awards — Best Investor Relations Listed Company

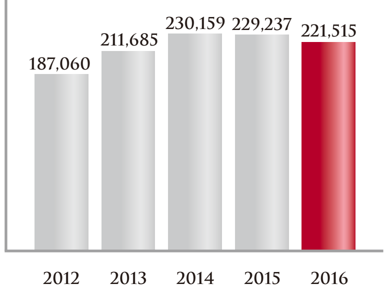
League of American Communications Professionals
Golden Award for 2015 Annual Report

# Financial Highlights

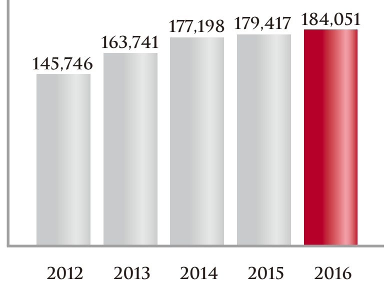
### Operating income
RMB Million



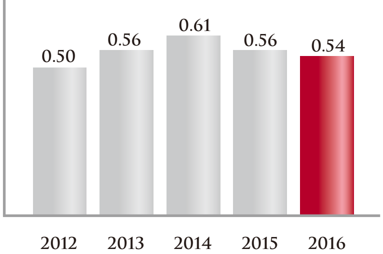

### Operating profit
RMB Million



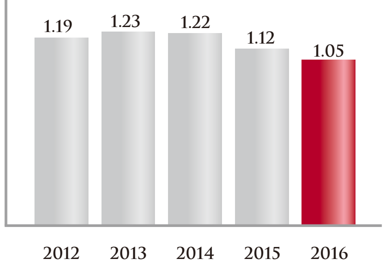

### Profit for the year
RMB Million



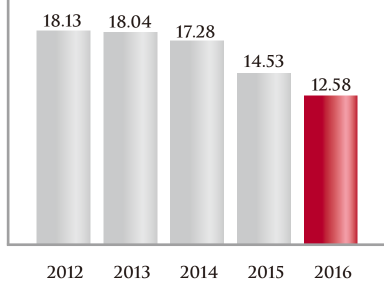

### EPS (basic)
RMB



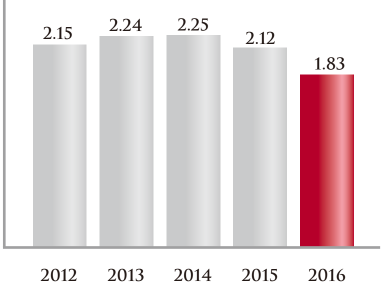

### ROA
%



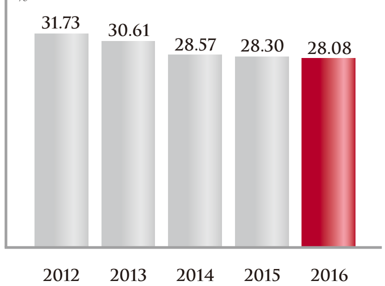

### ROE
%



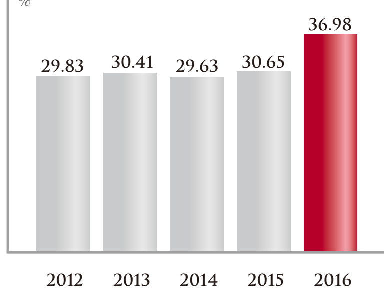

### Net interest margin
%



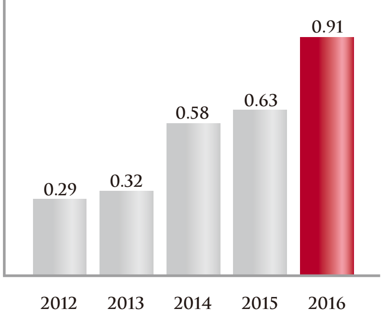

### Cost to income (calculated under domestic regulations)
%



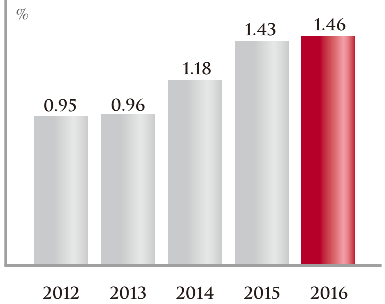

### Non-interest income to operating income
%



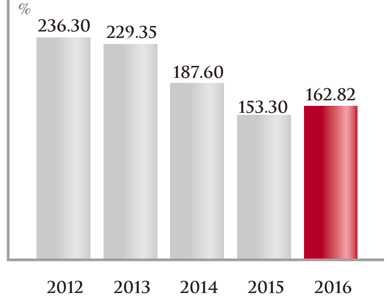

### Credit cost
%




### Non-performing loans to total loans
%




### Allowance for loan impairment losses to non-performing loans
%



Note: The financial information in this report has been prepared in accordance with IFRS. The data are presented in RMB and reflect amounts related to the Group, unless otherwise noted.

Unit: RMB million

| | Note | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| **Results of operations** | | | | | | |
| Net interest income | | **306,048** | 328,650 | 321,102 | 283,585 | 256,964 |
| Non-interest income | 1 | **179,608** | 145,262 | 135,226 | 123,924 | 109,212 |
| Operating income | | **485,656** | 473,912 | 456,328 | 407,509 | 366,176 |
| Operating expenses | | **(175,069)** | (185,401) | (177,788) | (172,314) | (159,729) |
| Impairment losses on assets | | **(89,072)** | (59,274) | (48,381) | (23,510) | (19,387) |
| Operating profit | | **221,515** | 229,237 | 230,159 | 211,685 | 187,060 |
| Profit before income tax | | **222,412** | 231,571 | 231,478 | 212,777 | 187,673 |
| Profit for the year | | **184,051** | 179,417 | 177,198 | 163,741 | 145,746 |
| Profit attributable to equity holders of the Bank | | **164,578** | 170,845 | 169,595 | 156,911 | 139,656 |
| Total dividend of ordinary shares | | **N.A.** | 51,518 | 55,934 | 54,755 | 48,851 |
| **Financial position** | | | | | | |
| Total assets | | **18,148,889** | 16,815,597 | 15,251,382 | 13,874,299 | 12,680,615 |
| Loans, gross | | **9,973,362** | 9,135,860 | 8,483,275 | 7,607,791 | 6,864,696 |
| Allowance for loan impairment losses | | **(237,716)** | (200,665) | (188,531) | (168,049) | (154,656) |
| Investments | 2 | **3,972,884** | 3,595,095 | 2,710,375 | 2,403,631 | 2,272,724 |
| Total liabilities | | **16,661,797** | 15,457,992 | 14,067,954 | 12,912,822 | 11,819,073 |
| Due to customers | | **12,939,748** | 11,729,171 | 10,885,223 | 10,097,786 | 9,173,995 |
| Capital and reserves attributable to equity holders of the Bank | | **1,411,682** | 1,304,946 | 1,140,859 | 923,916 | 824,677 |
| Share capital | | **294,388** | 294,388 | 288,731 | 279,365 | 279,147 |
| **Per share** | | | | | | |
| Basic earnings per share (RMB) | | **0.54** | 0.56 | 0.61 | 0.56 | 0.50 |
| Dividend per share (before tax, RMB) | 3 | **0.168** | 0.175 | 0.19 | 0.196 | 0.175 |
| Net assets per share (RMB) | 4 | **4.46** | 4.09 | 3.70 | 3.31 | 2.95 |
| **Key financial ratios** | | | | | | |
| Return on average total assets (%) | 5 | **1.05** | 1.12 | 1.22 | 1.23 | 1.19 |
| Return on average equity (%) | 6 | **12.58** | 14.53 | 17.28 | 18.04 | 18.13 |
| Net interest margin (%) | 7 | **1.83** | 2.12 | 2.25 | 2.24 | 2.15 |
| Non-interest income to operating income (%) | 8 | **36.98** | 30.65 | 29.63 | 30.41 | 29.83 |
| Cost to income ratio (calculated under domestic regulations, %) | 9 | **28.08** | 28.30 | 28.57 | 30.61 | 31.73 |
| **Capital ratios** | 10 | | | | | |
| Common equity tier 1 capital | | **1,297,421** | 1,197,868 | 1,068,706 | 925,037 | N.A. |
| Additional tier 1 capital | | **103,523** | 103,159 | 72,923 | 698 | N.A. |
| Tier 2 capital | | **225,173** | 212,937 | 250,714 | 262,768 | N.A. |
| Common equity tier 1 capital adequacy ratio (%) | | **11.37** | 11.10 | 10.61 | 9.69 | N.A. |
| Tier 1 capital adequacy ratio (%) | | **12.28** | 12.07 | 11.35 | 9.70 | N.A. |
| Capital adequacy ratio (%) | | **14.28** | 14.06 | 13.87 | 12.46 | 13.63 |
| **Asset quality** | | | | | | |
| Identified impaired loans to total loans (%) | 11 | **1.46** | 1.43 | 1.18 | 0.96 | 0.95 |
| Non-performing loans to total loans (%) | 12 | **1.46** | 1.43 | 1.18 | 0.96 | 0.95 |
| Allowance for loan impairment losses to non-performing loans (%) | 13 | **162.82** | 153.30 | 187.60 | 229.35 | 236.30 |
| Credit cost (%) | 14 | **0.91** | 0.63 | 0.58 | 0.32 | 0.29 |
| Allowance for loan impairment losses to total loans (%) | 15 | **2.87** | 2.62 | 2.68 | 2.62 | 2.62 |
| **Exchange rate** | | | | | | |
| USD/RMB year-end middle rate | | **6.9370** | 6.4936 | 6.1190 | 6.0969 | 6.2855 |
| EUR/RMB year-end middle rate | | **7.3068** | 7.0952 | 7.4556 | 8.4189 | 8.3176 |
| HKD/RMB year-end middle rate | | **0.8945** | 0.8378 | 0.7889 | 0.7862 | 0.8108 |

**Notes:**

1 Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on financial investments + other operating income.

2 Investments include financial investments available for sale, debt securities held to maturity, financial investments classified as loans and receivables, and financial assets at fair value through profit or loss.

3 Dividend per share is the dividend per ordinary share distributed to ordinary shareholders.

4 Net assets per share = (capital and reserves attributable to equity holders of the Bank at year-end – other equity instruments) ÷ number of ordinary shares in issue at year-end.

5 Return on average total assets = profit for the year ÷ average total assets × 100%. Average total assets = (total assets at the beginning of the year + total assets at year-end) ÷ 2.

6 Return on average equity = profit attributable to ordinary shareholders of the Bank ÷ weighted average capital and reserves attributable to ordinary shareholders of the Bank × 100%. Calculation is based on *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by the CSRC.

7 Net interest margin = net interest income ÷ average balance of interest-earning assets × 100%. Average balance is average daily balance derived from the Bank's management accounts (unaudited).

8 Non-interest income to operating income = non-interest income ÷ operating income × 100%.

9 Cost to income ratio is calculated in accordance with the *Measures of the Performance Evaluation of Financial Enterprises* (Cai Jin [2016] No. 35) formulated by the MOF.

10 In accordance with *Capital Rules for Commercial Banks (Provisional)* (Y.J.H.L. [2012] No. 1) and related regulations, the capital ratios of 2016, 2015 and 2014 are calculated under the advanced approaches, and the capital ratios of 2013 are calculated under the non-advanced approaches. The capital ratios of 2012 are calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks* (Y.J.H.L. [2004] No. 2) and related regulations. Therefore, the capital ratios of 2016, 2015 and 2014 should not be compared directly with those of previous years in this regard.

11 Identified impaired loans to total loans = identified impaired loans at year-end ÷ total loans at year-end × 100%.

12 Non-performing loans to total loans = non-performing loans at year-end ÷ total loans at year-end × 100%.

13 Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at year-end ÷ non-performing loans at year-end × 100%.

14 Credit cost = impairment losses on loans ÷ average balance of loans × 100%. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at year-end) ÷ 2.

15 Allowance for loan impairment losses to total loans = allowance for loan impairment losses at year-end ÷ total loans at year-end × 100%. Calculation is based on the data of the Bank's domestic institutions.

# Corporate Information

## Registered Name in Chinese
中國銀行股份有限公司 ("中國銀行")

## Registered Name in English
BANK OF CHINA LIMITED ("Bank of China")

## Legal Representative and Chairman
TIAN Guoli

## Vice Chairman and President
CHEN Siqing

## Secretary to the Board of Directors and Company Secretary
GENG Wei
Office Address:
No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

## Listing Affairs Representative
YU Ke
Office Address:
No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

## Registered Address
No. 1 Fuxingmen Nei Dajie, Beijing, China

## Office Address
No. 1 Fuxingmen Nei Dajie, Beijing, China, 100818
Telephone: (86) 10-6659 6688
Facsimile: (86) 10-6601 6871
Website: http://www.boc.cn
E-mail: ir@bankofchina.com
Customer Service and Complaint Hotline:
(86) Area Code-95566

## Place of Business in Hong Kong
Bank of China Tower, 1 Garden Road,
Central, Hong Kong

## Selected Newspapers for Information Disclosure (A Share)
*China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily*

## Website Designated by CSRC for Publication of the Annual Report
http://www.sse.com.cn

## Website of HKEx for Publication of the Annual Report
http://www.hkexnews.hk

## Place where Annual Report can be Obtained
Head Office of Bank of China Limited
Shanghai Stock Exchange

## Domestic Legal Advisor
King & Wood Mallesons

## Hong Kong Legal Advisor
Allen & Overy

## Auditors
Domestic auditor
Ernst & Young Hua Ming LLP
Office Address:
Level 16, Ernst & Young Tower, Oriental Plaza,
No. 1 East Chang An Avenue, Dongcheng District,
Beijing, China
Certified Public Accountants who signed the auditor's report:
ZHANG Xiaodong, FENG Suoteng

International auditor
Ernst & Young
Office Address:
22/F, CITIC Tower,
1 Tim Mei Avenue
Central, Hong Kong

## Unified Social Credit Code
911000001000013428

## Financial Institution Licence Serial Number
B0003H111000001

## Registered Capital
RMB279,147,223,195

## Securities Information
A Share
Shanghai Stock Exchange
Stock Name: 中國銀行
Stock Code: 601988

H Share
The Stock Exchange of Hong Kong Limited
Stock Name: Bank of China
Stock Code: 3988

Domestic Preference Share
Shanghai Stock Exchange

First Tranche
Stock Name: 中行優1
Stock Code: 360002

Second Tranche
Stock Name: 中行優2
Stock Code: 360010

Offshore Preference Share
The Stock Exchange of Hong Kong Limited
Stock Name: BOC 2014 PREF
Stock Code: 4601

## Joint Sponsors for Domestic Preference Shares
CITIC Securities Company Limited
Office Address:
North Tower, Excellence Times Plaza II,
No. 8 Zhongxinsan Road, Futian District,
Shenzhen, Guangdong Prov., China
Sponsor Representatives:
MA Xiaolong, ZHU Jie

BOC International (China) Limited
Office Address:
39/F, BOC Building, 200 Mid. Yincheng Road,
Pudong New Area, Shanghai, China
Sponsor Representatives:
CHEN Wei, LIU Guoqiang

Continuous Supervision Period
From 31 March 2015 to 31 December 2016
(Second Tranche)

# Message from the Chairman

In this beautiful spring season, I am pleased to present our annual results for 2016 to the shareholders of the Bank and the public. According to International Financial Reporting Standards, the Group achieved a profit for the year of RMB184.1 billion, a year-on-year increase of 2.58%. Asset quality was controlled within the target range, and the ratio of allowance for loan impairment losses to non-performing loans (NPLs) increased by 9.52 percentage points from last year to 162.82%. The Board of Directors has proposed a dividend of RMB0.168 per ordinary share for 2016, pending approval by the Annual General Meeting to be held in June 2017.

The past year has seen dramatic changes in the global political and economic situation. "Black swan" events took place one after another and the financial market experienced serious fluctuations. Faced with a complicated and challenging operating environment, the Bank upheld its development strategy of "Serving Society, Delivering Excellence". We addressed difficulties and challenges with reform and innovation, accelerated business structure adjustment, optimised our systems and institutions, and thus promoted the Group to achieve sustained and steady development.

We undertook social responsibilities and made active contributions to the rejuvenation of the Chinese nation. Committed to serving SMEs, the Bank hosted 10 worldwide matchmaking events successfully, playing a significant role in boosting SME development and deepening international economic and trade cooperation. We devoted great energy towards developing inclusive finance and provided more support to personal consumption. We earnestly carried out targeted poverty alleviation efforts, providing more than RMB72 million in aid to designated areas. This directly benefited over 27,000 low-income people. In addition, we also actively served the nation's diplomatic strategy by holding the "Belt and Road" international financial communication and cooperation seminar, which was widely acclaimed at home and abroad.

Giving full play to our advantages in internationalisation, we maintained a leading position in the globalisation process. Our overseas institutions realised a profit before income tax of USD12.234 billion, increasing by 39.42% year-on-year and making a greater contribution to the Group's profit. The Bank's overseas institutions now cover 51 countries and regions around the world, marking a new step in growing our global footprint. Actively supporting such major national strategies as the "Belt and Road" initiative and "Going Global" efforts, we strongly pushed Chinese enterprises to integrate more quickly into the global industrial chain and value chain. We continued to lead in the business of RMB internationalisation, not only being qualified as an RMB clearing bank in the United States, but also registering the largest cross-border RMB settlement and clearing volumes in the global banking industry, in the endeavour to provide the best RMB services for global customers.

We closely followed the contemporary trends and improved our services through technological reform. Applying cutting-edge information technology and Internet thinking, we trialled “smart counters” in an effort to reshape the counter procedures in our outlets. Our “Mobile Banking 3.0” launched successfully and achieved a sharp increase in both the number of customers and transaction volumes. We proactively established the “E-BOC” internet finance brand, enriched the four product lines of payment, asset management, transaction and financing, and made our financial services more efficient. Taking the initiative to adapt to new trends in technological development, we actively introduced cutting-edge technologies and continuously enhanced our technological output.

By daring to reform and make innovations, we won customer loyalty through market competition. Drawing on the advantages of internationalised, diversified and professional operations, the Bank led its Chinese counterparts in the underwriting of offshore RMB bonds and overseas bonds, as well as the issuance of Panda Bonds. We issued the first asset-backed green bond in China and acted as underwriter for 12 green bonds, comprising a total amount of RMB15.6 billion, the largest in the industry.

We held fast to the risk bottom line and consolidated foundations through sustained development. Attaching greater importance to risk prevention and control, the Bank made continuous efforts to consolidate its capital base with a view to supporting sustainable growth. Our capital adequacy ratio reached a new high in recent years, the ratio of allowance for loan impairment losses to NPLs strengthened against the market trend, and the ability of risk resistance and compensation was further enhanced. Stepping up efforts to clear out and eliminate NPLs, we made substantial progress in a number of key projects, eliminating more NPLs than ever before. We also reinforced our comprehensive risk management capability so as to guarantee sound and sustainable operations. This includes the management of consolidated financial statements, country risk, liquidity risk, market risk, internal control and compliance, and anti-money laundering.

In 2016, the Bank continued to improve the governance architecture and system, enhanced the working mechanisms of the Board of Directors, and earnestly fulfilled its responsibilities for all stakeholders including shareholders, customers, employees and society, in the effort to achieve the best practice in corporate governance. Changes were made to the board composition smoothly according to applicable laws and regulations. All Board members worked with diligence and commitment to guide and push the Group towards sustained and sound development.

At present, the international situation is anything but optimistic. The world economy is becoming increasingly complicated, unstable and uncertain. China's economy is at a critical juncture, with new growth drivers taking the place of old. While we must clearly recognise that the banking industry faces mounting conflicts and difficulties in terms of its operation and management, we should also see the silver linings amid the plentiful clouds of uncertainty and instability. China will continue to implement the proactive fiscal policy and prudent monetary policy, and will deepen the supply-side structural reform. As such, we expect the national economy to maintain sustained and solid growth. The in-depth implementation of major national strategies such as the "Belt and Road" initiative, the advance of supply-side structural reform and other key reforms, the rapid increase of residents' wealth and the extensive application of smart technologies – all of these will present rare opportunities for the development of the banking industry.

Faced with new circumstances and fresh tasks, we will continue to follow our development strategy of "Serving Society, Delivering Excellence". We will pursue internationalised development and continued to serve the people and SMEs. We will carry on technological innovations, intensify Party and team building, and take concrete steps to perform our social responsibilities, so as to reward our shareholders and the public for their trust and support by delivering better and better performance!

**TIAN Guoli**
*Chairman*
31 March 2017

# Message from the President

In 2016, the Bank faithfully implemented the Government's guidelines, policies and strategic arrangements while pursuing its development strategy of "Serving Society, Delivering Excellence". Placing emphasis on "innovation, transformation, mitigation, management and control", the Bank met its annual development objectives and made a strong start for the 13th Five-Year Plan Period.

At the end of 2016, the Bank's total assets stood at RMB18.15 trillion, its total liabilities amounted to RMB16.66 trillion and the equity attributable to shareholders of the Bank was RMB1.41 trillion according to International Financial Reporting Standards, representing an increase of 7.93%, 7.79% and 8.18% respectively from the prior year-end. The Bank achieved a profit for the year of RMB184.1 billion, a year-on-year increase of 2.58%. The Bank's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio stood at 11.37%, 12.28% and 14.28%, respectively. The non-performing loan ratio was 1.46%, up 0.03 percentage point from the prior year-end, which remained within the target range.

In 2016, the Bank achieved steady profit growth, driven mainly by the following four factors: First, the income structure was further optimised. The Bank realised non-interest income of RMB179.6 billion, a year-on-year increase of 23.64%. Non-interest income accounted for 36.98% of total income, up 6.33 percentage points from the prior year. Second, operating efficiency improved steadily. The cost to income ratio was 28.08%, a year-on-year decrease of 0.22 percentage point. Third, the international strategy gained pace. The Bank's overseas institutions realised a profit before income tax of USD12.234 billion, a year-on-year increase of 39.42%. Their contribution to the Group's overall profit before income tax rose by 12.63 percentage points from the prior year to 36.27%. Fourth, the Bank made solid progress in its strategic adjustments. It completed a number of major projects, including the transfer of shares of Nanyang Commercial Bank, Limited, the listing of BOC Aviation, the integration of its Southeast Asian institutions and the organisational restructuring in Shandong and Liaoning provinces. In particular, the Bank continued to cement its capital base and maintained its capital adequacy ratio above 14% at the end of 2016. The ratio of allowance for loan impairment losses to NPLs grew by 9.52 percentage points year-on-year to 162.82%, indicating stronger risk resilience against the market trend.

Over the past year, the Bank has injected stronger impetus into innovation-led development. The development of internet finance picked up speed, with the number of registered customers increasing by 93% over the prior year and the transaction volumes breaking the RMB2.6 trillion mark. The Bank launched the "BOC E-Credit" product to provide comprehensive online financing services. Its electronic channels were upgraded at a faster pace, including the successful launch of the "Mobile Banking 3.0". "Smart counters" were put into trial operation, significantly improving outlets' customer throughput, customer experience and product sales. As part of the growing IT outputs, the Bank successfully completed a number of major IT projects, including the integration and transformation of overseas information systems in the Americas. The Bank also achieved significant milestones in process optimisation, including the launch of its electronic seal system and standardisation of outlet workflows.

In the past year, the Bank deepened business transformation and improved its asset and liability structure in order to achieve higher efficiency. Due to customers increased by RMB1.2 trillion, up 10.32% from the prior year, while the ratio of average balance of domestic RMB demand deposits increased by 3.47 percentage points. Loans and advances to customers added RMB837.5 billion, up 9.17%. The proportion of loans to industries classified as "aggressive growth" and "selective growth" rose by 2.3 percentage points. The Bank's loans to small and micro-sized enterprises met the "Three No-Less-Than's" objective. Bond investment income surged by 238% thanks to the well-timed sale of bonds. The Bank's business transformation efforts were fruitful. The proportion of the Bank's comprehensive income from personal banking business rose by 1.3 percentage points, marking a notable achievement in the Bank's strategy for accelerating the development of personal banking. Quickening the pace of its corporate banking transformation, the Bank has granted a cumulative total of USD59.4 billion in credit facilities to support the building of the "Belt and Road" financial artery. The Bank provided USD14.8 billion of financing for cross-border M&A in 2016, ranking first among Asia Pacific banks. The Bank maintained a leading edge in global markets business, topping the industry in foreign exchange trading. The Bank remains the world's number one bank in terms of cross-border RMB clearing and settlement. The "key regions" strategy has also delivered remarkable results, evidenced by a rise of 3.6 percentage points in the proportion of total operating income contributed by key regions including the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Guangdong-Hong Kong-Macau region.

In the past year, the Bank made strenuous efforts to mitigate risks and thus maintained stable asset quality. The Bank stepped up efforts to tackle non-performing assets (NPAs) on an intensive, specialised and market-based basis. In 2016, the Bank resolved RMB128.9 billion of NPAs, a year-on-year increase of RMB24.5 billion. Thanks to proactive efforts to identify and mitigate potential risks, the Bank resolved RMB152.3 billion of corporate overdue loans before they became non-performing. As a new method of resolving NPAs, the Bank successfully issued China's first NPA-backed corporate securities since the relaunch of the credit asset-backed securitisation business. Low-risk business and wealth management business were incorporated into aggregate credit management in an effort to strengthen comprehensive risk management and unified credit granting. Customer concentration management was strengthened by setting limits on Group-wide balances and member shares of credit facilities. Interest rate and foreign exchange risk management was intensified in order to reduce the overseas institutions' foreign exchange risk and trading costs. The Bank also stepped up liquidity risk management and raised funds by various means to allow for business development.

In the past year, the Bank enhanced its Group-wide management so as to create stronger momentum for future development. Systems and mechanisms were improved to enhance the customer-centric marketing of all products, with the mechanism of collaboration between customer and product implemented successfully. The Bank implemented dynamic management of assets and liabilities, refined its mechanism for the allocation of expenses and capital, so as to achieve greater management refinement and specialisation. The Bank made steadfast efforts in internal control and fraud prevention, including risk screening and rectification in key work areas. The monetary amount and number of fraud cases fell by 69% and 38% in 2016, respectively. The Bank implemented a three-year anti-money laundering (AML) plan and set up AML centres in Beijing and Guangdong for the centralised screening of inbound and outbound remittance transactions against AML sanctions lists. With its audit supervision strengthened, the Bank audited nearly 3,000 domestic and overseas institutions across the major business lines and high-risk fields in 2016.

2017 comes with challenges and opportunities. The Bank will fully implement the guiding principles of the 18th National Congress of the CPC, the Third, Fourth, Fifth and Sixth Plenary Sessions of the 18th CPC Central Committee and the Central Economic Work Conference. The Bank will follow the general principle of "progress with stability", emphasising steadiness in its core work with the aim of achieving sustainable development. First, the Bank will steadfastly implement the development strategy of "Serving Society, Delivering Excellence" and make new progress in international development, cross-border matchmaking, community banking, targeted poverty alleviation and international financial exchange and training. Second, the Bank will endeavour to make progress while maintaining stable performance on all fronts. It will make progress in structural adjustments while keeping the asset size stable, make progress in liability business while keeping asset business stable, make progress in overseas operations while keeping domestic businesses stable, make progress in non-interest income while keeping interest income stable, make progress in service quality while keeping service base stable, and make progress in resolving non-performing assets while keeping asset quality stable. In addition, we will take effective measures to further connect on-shore and off-shore markets, integrate on-balance-sheet and off-balance-sheet businesses, and synchronise online and offline services, under the prerequisite of conforming to domestic and overseas regulatory requirements and policies. Third, we will strengthen comprehensive risk management and implement the Central Government's arrangements to prevent and control risks more proactively and urgently. We will plug loopholes and eliminate problems, parse problems into root causes and symptoms, and adopt classification-based solutions to ensure that, as a large state-owned bank, the Bank plays a vital role in safeguarding China's financial stability.

On behalf of the Management, I would like to avail myself of this opportunity to express my heartfelt gratitude to our directors and supervisors for your guidance, to all of our employees for your hard work, and to our customers, investors and friends for your constant support. We will forge ahead and repay the trust and support of our investors, employees and friends with better business performance and by working hard towards our strategic goal of "Serving Society, Delivering Excellence".

**CHEN Siqing**
*President*
31 March 2017

# Message from the Chairman of the Board of Supervisors

In 2016, the Board of Supervisors made new progress in all working areas. Adhering to the issue-focused approach, it strived to proactively assume its responsibilities, closely followed up the Bank's strategic development, operation and management, and risk management dynamics and internal control. It highlighted the key aims on supervision and strengthened the actual effects of its supervisory activity, exercised its supervision functions constructively and pushed forward the Bank's continued stable development, in accordance with the relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank.

During the past year, the Board of Supervisors was persistent in improving its internal supervision mechanism and earnestly supervised the day-to-day duty performance of the Board of Directors, the Senior Management and its members. It objectively assessed the annual duty performance of the Board of Directors, the Senior Management and its members and urged directors and senior management members to enhance their professional competence and duty performance capability so that the Board of Directors, the Senior Management and the Board of Supervisors could fully utilize their respective functions in strategic decision-making, operation and management and supervision. Employing an issue-focused approach, it carried out concrete measures regarding financial supervision, scrutinised the Bank's work arrangement and implementation concerning strategic, financial and accounting management, oversaw deliberations regarding the preparation, review and disclosure of regular reports and provided supervisory opinions. Using a risk-oriented approach, it strengthened the monitoring over risk control in priority areas and over the progress of major work projects. It investigated into material risk events, alerted the Board of Directors, the Senior Management and functional departments to the major potential, tendentious issues and weak links identified in the relevant work, thus assisting the Board of Directors and the Senior Management in fulfilling their respective risk prevention and risk control responsibilities. By reinforcing the supervision over effectiveness of the "three lines of defence" system of internal control, it focused on the general risk management and internal control issues identified by internal audit reports, and supervised and followed up on the rectification measures so that the rectification measures could be implemented properly. It carried out special surveys into the key areas and links that involved the Bank's drive to deepen reform and secure stable development and put forth supervisory opinions to support the Board of Directors, the Senior Management and functional departments in improving their work and perfecting relevant policies and measures. All members of the Board of Supervisors faithfully and diligently brought their strengths into play by proactively offering opinions and suggestions to the Bank regarding its sound and healthy development. The Board of Directors and the Senior Management attached great importance to the supervisory opinions issued by the Board of Supervisors, researched on and discussed relevant rectifications and arranged the relevant improvement work, thus enhancing operational management, risk management and internal control.

Mr. LI Jun ceased to be Supervisor, Chairman of the Board of Supervisors and Chairman of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank in 2016 due to reasons of age. During his nearly seven-year tenure, Mr. LI Jun, a senior banker, worked with commitment and diligence and made outstanding contributions to the Bank in terms of enhancing the operation of the Board of Supervisors, perfecting corporate governance, improving risk management and internal control, and promoting the sustained and healthy development of the Bank. On behalf of the Board of Supervisors, I would like to pay the highest tribute and extend the most heartfelt gratitude to Mr. LI Jun.

In the past year, the Board of Supervisors smoothly completed certain changes in Supervisors according to the applicable laws and regulations and the Articles of Association. Mr. LIU Xiaozhong ceased to be Supervisor of the Bank and Mr. GAO Zhaogang began to serve as Supervisor of the Bank. On behalf of the Board of Supervisors, I would like to take this opportunity to express the sincere appreciation to Mr. LIU Xiaozhong for the endeavours and contributions he made for the Bank during his tenure and extend a warm welcome to Mr. GAO Zhaogang as he joins us.

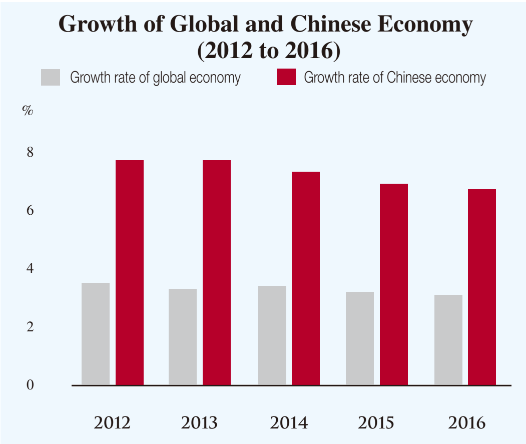
In the coming year, guided by the strategy of "Serving Society, Delivering Excellence", the Board of Supervisors will prioritise the pivotal issues and the overall interest of the Bank, strengthen awareness of the risk bottom line, focus on prominent problems, fulfil its supervisory role in duty performance, finance, internal control and risk management, and continue to communicate and interact effectively with the Board of Directors and the Senior Management. It will effectively perform the Board of Supervisor's constructive supervisory role in corporate governance and make new and greater contributions to the Bank's continued, stable development.

**WANG Xiquan**

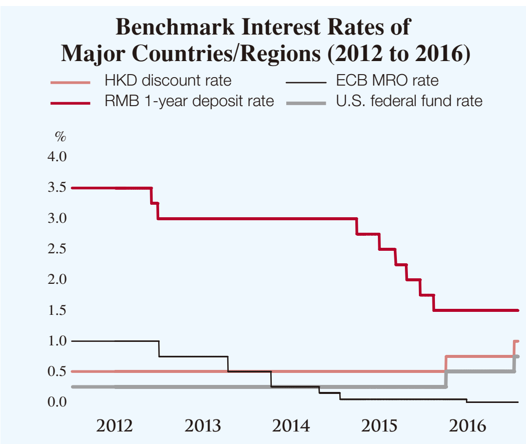
*Chairman of the Board of Supervisors*

31 March 2017

# Management Discussion and Analysis — Financial Review




Source: International Monetary Fund (IMF),
National Bureau of Statistics of China




Source: Thomson Reuters EcoWin

## Economic and Financial Environment

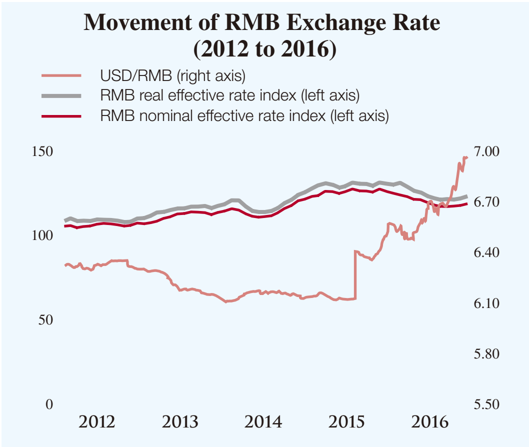
In 2016, the global economy was characterised by sluggish growth and persistent differences among various economies' growth patterns. The US economy rallied after a disappointing start. The Eurozone economy experienced a mild recovery. Japan's economy grew slowly. Growth in some emerging economies slowed due to the effecting factors of external demand and capital outflows. The growth rate of international trade was the lowest since 2010, and international direct investment fell substantially.

Global financial markets experienced heightened volatility. Emerging economies faced increasing pressures on capital outflows and exchange rate depreciation as a result of Brexit and the US Federal Reserve's interest rate hike, etc. The US dollar appreciated strongly against the currencies of its major trade partners. Commodity prices experienced a moderate recovery, while the bond markets of some developed countries entered an era of "negative interest rates".

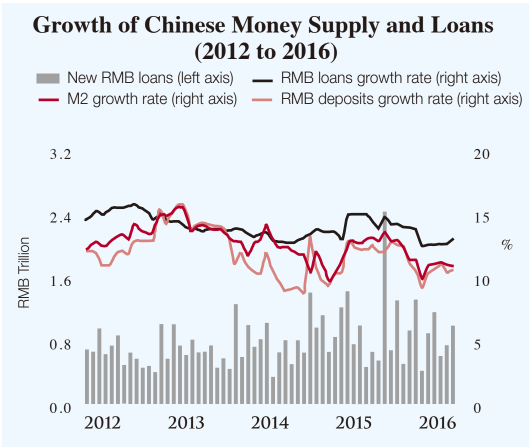
China's economy realised moderate but stable performance with sound momentum for growth. The country's economic structure continued to be improved, with consumption and service sector making greater contributions towards economic growth and enterprises' profits gradually improving. Supply-side structural reform was accelerated, the number of new jobs increased steadily and inflation remained at a low level. There were also challenges, such as a dearth of endogenous growth drivers and fast-rising property prices. In 2016, China's gross domestic product (GDP) increased by 6.7%, with the consumer price index (CPI) rising by 2.0%. Total retail sales of consumer goods (TRSCG) increased by 10.4%. Total fixed asset investments (TFAI) grew by 8.1%. Energy consumption per unit of GDP decreased by 5.0%.

The Chinese government continued to carry out proactive fiscal policy and prudent monetary policy. On-going financial reform efforts included the introduction of a macro prudential assessment (MPA) system, faster opening up of the inter-bank bond market, the launch of the Shenzhen-Hong Kong Stock Connect and the promotion of non-performing asset securitisation and trials of debt-for-equity conversion. Monetary credit realised steady growth and financial markets functioned smoothly. The broad money supply (M2) grew by 11.3%, 2.0 percentage points lower than the growth rate of the prior year. The balance of RMB loans increased by RMB12.65 trillion, RMB0.93 trillion more than that of the prior year. The balance of all-system financing aggregates was RMB155.99 trillion, an increase of 12.8% compared with the prior year. The scale of bond issuance grew to a total issuance of RMB35.6 trillion, an increase of 55.5% compared with the prior year. The SSE composite index dropped by 12.3%, and the floating market value of the Shanghai and Shenzhen stock markets declined by 5.9% compared with the prior year.

China's banking sector remained stable. Commercial banks implemented the five development concepts of innovation, coordination, green development, opening-up and sharing, achieving positive results in terms of serving the real economy, optimising business structure, facilitating reform and innovation, and strengthening risk control. The banking sector supported supply-side structural reform and constantly improved its ability to serve the real economy. It devoted greater efforts to developing inclusive finance, supported micro and small-sized enterprises' development, and created effective solutions to reduce the financing difficulties and the cost of financing. It accelerated innovation in business models, continued to promote the "investment and loan linkage mechanism" pilot programme and supported the growth of the new economy and the cultivation of new growth drivers. It promoted the two-way opening up of the financial industry and extended the breadth and depth of overseas financial services. The banking sector reinforced its comprehensive risk management capacities, effectively eliminated the credit risk associated with sectors plagued by overcapacity and resolutely prevented systemic and regional financial risks. As at the end of 2016, the total assets of China's banking industry grew by 15.8% from the prior year-end to RMB232.3 trillion, while total liabilities increased by 16% to RMB214.8 trillion. Commercial banks recorded profit after tax of RMB1.65 trillion, an increase of 3.54% compared with the prior year. The outstanding non-performing loans (NPLs) stood at RMB1.5123 trillion, with an NPL ratio of 1.74%.




Source: Thomson Reuters EcoWin




Source: Thomson Reuters EcoWin

## Income Statement Analysis

In 2016, the Group achieved a profit for the year of RMB184.051 billion, an increase of 2.58% compared with the prior year. Return on average total assets (ROA) was 1.05%, a decrease of 0.07 percentage point compared with the prior year. Return on average equity (ROE) was 12.58%, a decrease of 1.95 percentage points compared with the prior year.

The principal components and changes of the Group's consolidated income statement are set out below:

Unit: RMB million, except percentages

| Items | 2016 | 2015 | Change | Change (%) |
|---|---|---|---|---|
| Net interest income | **306,048** | 328,650 | (22,602) | (6.88%) |
| Non-interest income | **179,608** | 145,262 | 34,346 | 23.64% |
| Including: net fee and commission income | **88,664** | 92,410 | (3,746) | (4.05%) |
| Operating income | **485,656** | 473,912 | 11,744 | 2.48% |
| Operating expenses | **(175,069)** | (185,401) | 10,332 | (5.57%) |
| Impairment losses on assets | **(89,072)** | (59,274) | (29,798) | 50.27% |
| Operating profit | **221,515** | 229,237 | (7,722) | (3.37%) |
| Profit before income tax | **222,412** | 231,571 | (9,159) | (3.96%) |
| Income tax expense | **(38,361)** | (52,154) | 13,793 | (26.45%) |
| Profit for the year | **184,051** | 179,417 | 4,634 | 2.58% |

A detailed review of the Group's principal items in each quarter of 2016 is summarised in the following table:

Unit: RMB million

| | For the three-month period ended | | | |
|---|---|---|---|---|
| Items | 31 December 2016 | 30 September 2016 | 30 June 2016 | 31 March 2016 |
| Operating income | 115,377 | 107,660 | 139,506 | 123,113 |
| Profit attributable to equity holders of the Bank | 29,765 | 41,776 | 46,418 | 46,619 |
| Net cash flow from operating activities | 234,765 | (87,017) | 184,996 | (150,663) |

### *Net Interest Income and Net Interest Margin*

In 2016, the Group achieved a net interest income of RMB306.048 billion, a decrease of RMB22.602 billion or 6.88% compared with the prior year. The average balances[1] and average interest rates of the major interest-earning assets and interest-bearing liabilities of the Group, as well as the impact of volume and interest rate changes on the interest income and expense[2], are summarised in the following table:

1 Average balances are average daily balances derived from the Group's management accounts (unaudited).

2 The impact on interest income/expense of variances in the volume factor is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact on interest income/expense of variances in interest rate factor is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both the volume factor and the interest rate factor has been classified as changes in interest rate factor.

Unit: RMB million, except percentages

| Items | 2016 | | | 2015 | | | Analysis of changes in interest income/expense | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average balance | Interest income/ expense | Average interest rate | Average balance | Interest income/ expense | Average interest rate | Volume factor | Interest rate factor | Total |
| **Group** | | | | | | | | | |
| **Interest-earning assets** | | | | | | | | | |
| Loans | **9,705,782** | **391,956** | **4.04%** | 8,916,436 | 435,062 | 4.88% | 38,520 | (81,626) | (43,106) |
| Investments | **3,723,928** | **114,399** | **3.07%** | 3,145,750 | 108,651 | 3.45% | 19,947 | (14,199) | 5,748 |
| Balances with central banks | **2,231,364** | **29,831** | **1.34%** | 2,257,994 | 29,543 | 1.31% | (349) | 637 | 288 |
| Due from and placements with banks and other financial institutions | **1,106,274** | **29,953** | **2.71%** | 1,204,278 | 41,800 | 3.47% | (3,401) | (8,446) | (11,847) |
| **Total** | **16,767,348** | **566,139** | **3.38%** | 15,524,458 | 615,056 | 3.96% | 54,717 | (103,634) | (48,917) |
| **Interest-bearing liabilities** | | | | | | | | | |
| Due to customers | **12,501,297** | **199,915** | **1.60%** | 11,388,012 | 221,288 | 1.94% | 21,598 | (42,971) | (21,373) |
| Due to and placements from banks and other financial institutions and due to central banks | **2,606,838** | **47,993** | **1.84%** | 2,703,157 | 54,209 | 2.01% | (1,936) | (4,280) | (6,216) |
| Bonds issued | **322,431** | **12,183** | **3.78%** | 271,374 | 10,909 | 4.02% | 2,052 | (778) | 1,274 |
| **Total** | **15,430,566** | **260,091** | **1.69%** | 14,362,543 | 286,406 | 1.99% | 21,714 | (48,029) | (26,315) |
| **Net interest income** | | **306,048** | | | 328,650 | | 33,003 | (55,605) | (22,602) |
| **Net interest margin** | | | **1.83%** | | | 2.12% | | | (29) Bps |

Notes:

1 Investments include available for sale debt securities, held to maturity debt securities, debt securities classified as loans and receivables, trading debt securities, debt securities designated at fair value through profit or loss, and investment trusts and asset management plans.

2 Balances with central banks include the mandatory reserves, the surplus reserves and other deposits.

3 Due to and placements from banks and other financial institutions and due to central banks include due to and placements from banks and other financial institutions, due to central banks and other funds.

The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

Unit: RMB million, except percentages

| Items | 2016 | | 2015 | | Change | |
|---|---|---|---|---|---|---|
| | Average balance | Average interest rate | Average balance | Average interest rate | Average balance | Average interest rate |
| **Domestic RMB businesses** | | | | | | |
| **Loans** | | | | | | |
| Corporate loans | **4,265,998** | **4.73%** | 4,022,655 | 6.00% | 243,343 | (127) Bps |
| Personal loans | **2,701,868** | **4.42%** | 2,234,610 | 5.44% | 467,258 | (102) Bps |
| Trade bills | **248,002** | **3.34%** | 202,356 | 4.75% | 45,646 | (141) Bps |
| **Total** | **7,215,868** | **4.57%** | 6,459,621 | 5.77% | 756,247 | (120) Bps |
| Including: | | | | | | |
| Medium and long term loans | **4,810,011** | **4.78%** | 4,312,654 | 5.98% | 497,357 | (120) Bps |
| Short term loans within 1 year and others | **2,405,857** | **4.14%** | 2,146,967 | 5.35% | 258,890 | (121) Bps |
| **Due to customers** | | | | | | |
| Corporate demand deposits | **2,555,909** | **0.60%** | 2,144,678 | 0.69% | 411,231 | (9) Bps |
| Corporate time deposits | **2,229,930** | **2.99%** | 2,215,337 | 3.45% | 14,593 | (46) Bps |
| Personal demand deposits | **1,632,989** | **0.59%** | 1,381,000 | 0.52% | 251,989 | 7 Bps |
| Personal time deposits | **2,554,838** | **2.88%** | 2,435,218 | 3.37% | 119,620 | (49) Bps |
| Other | **336,713** | **3.22%** | 316,189 | 4.09% | 20,524 | (87) Bps |
| **Total** | **9,310,379** | **1.89%** | 8,492,422 | 2.28% | 817,957 | (39) Bps |
| **Domestic foreign currency businesses** | Unit: USD million, except percentages | | | | | |
| **Loans** | **54,490** | **2.22%** | 75,272 | 2.35% | (20,782) | (13) Bps |
| **Due to customers** | | | | | | |
| Corporate demand deposits | **36,762** | **0.13%** | 27,031 | 0.14% | 9,731 | (1) Bp |
| Corporate time deposits | **16,602** | **1.14%** | 19,854 | 1.80% | (3,252) | (66) Bps |
| Personal demand deposits | **24,916** | **0.07%** | 19,695 | 0.05% | 5,221 | 2 Bps |
| Personal time deposits | **18,711** | **0.58%** | 15,532 | 0.63% | 3,179 | (5) Bps |
| Other | **2,120** | **2.41%** | 2,466 | 2.31% | (346) | 10 Bps |
| **Total** | **99,111** | **0.42%** | 84,578 | 0.66% | 14,533 | (24) Bps |

Note: "Due to customers – Other" includes structured deposits.

In 2016, the Group's net interest margin was 1.83%, a decrease of 29 basis points compared with the prior year. Specifically, net interest margin of its domestic RMB and domestic foreign currency businesses were 2.06% and 0.63% respectively. Major factors that affected the Group's net interest margin include:

First, the PBOC cut RMB benchmark deposit and loan interest rates on five separate occasions and removed the floating deposit rate ceiling altogether for commercial banks in 2015. The repercussions of these changes continued into 2016.

Second, according to the requirements of the *Notice concerning the Nationwide Adoption of Value-added Tax in lieu of Business Tax Pilot Tax Collection Policy* (Caishui [2016] No. 36), all of the Bank's institutions in the Chinese mainland started to change from business tax to value-added tax (BT-to-VAT) as of 1 May 2016. Accordingly, interest income under VAT was reported on a net basis.

Third, in response to changes in the external environment, the Bank effectively optimised existing assets and liabilities and efficiently allocated their increments, resulting in continuous improvement to its assets and liabilities structure. In 2016, the proportion of the average balance of loans to total interest-earning assets rose by 0.45 percentage point, and the proportion of the average balance of investments to total interest-earning assets rose by 1.95 percentage points. The proportion of the average balance of demand deposits to RMB deposits in the Group's domestic RMB businesses rose by 3.47 percentage points.

## *Non-interest Income*

In 2016, the Group reported a non-interest income of RMB179.608 billion, an increase of RMB34.346 billion or 23.64% compared with the prior year. Non-interest income represented 36.98% of operating income.

### Net fee and Commission Income

The Group earned a net fee and commission income of RMB88.664 billion, a decrease of RMB3.746 billion or 4.05% compared with the prior year. Net fee and commission income represented 18.26% of operating income. This was primarily because the Bank made great efforts to support the national strategy of mass entrepreneurship and innovation and proactively fulfilled its social responsibility to support the real economy, and reduced enterprises' operating and trading costs. As a result, the Bank's fee and commission income from credit commitment business and consultancy and advisory business decreased compared with the prior year. The Bank's fee and commission income from settlement and clearing business also shrank due to a contraction in overseas trading volumes. On the other hand, the Bank seized opportunities to develop its asset management business, continually reinforced its product innovation and improved its investment management capability. As a result, the Bank realised a fee income of RMB9.169 billion from off-balance-sheet wealth management products business and a fee income of RMB4.673 billion from insurance agency business.

Unit: RMB million, except percentages

| Items | 2016 | 2015 | Change | Change (%) |
|---|---|---|---|---|
| **Group** | | | | |
| Agency commissions | **24,178** | 24,481 | (303) | (1.24%) |
| Bank card fees | **24,054** | 24,215 | (161) | (0.66%) |
| Settlement and clearing fees | **11,113** | 11,888 | (775) | (6.52%) |
| Credit commitment fees | **15,426** | 16,541 | (1,115) | (6.74%) |
| Consultancy and advisory fees | **5,701** | 5,757 | (56) | (0.97%) |
| Spread income from foreign exchange business | **7,149** | 7,388 | (239) | (3.23%) |
| Custodian and other fiduciary service fees | **3,397** | 3,677 | (280) | (7.61%) |
| Other | **7,301** | 6,958 | 343 | 4.93% |
| **Fee and commission income** | **98,319** | 100,905 | (2,586) | (2.56%) |
| **Fee and commission expense** | **(9,655)** | (8,495) | (1,160) | 13.66% |
| **Net fee and commission income** | **88,664** | 92,410 | (3,746) | (4.05%) |
| **Domestic** | | | | |
| Agency commissions | **18,278** | 16,951 | 1,327 | 7.83% |
| Bank card fees | **20,366** | 20,771 | (405) | (1.95%) |
| Settlement and clearing fees | **9,613** | 10,237 | (624) | (6.10%) |
| Credit commitment fees | **7,685** | 9,891 | (2,206) | (22.30%) |
| Consultancy and advisory fees | **5,561** | 5,677 | (116) | (2.04%) |
| Spread income from foreign exchange business | **6,335** | 6,556 | (221) | (3.37%) |
| Custodian and other fiduciary service fees | **3,282** | 3,322 | (40) | (1.20%) |
| Other | **4,133** | 5,040 | (907) | (18.00%) |
| **Fee and commission income** | **75,253** | 78,445 | (3,192) | (4.07%) |
| **Fee and commission expense** | **(4,550)** | (3,225) | (1,325) | 41.09% |
| **Net fee and commission income** | **70,703** | 75,220 | (4,517) | (6.01%) |

**Other Non-interest Income**

The Group realised other non-interest income of RMB90.944 billion, an increase of RMB38.092 billion or 72.07% compared with the prior year. This was primarily because the Bank completed the sale and delivery of Nanyang Commercial Bank, Limited (NCB) and recognised the related gain from the investment disposal. Meanwhile, net gains on financial investments realised rapid growth compared with the prior year. Please refer to Notes V.3, 4, 5 to the Consolidated Financial Statements for detailed information.

## *Operating Expenses*

The Bank continued to operate its business prudently. It further optimised its cost structure, tightened control over administrative expenses, allocated greater resources to key areas, business frontlines and overseas institutions and made greater efforts to support internet finance, RMB internationalisation and the construction of smart service outlets, thus continually improving its overall input-output efficiency. In 2016, the Group recorded operating expenses of RMB175.069 billion, a decrease of RMB10.332 billion or 5.57% compared with the prior year. The Group's cost to income ratio (calculated in accordance with domestic regulations) was 28.08%, a decrease of 0.22 percentage point compared with the prior year. Please refer to Notes V.6, 7 to the Consolidated Financial Statements for detailed information.

Unit: RMB million, except percentages

| Items | 2016 | 2015 | Change | Change (%) |
|---|---|---|---|---|
| Staff costs | **81,080** | 80,324 | 756 | 0.94% |
| General operating and administrative expenses | **41,565** | 40,671 | 894 | 2.20% |
| Depreciation and amortisation | **13,175** | 13,218 | (43) | (0.33%) |
| Taxes and surcharges | **9,810** | 26,734 | (16,924) | (63.31%) |
| Insurance benefits and claims | **16,804** | 14,123 | 2,681 | 18.98% |
| Other | **12,635** | 10,331 | 2,304 | 22.30% |
| **Total** | **175,069** | 185,401 | (10,332) | (5.57%) |

## *Impairment Losses on Assets*

The Bank continued to improve its comprehensive risk management system and adopted a proactive and forward-looking approach to risk management, thus ensuring a relatively stable credit asset quality. It stringently implemented a prudent risk provisioning policy and maintained an adequate capacity of risk mitigation. In 2016, the Group's impairment losses on loans and advances totalled RMB86.795 billion, an increase of RMB30.923 billion or 55.35% compared with the prior year. In particular, collectively-assessed impairment losses stood at RMB56.287 billion, an increase of RMB30.479 billion compared with the prior year, while individually-assessed impairment losses stood at RMB30.508 billion, an increase of RMB0.444 billion compared with the prior year. Please refer to the section "Risk Management — Credit Risk Management" and Notes V.9, VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

## *Income Tax Expense*

In 2016, the Group incurred income tax of RMB38.361 billion, a decrease of RMB13.793 billion or 26.45% compared with the prior year. This was primarily attributable to the increase in bond investment, for which the Bank enjoyed a preferential rate of corporate income tax. The Group's effective tax rate was 17.25%. Please refer to Note V.10 to the Consolidated Financial Statements for the reconciliation of the statutory income tax rate to the effective income tax rate.

## Financial Position Analysis

As at the end of 2016, the Group's total assets amounted to RMB18,148.889 billion, an increase of RMB1,333.292 billion or 7.93% compared with the prior year-end. The Group's total liabilities amounted to RMB16,661.797 billion, an increase of RMB1,203.805 billion or 7.79% compared with the prior year-end.

The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million, except percentages

| | As at 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| Items | Amount | % of total | Amount | % of total |
| **Assets** | | | | |
| Loans and advances to customers, net | **9,735,646** | **53.64%** | 8,935,195 | 53.14% |
| Investments | **3,972,884** | **21.89%** | 3,595,095 | 21.38% |
| Balances with central banks | **2,271,640** | **12.52%** | 2,196,063 | 13.06% |
| Due from and placements with banks and other financial institutions | **1,176,482** | **6.48%** | 1,007,855 | 5.99% |
| Other assets | **992,237** | **5.47%** | 1,081,389 | 6.43% |
| **Total assets** | **18,148,889** | **100.00%** | 16,815,597 | 100.00% |
| **Liabilities** | | | | |
| Due to customers | **12,939,748** | **77.66%** | 11,729,171 | 75.88% |
| Due to and placements from banks and other financial institutions and due to central banks | **2,590,413** | **15.55%** | 2,627,973 | 17.00% |
| Other borrowed funds | **389,470** | **2.34%** | 313,210 | 2.03% |
| Other liabilities | **742,166** | **4.45%** | 787,638 | 5.09% |
| **Total liabilities** | **16,661,797** | **100.00%** | 15,457,992 | 100.00% |

Notes:

1 Investments include financial investments available for sale, debt securities held to maturity, financial investments classified as loans and receivables, and financial assets at fair value through profit or loss.

2 Other borrowed funds include bonds issued and other borrowings.

### *Loans and Advances to Customers*

In line with China's macroeconomic policies and the financial demands of the real economy, the Bank rationally allocated credit extension and expanded its lending scale at a stable and moderate pace. The Bank continually improved its credit structure, supported key national investment fields, promoted the coordinated development of regional economies and provided credit support to a series of national projects, such as the construction of the "Belt and Road" financial artery, cross-border capacity transfer and Chinese enterprises' "Going Global" initiative.

The Bank strictly controlled credit facilities granted to industries characterised by high pollution, high energy consumption and overcapacity. As at the end of 2016, the Group's loans and advances to customers amounted to RMB9,973.362 billion, an increase of RMB837.502 billion or 9.17% compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB7,607.730 billion, an increase of RMB595.863 billion or 8.50% compared with the prior year-end, while its foreign currency loans amounted to USD341.017 billion, an increase of USD13.927 billion or 4.26%.

The Bank further improved its risk management, paid close attention to changes in the macroeconomic situation, strengthened risk identification and management in key areas and made more efforts to dispose the non-performing assets, maintaining a relatively stable asset quality. As at the end of 2016, the balance of the Group's allowance for loan impairment losses amounted to RMB237.716 billion, an increase of RMB37.051 billion compared with the prior year-end. The balance of the Group's restructured loans amounted to RMB9.699 billion, an increase of RMB4.394 billion compared with the prior year-end.

### *Investments*

The Bank tracked market dynamics, increased its investment in both RMB and foreign currency bonds, continuously adjusted its investment structure, properly managed investment portfolio duration and struck a balance between risk and return.

As at the end of 2016, the Group held investments of RMB3,972.884 billion, an increase of RMB377.789 billion or 10.51% compared with the prior year-end. Specifically, the Group's RMB investments totalled RMB3,000.935 billion, an increase of RMB167.873 billion or 5.93% compared with the prior year-end, while foreign currency investments totalled USD140.111 billion, an increase of USD22.760 billion or 19.39% compared with the prior year-end.

The classification of the Group's investment portfolio is shown below:

Unit: RMB million, except percentages

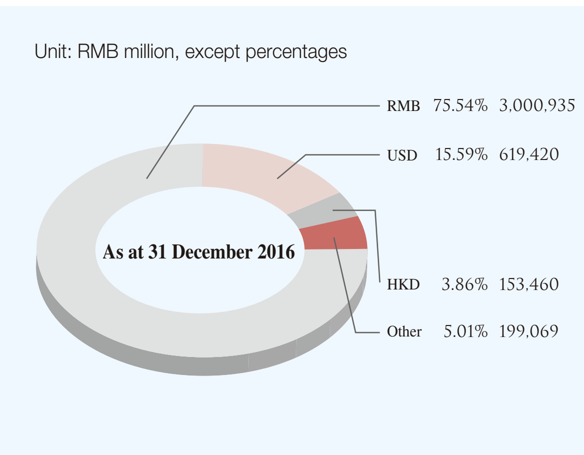
| | As at 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| **Items** | **Amount** | **% of total** | Amount | % of total |
| Financial assets at fair value through profit or loss | **124,090** | **3.12%** | 119,062 | 3.31% |
| Financial investments available for sale | **1,609,830** | **40.52%** | 1,078,533 | 30.00% |
| Debt securities held to maturity | **1,843,043** | **46.39%** | 1,790,790 | 49.81% |
| Financial investments classified as loans and receivables | **395,921** | **9.97%** | 606,710 | 16.88% |
| **Total** | **3,972,884** | **100.00%** | 3,595,095 | 100.00% |

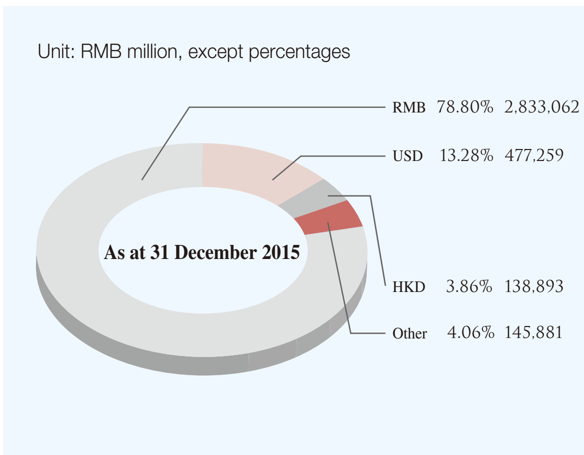
## Investments by Issuer Type

Unit: RMB million, except percentages

| Items | As at 31 December 2016 Amount | As at 31 December 2016 % of total | As at 31 December 2015 Amount | As at 31 December 2015 % of total |
|---|---|---|---|---|
| **Debt securities** | | | | |
| **Issuers in Chinese mainland** | | | | |
| Government | **2,004,727** | **50.46%** | 1,411,475 | 39.26% |
| Public sectors and quasi-governments | **52,015** | **1.31%** | 62,293 | 1.73% |
| Policy banks | **389,774** | **9.81%** | 441,288 | 12.28% |
| Financial institutions | **292,861** | **7.37%** | 292,978 | 8.15% |
| Corporates | **190,222** | **4.79%** | 278,719 | 7.75% |
| China Orient Asset Management Corporation | **160,000** | **4.03%** | 160,000 | 4.45% |
| **Subtotal** | **3,089,599** | **77.77%** | 2,646,753 | 73.62% |
| **Issuers in Hong Kong, Macau, Taiwan and other countries and regions** | | | | |
| Governments | **342,698** | **8.62%** | 289,498 | 8.05% |
| Public sectors and quasi-governments | **90,101** | **2.27%** | 50,534 | 1.41% |
| Financial institutions | **217,554** | **5.47%** | 157,267 | 4.37% |
| Corporates | **120,620** | **3.04%** | 106,776 | 2.97% |
| **Subtotal** | **770,973** | **19.40%** | 604,075 | 16.80% |
| **Equity instruments and others** | **112,312** | **2.83%** | 344,267 | 9.58% |
| **Total** | **3,972,884** | **100.00%** | 3,595,095 | 100.00% |

## Investments by Currency



### Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

| Bond Name | Par Value | Annual Rate | Maturity Date | Impairment |
|---|---|---|---|---|
| Bond issued by financial institutions in 2016 | 20,000 | 3.50% | 2017-06-14 | – |
| Bond issued by policy banks in 2014 | 7,626 | 5.44% | 2019-04-08 | – |
| Bond issued by policy banks in 2010 | 6,070 | Term deposit rate for 1 year + 0.52% | 2017-01-26 | – |
| Bond issued by financial institutions in 2015 | 5,500 | 4.95% | 2018-01-19 | – |
| Bond issued by financial institutions in 2016 | 5,000 | 3.30% | 2017-08-10 | – |
| Bond issued by financial institutions in 2016 | 5,000 | 3.40% | 2017-05-26 | – |
| Bond issued by policy banks in 2010 | 4,750 | Term deposit rate for 1 year + 0.59% | 2020-02-25 | – |
| Bond issued by policy banks in 2015 | 4,420 | 4.10% | 2020-03-24 | – |
| Bond issued by financial institutions in 2015 | 4,400 | 4.00% | 2025-12-21 | – |
| Bond issued by policy banks in 2011 | 4,400 | 3.83% | 2018-11-24 | – |

Note: Financial bonds refer to the debt securities issued by financial institutions in the bond market, including the bonds issued by policy banks, other banks and non-bank financial institutions, but excluding restructured bonds and PBOC bills.

### *Due to Customers*

The Bank aligned itself with the trend towards interest rate liberalisation and the rapid development of internet finance, accelerated product and service innovation and thus constantly enhanced its financial services offering. As a result, its liability business grew steadily. It further improved salary payment agency, payment collection and other basic services, optimised the functions of personal certificates of deposit (CDs), steadily expanded its administrative institution customer base, solidified its relationships with basic settlement and cash management customers and seized such business opportunities as the acceleration of direct financing. As a result, it steadily grew its customer base.

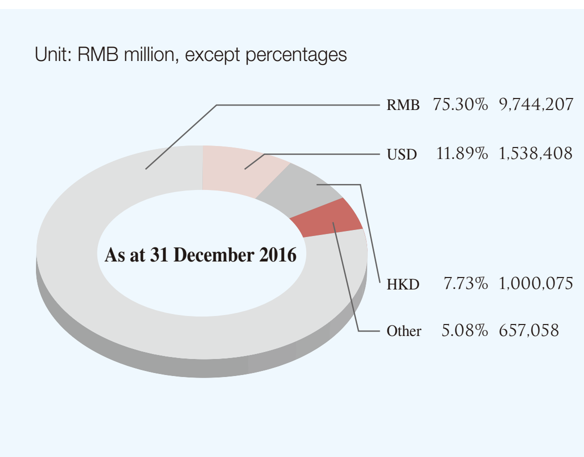
As at the end of 2016, the Group's due to customers amounted to RMB12,939.748 billion, an increase of RMB1,210.577 billion or 10.32% compared with the prior year-end. Specifically, the Group's RMB due to customers totalled RMB9,744.207 billion, an increase of RMB629.540 billion or 6.91% compared with the prior year-end, while its foreign currency due to customers stood at USD460.652 billion, an increase of USD58.024 billion or 14.41%.

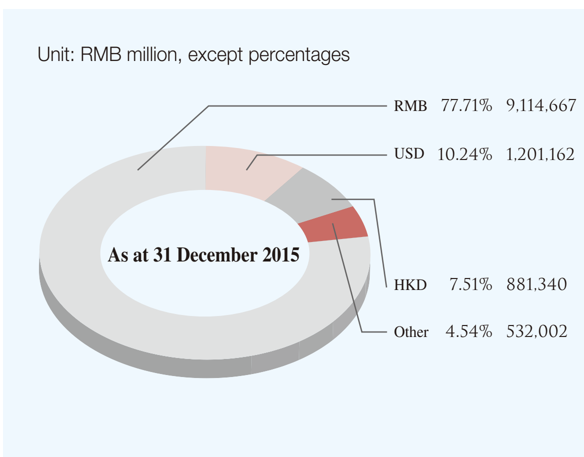
The principal components of due to customers of the Group and its domestic institutions are set out below:

Unit: RMB million, except percentages

| Items | As at 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| | Amount | % of total | Amount | % of total |
| **Group** | | | | |
| **Corporate deposits** | | | | |
| Demand deposits | **3,620,945** | **27.98%** | 3,130,624 | 26.69% |
| Time deposits | **3,100,383** | **23.96%** | 3,037,783 | 25.90% |
| Structured deposits | **271,885** | **2.10%** | 274,799 | 2.34% |
| **Subtotal** | **6,993,213** | **54.04%** | 6,443,206 | 54.93% |
| **Personal deposits** | | | | |
| Demand deposits | **2,490,309** | **19.25%** | 2,092,841 | 17.84% |
| Time deposits | **2,992,051** | **23.12%** | 2,841,372 | 24.22% |
| Structured deposits | **78,426** | **0.61%** | 65,112 | 0.56% |
| **Subtotal** | **5,560,786** | **42.98%** | 4,999,325 | 42.62% |
| **Certificates of deposit** | **327,908** | **2.53%** | 230,793 | 1.97% |
| **Other deposits** | **57,841** | **0.45%** | 55,847 | 0.48% |
| **Total** | **12,939,748** | **100.00%** | 11,729,171 | 100.00% |
| **Domestic** | | | | |
| **Corporate deposits** | | | | |
| Demand deposits | **3,046,617** | **29.48%** | 2,599,679 | 27.58% |
| Time deposits | **2,286,107** | **22.12%** | 2,282,082 | 24.20% |
| Structured deposits | **259,434** | **2.51%** | 251,251 | 2.67% |
| **Subtotal** | **5,592,158** | **54.11%** | 5,133,012 | 54.45% |
| **Personal deposits** | | | | |
| Demand deposits | **1,904,292** | **18.42%** | 1,616,747 | 17.15% |
| Time deposits | **2,711,679** | **26.24%** | 2,559,844 | 27.16% |
| Structured deposits | **75,374** | **0.73%** | 63,008 | 0.67% |
| **Subtotal** | **4,691,345** | **45.39%** | 4,239,599 | 44.98% |
| **Other deposits** | **51,398** | **0.50%** | 53,409 | 0.57% |
| **Total** | **10,334,901** | **100.00%** | 9,426,020 | 100.00% |

### Due to Customers by Currency



### *Equity*

As at the end of 2016, the Group's total equity was RMB1,487.092 billion, an increase of RMB129.487 billion or 9.54% compared with the prior year-end. This was primarily attributable to the following reasons: (1) In 2016, the Group realised a profit for the year of RMB184.051 billion. (2) As per the 2015 profit distribution plan approved at the 2015 Annual General Meeting, the Bank paid a cash dividend of RMB51.518 billion. (3) The Bank paid a dividend on its preference shares of RMB6.718 billion. (4) The listing of BOC Aviation on the Hong Kong Stock Exchange gave rise to an increase of RMB7.287 billion in the Group's total equity. Please refer to the "Consolidated Statement of Changes in Equity" in the Consolidated Financial Statements for detailed information.

## Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments, etc.

The Group entered into various derivative financial instruments relating to foreign currency exchange rates, interest rates, equity, credit, precious metals and other commodities for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note V.17 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include legal proceedings and arbitrations, assets pledged, collateral accepted, capital commitments, operating leases, Treasury bonds redemption commitments, credit commitments and underwriting obligations, etc. Please refer to Note V.42 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

## Cash Flow Analysis

As at the end of 2016, the balance of the Group's cash and cash equivalents was RMB1,019.247 billion, a decrease of RMB32.831 billion compared with the prior year-end.

In 2016, net cash flow from operating activities was an inflow of RMB182.081 billion, a decrease of RMB490.013 billion compared with the prior year. This was mainly attributable to the increase of net increase in due to customers and the decrease of net changes in due to and placements from banks and other financial institutions compared with the prior year.

Net cash flow from investing activities was an outflow of RMB246.386 billion, a decrease of RMB510.893 billion compared with the prior year. This was mainly attributable to the decrease in net cash outflow of financial investments.

Net cash flow from financing activities was an outflow of RMB1.713 billion, a decrease of RMB27.002 billion compared with the prior year. This was mainly attributable to the increase of proceeds from issuance of bonds compared with the prior year.

## Segment Reporting by Geography

The Group conducts its business activities in Chinese mainland, Hong Kong, Macau, Taiwan and other countries. A geographical analysis of profit contribution and the related assets and liabilities is set forth in the following table:

Unit: RMB million

| Items | Chinese mainland | | Hong Kong, Macau and Taiwan | | Other countries | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Net interest income | **263,642** | 282,151 | **29,342** | 31,738 | **13,064** | 14,761 | **–** | – | **306,048** | 328,650 |
| Non-interest income | **104,432** | 101,468 | **72,299** | 41,769 | **6,151** | 3,150 | **(3,274)** | (1,125) | **179,608** | 145,262 |
| Including: net fee and commission income | **70,703** | 75,220 | **14,486** | 14,729 | **4,285** | 3,302 | **(810)** | (841) | **88,664** | 92,410 |
| Operating Expenses | **(138,639)** | (150,393) | **(31,731)** | (31,370) | **(5,987)** | (4,763) | **1,288** | 1,125 | **(175,069)** | (185,401) |
| Impairment losses on assets | **(86,427)** | (56,409) | **(1,803)** | (2,095) | **(842)** | (770) | **–** | – | **(89,072)** | (59,274) |
| Profit before income tax | **143,008** | 176,817 | **69,004** | 42,376 | **12,386** | 12,378 | **(1,986)** | – | **222,412** | 231,571 |
| **As at the year-end** | | | | | | | | | | |
| Assets | **14,341,792** | 13,053,114 | **3,256,526** | 3,010,958 | **1,812,521** | 1,819,844 | **(1,261,950)** | (1,068,319) | **18,148,889** | 16,815,597 |
| Liabilities | **13,198,402** | 11,970,984 | **2,967,621** | 2,784,066 | **1,757,564** | 1,770,859 | **(1,261,790)** | (1,067,917) | **16,661,797** | 15,457,992 |

As at the end of 2016, total assets[3] of the Bank's Chinese mainland segment amounted to RMB14,341.792 billion, an increase of RMB1,288.678 billion or 9.87% compared with the prior year-end, representing 73.88% of the Group's total assets. In 2016, this segment recorded a profit before income tax of RMB143.008 billion, a decrease of RMB33.809 billion or 19.12% compared with the prior year, representing 63.73% of the Group's profit before income tax for the year.

Total assets of the Hong Kong, Macau and Taiwan segment amounted to RMB3,256.526 billion, an increase of RMB245.568 billion or 8.16% compared with the prior year-end, representing 16.78% of the Group's total assets. In 2016, this segment recorded a profit before income tax of RMB69.004 billion, an increase of RMB26.628 billion or 62.84% compared with the prior year, representing 30.75% of the Group's profit before income tax for the year.

Total assets of the other countries segment amounted to RMB1,812.521 billion, a decrease of RMB7.323 billion or 0.40% compared with the prior year-end, representing 9.34% of the Group's total assets. In 2016, this segment recorded a profit before income tax of RMB12.386 billion, an increase of RMB8 million or 0.06% compared with the prior year, representing 5.52% of the Group's profit before income tax for the year.

Please refer to the section "Business Review" for more detailed information on the Group's business segments.

## Critical Accounting Estimates and Judgements

The Bank makes accounting estimates and judgements that affect the reported amounts of assets and liabilities of the next financial year. These estimates and judgements are continually evaluated and are based on historical experience, expectations of future events that are believed to be reasonable under the circumstances and other factors. The management believes that the accounting estimates and judgements have properly reflected the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

3 The figures for segment assets, segment profit before income tax and their respective proportions are prior to intragroup elimination.

## Fair Value Measurement

### Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

| Items | Opening balance | Closing balance | Change in the year | Impact on profit for the year |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | 99,864 | 106,172 | 6,308 | (327) |
| Loans | 4,218 | 6,022 | 1,804 | |
| Equity securities | 9,338 | 7,547 | (1,791) | |
| Fund investments and other | 5,642 | 4,349 | (1,293) | |
| Investment securities available for sale | | | | |
| Debt securities | 1,029,842 | 1,535,963 | 506,121 | (946) |
| Equity securities | 30,209 | 33,936 | 3,727 | |
| Fund investments and other | 18,482 | 39,931 | 21,449 | |
| Derivative financial assets | 82,236 | 130,549 | 48,313 | 1,074 |
| Derivative financial liabilities | (69,160) | (107,109) | (37,949) | |
| Placements from banks and other financial institutions at fair value | (1,617) | (1,968) | (351) | – |
| Due to customers at fair value | (339,911) | (350,311) | (10,400) | (73) |
| Short position in debt securities | (7,012) | (9,990) | (2,978) | 49 |

The Bank has put in place a sound internal control mechanism for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks, Regulatory Guidelines on Valuation of Financial Instruments in Commercial Banks, CAS* and *IFRS*, with reference to the New Basel Capital Accord, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Valuation Policy of Financial Instrument Fair Values of Bank of China Limited* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure. Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the fair value measurement.

## Other Financial Information

There are no differences in the equity and profit for the year of the Group prepared in accordance with IFRS to those prepared in accordance with CAS. Please refer to Supplementary Information I to the Consolidated Financial Statements for detailed information.

Operating income for each line of business of the Group is set forth in the following table:

Unit: RMB million, except percentages

| Items | 2016 Amount | 2016 % of total | 2015 Amount | 2015 % of total |
|---|---|---|---|---|
| Commercial banking business | **420,498** | **86.59%** | 440,847 | 93.02% |
| Including: Corporate banking business | **211,245** | **43.50%** | 206,231 | 43.52% |
| Personal banking business | **150,609** | **31.01%** | 135,652 | 28.62% |
| Treasury operations | **58,644** | **12.08%** | 98,964 | 20.88% |
| Investment banking and insurance | **24,634** | **5.07%** | 22,062 | 4.66% |
| Others and elimination | **40,524** | **8.34%** | 11,003 | 2.32% |
| **Total** | **485,656** | **100.00%** | 473,912 | 100.00% |

A detailed review of the Group's principal deposits and loans is summarised in the following table:

Unit: RMB million

| Items | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|---|
| **Corporate deposits** | | | |
| Domestic: RMB | **5,213,790** | 4,818,850 | 4,431,867 |
| Foreign currency | **378,368** | 314,162 | 265,826 |
| Hong Kong, Macau, Taiwan and overseas operations | **1,401,055** | 1,310,194 | 1,213,479 |
| **Subtotal** | **6,993,213** | 6,443,206 | 5,911,172 |
| **Personal deposits** | | | |
| Domestic: RMB | **4,349,300** | 3,982,160 | 3,688,329 |
| Foreign currency | **342,045** | 257,439 | 198,621 |
| Hong Kong, Macau, Taiwan and overseas operations | **869,441** | 759,726 | 754,215 |
| **Subtotal** | **5,560,786** | 4,999,325 | 4,641,165 |
| **Corporate loans** | | | |
| Domestic: RMB | **4,496,888** | 4,402,258 | 4,021,257 |
| Foreign currency | **336,294** | 398,103 | 500,208 |
| Hong Kong, Macau, Taiwan and overseas operations | **1,735,787** | 1,569,551 | 1,524,131 |
| **Subtotal** | **6,568,969** | 6,369,912 | 6,045,596 |
| **Personal loans** | | | |
| Domestic: RMB | **2,983,945** | 2,397,327 | 2,082,757 |
| Foreign currency | **1,381** | 1,406 | 1,551 |
| Hong Kong, Macau, Taiwan and overseas operations | **419,067** | 367,215 | 353,371 |
| **Subtotal** | **3,404,393** | 2,765,948 | 2,437,679 |

## Commercial Banking

### *Domestic Commercial Banking*

In 2016, the Bank's domestic commercial banking business recorded an operating income of RMB359.240 billion, a decrease of RMB18.681 billion or 4.94% compared with the prior year. Details are set forth below:

Unit: RMB million, except percentages

| Items | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount | % of total | Amount | % of total |
| Corporate banking business | **185,014** | **51.50%** | 183,928 | 48.67% |
| Personal banking business | **133,220** | **37.08%** | 118,849 | 31.45% |
| Treasury operations | **37,902** | **10.55%** | 73,820 | 19.53% |
| Other | **3,104** | **0.87%** | 1,324 | 0.35% |
| **Total** | **359,240** | **100.00%** | 377,921 | 100.00% |

#### Corporate Banking

The Bank devoted great efforts to transforming its corporate banking business. It continued to promote product innovation, further optimise its customer structure, expand its customer base and enhance its diversified operations and the integration of its domestic and overseas operations. The Bank strived to improve its global service capability for corporate banking customers, thus achieving balanced and steady development of its corporate banking business. In 2016, the Bank's domestic corporate banking business realised an operating income of RMB185.014 billion, an increase of RMB1.086 billion or 0.59% compared with the prior year.

##### Corporate Deposits

The Bank accelerated the development of its corporate liability business, constantly enhanced financial service standards and thus realised sustainable growth in corporate deposits. Seizing business opportunities arising from key industries, the Bank strengthened the marketing of its full product line. It managed to attract more administrative institution customers by improving product and service systems aimed at corporate customers engaged in supporting the people's livelihood, public finance and social security, education and public health, etc., reporting rapid growth in deposits from such institutions. The Bank also actively sought out customers along the upstream and downstream of supply chains and industrial chains in order to identify and attract more potential customer deposits. In response to the trend of interest rate liberalisation, the Bank pursued innovation-led development, reinforced marketing promotion and optimised product functions, while at the same time insisting on maintaining the right balance between scale and benefit. In addition, seizing business opportunities arising from the rapid expansion of direct financing, the Bank stepped up its marketing efforts for cash management and settlement products. It also enhanced the corporate banking service functions and service levels of its outlets, resulting in an increase in deposit contribution per outlet.

As at the end of 2016, RMB corporate deposits in the Bank's domestic operations totalled RMB5,213.790 billion, an increase of RMB394.940 billion or 8.20% compared with the prior year-end. Foreign currency corporate deposits amounted to USD54.543 billion.

##### Corporate Loans

The Bank continued to implement national industrial policies and strengthen its support for the real economy. It actively supported key investment areas, provided greater credit support for such key areas as technological upgrade of enterprises, technology-driven innovation, high-end equipment manufacturing and environmental protection, as well as to the regions of central and western China, micro, small and medium-sized enterprises and to traditional infrastructures such as railways and water conservation. The Bank constantly optimised its credit structure by making better use of new assets and revitalising existing assets, providing credit support for the transformation and upgrading of the domestic economy and for international collaboration on production capacity. It strictly limited lending to industries characterised by high pollution, high energy consumption and overcapacity. The Bank stepped up the transformation of its corporate banking service and helped customers to broaden their financing channels so as to meet their diversified financing needs. In addition, the Bank also further enhanced the development of green finance and improved its system of green financial products and services.

As at the end of 2016, RMB corporate loans of the Bank's domestic operations totalled RMB4,496.888 billion, an increase of RMB94.630 billion or 2.15% compared with the prior year-end. Foreign currency corporate loans totalled USD48.478 billion.

**Trade Finance and Services**

The Bank fully leveraged its traditional advantages in trade finance while effectively managing and controlling risks. It accelerated innovation in its business model and seized opportunities arising from national strategies, thus driving forward stable growth and continuously consolidating its market dominance. In 2016, the Group's transaction volume of international trade reached USD3.63 trillion. The Bank's domestic institutions retained the leading position among peers in providing international trade services and held the leading market share in overseas guarantee business.

The Bank built up its brand reputation as the premier free trade zones (FTZs) financial services provider, promoted innovation in commodity-related structured financial services, supported the international development strategy pursued by domestic commodity exchanges and pushed forward the use of RMB-denominated commodity trading. The Bank took the lead in launching new businesses such as OTC bond transactions, RMB currency swaps under separate accounting, free trade foreigner (FTF) account opening and fully functional cross-border two-way RMB cash pooling in the China (Shanghai) Pilot Free Trade Zone (the "Shanghai FTZ"). The Bank took the lead in launching cross-border two-way RMB cash pooling, cross-border RMB under individual current accounts and overseas RMB lending in the Guangdong, Tianjin and Fujian FTZs. In addition, the Bank accelerated innovation in centralised collection and payment products for the local and foreign currency funds of multinational corporations' headquarters and actively promoted the adoption of digital documents for international payment.

In line with national strategies, the Bank actively promoted China's economic and trade cooperation along the "Belt and Road" by facilitating business growth of institutions in the "Belt and Road" countries. It engaged deeply with the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity. To further advance the development of RMB internationalisation, the Bank endeavoured to serve as the main channel for cross-border RMB fund flows and as a leader in RMB-related financial product and service innovation. In 2016, the Group's transaction volume of cross-border RMB payment was over RMB4 trillion, and the transaction volume of cross-border RMB payment of the domestic institutions of the Bank was over RMB2.35 trillion, maintaining its leading market share. The Bank further improved its global RMB clearing network, with the New York Branch authorised as an RMB clearing bank in the US. The Bank also actively promoted the use of RMB in emerging sectors and assisted foreign financial institutions in issuing Panda Bonds, thus playing an innovative and pioneering role in the opening up of China's bond market. It completed the first RMB/ZAR, RMB/KRW, RMB/AED and RMB/SAR direct transactions in the interbank foreign exchange market. The Bank also continued to release the "BOC Cross-border RMB Index (CRI)", the "BOC Offshore RMB Index (ORI)" and the "BOC OBOR RMB Index (BOC OBORR)", as well as the *White Paper on RMB Internationalisation*, providing more professional support for global clients to understand and use RMB. The Bank served as the overall lead bank in the China Foreign Exchange Committee, set up in 2016, and as the lead bank of the Retail Foreign Exchange and Cross-border RMB Business Working Group under the Committee, with the twin aims of improving the foreign exchange market's self-discipline and driving the development of RMB internationalisation.

The Bank received awards granted by prestigious local and international media and professional institutions, such as "Best Trade Finance Bank in China", "Best RMB Internationalisation Bank in China", "Best Trade Finance Provider (Domestic)" and "Best Supply Chain Finance Provider (Domestic)".

**Cash Management**

Drawing on the strength of its globally integrated operations, the Bank continued to improve the functions and related services of its global cash management platform and made greater efforts to promote its global cash management business. Grasping the business opportunities arising from the centralised operation of cross-border local and foreign currency funds and the development of FTZs, the Bank actively expanded its cross-border cash management business and maintained a leading market share. The Bank successfully secured the cash management business of many large-sized multinational corporations through competitive bids. Its global cash management group customer base increased rapidly, with coverage now extending to 43 countries and regions across Asia-Pacific, Europe, Africa and the Americas. The Bank introduced the Bank Host-to-Host Direct Connection, Swift Direct Connection and Multi-Bank Cash Management System services in order to effectively meet the differentiated requirements of the market. It also strengthened risk control over its cash management business and improved customer experience. The Bank was recognised as the "Best Regional Cash Manager in Asia" by *Euromoney* and the "Best Local Currency Cash Management Bank in China" by *Asiamoney*.

**Financial Institutions Business**

The Bank continued to deepen comprehensive cooperation with various global financial institutions, including domestic banks, overseas correspondent banks, non-bank financial institutions, overseas central banks, sovereign wealth funds and international financial organisations. It enhanced its integrated financial services platform and maintained a leading position in terms of financial institution customer coverage. Having established correspondent relationships with more than 1,600 financial institutions in 179 countries and regions, the Bank provided financial services for multinational institutions and enterprises in fields such as international settlement, bond financing, foreign exchange trading, custody and global cash management. Closely supporting the national "Belt and Road" initiative, the Bank consolidated cooperation with key correspondent banks along the "Belt and Road". It initiated wide-reaching cooperation with emerging international organisations and development institutions such as Asian Infrastructure Investment Bank, New Development Bank and Silk Road Fund, participated in the investment and financing projects of domestic policy financial institutions along the "Belt and Road" and provided extended financial services. The Bank devoted more efforts to expanding its cross-border RMB business and thus became the major RMB clearing channel for overseas central banks, correspondent banks and exchanges and the preferred bank of Chinese enterprises for RMB business. It opened 1,508 cross-border RMB clearing accounts for correspondent banks from 119 countries and regions, thus holding a leading position among domestic banks. It also promoted the RMB Cross-Border Interbank Payment System (CIPS) and signed cooperation agreements for indirect participants with 160 domestic and overseas financial institutions, seizing the largest market share in the banking industry. The Bank's custodian service for Qualified Foreign Institutional Investors (QFIIs) and RMB Qualified Foreign Institutional Investors (RQFIIs) ranked among the top in terms of both customer base and business scale. The Bank strengthened cooperation with global sovereign institutions and non-bank financial institutions. As a result, the Bank was chosen by four foreign sovereign institutions as their agent in the interbank bond market and was appointed by five foreign sovereign institutions as their agent for interbank foreign exchange trading. The Bank was selected by China Securities Depository and Clearing Corporation Limited as the settlement bank for Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect. Hong Kong Securities Clearing Company Ltd. authorised the Bank to be the sole settlement bank for the Northbound Shenzhen Trading Link. Furthermore, the Bank helped international financial institutions to issue SDR-denominated bonds in the domestic interbank market and to issue RMB3.0 billion of green bonds in the domestic market, and the Bank conducted strategic cooperation regarding "Belt and Road" business.

As at the end of 2016, the Bank ranked first in terms of market share in foreign currency deposits from financial institutions. It also led its peers in B-Share clearing business volume. The inbound international settlement business volume directed to the Bank by its overseas correspondent banks also ranked first in the market. Its third-party custody business continued to grow rapidly and the annual fee income from its bancassurance business reached a record high.

**SME Finance**

The Bank comprehensively implemented national policies and measures to support the development of small and medium-sized enterprises (SMEs), and endeavoured to develop an SME finance service model integrating the "Credit Factory", "investment and loan linkage mechanism" and "cross-border matchmaking", thus constantly enhancing SME finance services. In 2016, loans to micro and small-sized enterprises in the Chinese mainland continued to grow stably, with the Bank satisfying the regulatory requirement of the "Three No-Less-Thans" — that is, an SME loan growth rate of no less than the average growth rate of domestic loans, a number of SME borrowers no less than that of the prior year and a loan approval ratio for SME borrowers of no less than that of the prior year. The Bank followed the national development strategies of innovation-driven development and supported "mass entrepreneurship and innovation". Among large commercial banks in the Chinese mainland, the Bank was the only one to be included in the first batch of the "investment and loan linkage mechanism" pilot programme, and piloted "investment and loan linkage mechanism" in the national autonomous innovation demonstration zones in five provinces and cities including Beijing, Tianjin, Shanghai, Hubei and Shaanxi. In addition, the Bank fully leveraged its advantages in specialised operations, established franchising institution specialised in science and technology and set up external expert database, so as to support the development of technology and innovation-oriented SMEs. It also reinforced business cooperation among BOCG Investment, BOCI China and BOCIM, in a bid to promote the linkage of investment and lending in an in-depth manner.

The Bank earnestly promoted cross-border investment matchmaking services for SMEs by supporting enterprises to access foreign funds and advanced technologies and by boosting transformation and upgrading, technological exchanges and cross-border cooperation, so as to help domestic SMEs to integrate into the global industrial and value chain. This was highly praised by all sectors of society. To date, the Bank has organised 28 cross-border matchmaking events across five continents, attracting over 20,000 SMEs from both China and other countries and regions. The Ministry of Industry and Information Technology (MIIT) and the Bank jointly issued the *Five-year Action Plan on Promoting the International Development of Small and Medium-sized Enterprises (2016–2020)* and the Bank was invited to attend the APEC SME Working Group Meeting and the EU-China SME Policy Dialogue. The Bank enhanced risk control and compliance management, improved its early-warning mechanism on asset quality control and continuously enhanced its capabilities in identifying and mitigating credit risk, thus maintaining SME loan quality at a stable and controllable level.

As at the end of 2016, the Bank's outstanding loans to micro and small-sized enterprises[4] amounted to RMB1,284.9 billion, an increase of RMB139.2 billion compared with the prior year-end. The Bank served 3.11 million SME customers and granted SME loans of RMB1,912.5 billion.

**Pension Business**

In an effort to support the development of China's social security system, the Bank continuously increased its pension-related product offerings, promoted product innovation, optimised service system functions and developed a comprehensive service system. It

4 Micro and small-sized enterprise loans statistical standards are executed in accordance with the *Guiding Opinions on Financial Services for Micro and Small-sized Enterprises in 2014* (Yinjianfa [2014] No. 7).

provided a range of pension-related financial services including enterprise annuities, occupational annuities, social security, employee benefit plans, employee stock ownership plans and pension security management products, thus enhancing customer satisfaction. As at the end of 2016, the Bank's total number of individual pension accounts reached 4.1690 million, an increase of 0.2955 million or 7.63% compared with the prior year-end. Assets under custody amounted to RMB157.320 billion, an increase of RMB25.520 billion or 19.36% compared with the prior year-end, with the Bank serving more than 10,000 clients.

## Building the Financial Artery of the "Belt and Road" Initiative

Dedicated to the strategic goal of "Serving Society, Delivering Excellence", the Bank accelerated the building of the financial artery of the "Belt and Road" initiative in line with national strategy, in an effort to become the preferred bank for China's "Going Global" enterprises, to serve as the main channel for "Belt and Road" related cross-border RMB business and to realise a presence in over 50% of countries along the "Belt and Road".

The Bank energetically supported "Belt and Road" infrastructure projects and provided credit support for merger and acquisition (M&A) and investment of China's "Going Global" enterprises in "Belt and Road" countries. In 2016, the Bank granted new credit of about USD30.7 billion to the "Belt and Road" countries, resulting in a cumulative total of almost USD60.0 billion in credit extended. Through its "Belt and Road" key project base, the Bank supported a total of 420 key projects with a combined investment amount of approximately USD400.0 billion and intentional support of above USD94.7 billion.

Leveraging its advantages in cross-border RMB business, the Bank's institutions now account for 11 of the world's 23 authorised RMB clearing banks, covering countries along the "Belt and Road" including Malaysia and Hungary. This lays a good foundation for the Bank to systematically offer all-around clearing cooperation services for "Belt and Road" countries.

The Bank rolled out the "Belt and Road" financial cooperation model on all fronts. To improve its efficiency and effectiveness in supporting the "Belt and Road" initiative, the Bank devoted greater efforts to cooperation with domestic and international peers, as well as exploring innovation in business expansion models. The Bank reinforced cooperation with China's financial policy institutions, actively participated in acquisition and financing projects along the "Belt and Road" and provided extensive services such as account management, settlement and clearing. By cooperating with multilateral financial institutions, foreign export credit agencies (ECAs) and foreign banks, it helped to enhance the internationalisation and specialisation of project operations. Specifically, the Bank joined the International Finance Corporation (IFC) in wrapping up the latter's record-breaking largest project and completed the first ever collaboration of investment and loans with the Silk Road Fund. The Bank held its second "Belt and Road" international financial communication and cooperation seminar in the Philippines to promote communication and cooperation with international financial institutions. It compiled the "Belt and Road" Country Culture Handbooks, which gives a comprehensive introduction to the political, economic, and social environments among the "Belt and Road" countries.

The Bank further improved the distribution of its institutions in the countries along the "Belt and Road". In line with the aim of providing an optimal service network for the global operation of China's "Going Global" enterprises, the Bank deems the "Belt and Road" regions as the strategic focus of its overseas distribution. As at the end of 2016, the Bank had overseas institutions in 50 countries and regions, 19 of which are countries along the "Belt and Road", thus establishing a communication bridge not only between the Bank and "Going Global" enterprises, but also between China and the people of countries along the "Belt and Road".


The Bank signed cooperation agreement in Serbia

The Bank supported financial development in Cambodia


Bank of China (Mauritius) Limited opened for business

## Personal Banking

Seizing development opportunities brought about by the transformation of China's economic structure, the Bank closely followed the policies of interest rate and exchange rate liberalisation and the reform of RMB settlement accounts, etc., continued to boost product competitiveness and further improved customer experience, thus gradually highlighting the strategic importance of personal banking. In 2016, the Bank's domestic personal banking business realised an operating income of RMB133.220 billion, an increase of RMB14.371 billion or 12.09% compared with the prior year.

### Personal Deposits

The Bank actively responded to external challenges, including interest rate liberalisation and internet finance development, leveraged the advantage of comprehensive financial services and vigorously expanded fundamental businesses such as salary payment agency, collection and payment agency, sweep agency and escrow agency, thus promoting steady growth in its personal deposit business. The Bank ramped up innovation in personal deposit products and provided customers with deposit products of different terms and types aimed at meeting their diverse needs. In line with the PBOC account reform requirement, the Bank was the first to roll out and apply Category II and Category III accounts among the domestic banks. It also built a "BOC Good Accounts" system, providing customers with more integrated services, a more convenient experience, safer protections and more intelligent management. Exploiting its specialised advantages in foreign exchange, the Bank continued to optimise its business process to better meet customer requirements for opening and using foreign exchange savings, settlement and capital accounts and offered a higher-quality account opening witness agency service for cross-border customers. It diversified personal foreign currency deposit products, increasing the number of foreign currencies offered for personal deposit and withdrawal businesses to 25 and further enhancing its competitive advantage in foreign exchange services. The Bank introduced a Turkish Lira and Saudi Arabian Riyal banknote exchange business, bringing the number of convertible foreign currencies to 33, thus remaining in first position among its peers and also facilitating the foreign exchange needs of customers going abroad.

As at the end of 2016, the Bank's domestic RMB personal deposits totalled RMB4,349.300 billion, an increase of RMB367.140 billion or 9.22% compared with the prior year-end. Personal foreign currency deposits amounted to USD49.307 billion, maintaining a leading market share.

### Personal Loans

The Bank vigorously implemented national policies aimed at expanding domestic demand, promoting new consumption and supporting the real economy by accelerating the healthy development of its personal loan business. The Bank strengthened the development of personal housing loans, mainly serving the needs of households seeking to buy owner-occupied homes. Insisting on prudential operation, the Bank strictly executed a differentiated housing credit policy and reinforced risk management practices. It accelerated its consumer finance business in response to the trend of consumption upgrade. Based on internet and big data technologies, it launched "BOC E-Credit", a whole-process online consumer loan service, boosting its support of new consumption. The Bank rationally adjusted the industrial structure of its personal business loans in order to support the financing needs of the real economy. It researched and developed distinct service models for different customer segments, such as customers targeted according to shopping districts or industrial chains, or those commonly engaged in agriculture-related businesses. The Bank continued to improve its government-sponsored student loan service, spared no efforts to help low-income students to finish school and assumed its share of responsibility for poverty alleviation. The Bank optimised and upgraded its personal loan business system by further enriching the self-service functions of e-channels. Fully leveraging its globally integrated operations, the Bank provided customers with cross-border financial services such as individual loans for overseas study and credit rating certification.

As at the end of 2016, the total amount of RMB personal loans of the Bank's domestic operations stood at RMB2,983.945 billion, an increase of RMB586.618 billion or 24.47% compared with the prior year-end. The Bank also maintained a leading market position in personal auto loans and sponsored student loans.

## A Leap Forward in Personal Banking

To implement its strategy of "Serving Society, Delivering Excellence", the Bank devoted to build the best retail banking in the Chinese mainland. In 2016, the Bank's personal banking business captured market opportunities and made new arrangements in people's livelihood finance, wealth finance, consumer finance and cross-border finance, thus successfully lifting its overall operation levels of personal banking to new highs.

**Developing the inclusive finance by continually upgrading the functions of basic products and expanding coverage of people's livelihood service areas.** To undertake its social responsibilities, the Bank carried out account reform required by the PBOC for preventing telecommunications and internet scam and rolled out the ATM payment delay and scam-prevention reminder functions, with the aim of protecting the safety of customers' assets. To meet diverse financial needs of customers, the Bank introduced innovative personal deposit products and expanded the negotiable functions of personal CDs. The Bank strived to better serve pension customers by issuing a total of 83.7278 million social security financial IC cards and providing such services as agency payment, agency deduction and information enquiry of the social insurance funds, linked loss reporting between social security account and financial account and old card replacement and new card issuance through its multiple channels. The Bank promoted bank-hospital cooperation by partnering with hundreds of hospitals nationwide to provide appointment, fee payment and other services through multiple channels both online and offline. The Bank has served as the host bank of government-sponsored student loans for central government-administered colleges for 12 consecutive years, granting financial aid to 1.6 million students at more than 400 colleges accumulatively. In addition, the Bank improved its agriculture-related financial service capacity, promoted the construction of E Supply & Marketing cooperatives online and set up about 10 thousands service stations to assist farmers.

**Improving wealth finance by fully sharpening product competitiveness and leading the market in specialist services.** The Bank continually improved its wealth management product system, introducing wealth management products such as BOC Zhifu, BOC Selected Series, Smart Choice and BOC Strategy, with 7-day BOC Zhifu generating the highest yield in the whole market. It enhanced cooperation with specialised agencies and provided exclusive products and services to private banking customers. The Bank bolstered its customer manager and strategy research teams, thus substantially boosting customer service and market forecast abilities. The Bank improved its system of "merchants with bonus points" and now has more than 1,200 such merchants across China, satisfying the requirements of middle and high-end customers for medical care and health, sports and entertainment, culture and charity, travelling and trips abroad.

**Strengthening consumer finance by rapidly enlarging business size and enriching the product system.** To meet people's needs for buying houses, the Bank gave more credit to support the people's livelihood improvement. Following new trends in consumer finance, it promoted "BOC E-Credit", the first ever "quick loan" product, thus realising rapid extension of loans, real-time approval and immediate drawdown. In response to developments in internet finance, the Bank enhanced its mobile payment business and introduced a series of innovative products. The Bank also vigorously promoted such credit card instalment products as Auto Instalments, Cash Instalments, BOC Express Cash and Decoration Instalments, set up more than 200 consumer finance centres and more than 300 featured branches to meet customers' diverse consumption demands.

**Professionalising cross-border finance and leveraging the Bank's internationalisation advantages to realise integrated development at home and abroad.** The Bank continued to build global service platform and established Singapore Private Bank, marking the formation of a private banking business network in Southeast Asia based in Hong Kong, Macau and Singapore. The Bank signed a cooperation MOU with Immigration New Zealand and was the first in the banking industry to offer a "VIP Service for Applying to Visit New Zealand". Deepening cooperation with study abroad agencies and international schools, it significantly increased its Canada Guaranteed Investment Certificate (GIC) business. The Bank promoted its account opening witness business by improving a series of brands relating to studying and working in the US, Singapore, Macau and Australia. To improve its overseas personal loan service capabilities, it started to provide housing loans from its Luxembourg Branch and engaged in home lending service through Bank of China (New Zealand) Limited. The Bank launched the "Global Splendours in One Card" and "BOC Overseas E-shopping" for cross-border credit card holders to bring them preferential, convenient and high-quality services.

**Wealth Management and Private Banking**

The Bank accelerated the development of its wealth management business and enhanced its private banking service capabilities. The Bank further cultivated its personal customer relationship manager and private banker teams and made unremitting efforts to improve customer relationships and customer experience, thereby recording a steady increase in the number of middle and high-end customers. It launched precision marketing to attract more high-quality existing customers by capitalising on big data technology and its customer relationship management system. Taking advantage of its diversified and internationalised operations, the Bank expanded its incremental customer base in bulk via internal collaboration across the Group with a focus on featured customer groups. The Bank improved its product R&D model, enhanced its innovation ability for investment products, established a multi-dimensional product shortlisting platform and offered customised discretionary assets management and family trust services, with the aim of further building up the competitiveness of its wealth management business.

To address customer requirements for cross-border financial services, the Bank leveraged the advantages arising from its global presence and accelerated the development of its overseas private banking channels by establishing the Singapore Branch Private Bank, which helped to further improve its global service network and marked a key step forward in the global expansion of the Bank's private banking services. In addition, the Bank remained devoted to undertaking its social responsibilities and called on customers to join a series of public welfare campaigns such as donations for education and auctions for charity.


As at the end of 2016, the Bank had set up 7,632 wealth management centres, 323 prestigious wealth management centres and 36 private banking centres in the Chinese mainland. The Group had 95,400 private banking customers and managed over RMB1 trillion of financial assets on their behalf. In 2016, the Bank was recognised as the "Best Private Banking Brand in China" by *Securities Times* and won the "Best China Private Bank — Most Innovative Performer" from *Wealth Management* and the "Excellent Wealth Management Award" from jrj.com.

**Bank Card**

The Bank actively pushed forward credit card innovation and continually enhanced its credit card products in the five categories of wealth, business travel, cross-border, consumer finance and urban youth. It promoted key products such as BOC Car Cards, BOC Great Wall Traveller's Cards, BOC Multi-Currency Credit Cards and BOC Overseas Student Cards, and issued such innovative products as BOC City Fun Platinum Cards, BOC New Oriental Co-branded Cards, Sino-US Tourism Year Souvenir Cards, BOC Tencent Video Co-branded Cards, Rio Olympics Multi-Currency Cards (Limited Edition), BOC-China Eastern Airlines Co-branded Cards, Wonderful Europe Great Wall Traveller's Cards and Great Wall World Elite Credit Cards. With the goal of developing inclusive finance, the Bank strived to build up a multi-level system that serves people's livelihood and consumption-related financial needs. It energetically expanded its featured instalment business lines including Billing Instalments, Decoration Instalments and Cash Instalments, and innovatively rolled out a "One Certification Lending" Auto Instalments product. In addition, the Bank continually upgraded the functionality of its online services such as the official "BOC Credit Card" WeChat account and the "Colourful Life" mobile app, and enriched the "Smart Buy" and value-added services provided by the preferential merchant platform. The Bank innovatively launched the QR code and other mobile payment products, expanded "Internet Plus" customer attracting mode, and diversified the functions of online application, online approval and online customer services, so as to provide customers with a comprehensive, convenient and safe app experience. The Bank built a stereoscopic credit card marketing system, strengthened the promotion of the "BOC VIP Day" among domestic customers, continually carried out its "Global Splendours in One Card" and "BOC Overseas E-shopping" campaigns for cross-border customers, and promoted the "More Instalments, More Gifts" campaign to instalment customers. Moreover, with the aim of improving the customer service experience and guided by the goal of providing "efficient, considerate and safe" services, the Bank advanced 360-degree management of the customer card usage life cycle and refined the structure of customer credit limits, thus comprehensively enhancing the quality of its customer services.

The Bank kept improving its debit card product and service system and secured rapid development of its debit card business through product innovation. It pursued the development of online debit card business and pushed forward the transformation towards "Internet Plus", put in place UnionPay small-amount password-free quick payment for debit IC cards and introduced new mobile payment products, thus offering convenient payment and settlement services for customers. Meanwhile, the Bank enhanced the construction of the rights and interests system of debit card holders. With the aim of using finance for the convenience and benefit of the people, it rolled out the "People's Livelihood Finance" service in a variety of sectors such as social security and medical treatment. As at the end of 2016, the Bank had issued social security cards with financial functions in nearly 30 provinces (including municipalities directly under the Central Government) in cooperation with local Human Resources and Social Security Bureau. These deliver comprehensive financial services including convenient channel, collection and payment agency in social insurance funds (including pension insurance funds, medical insurance funds, unemployment insurance funds, work-related injury insurance funds and maternity insurance funds), investment of wealth management products and preferential measures for customers. It also issued the "resident health card with financial function" in provinces such as Guangdong, Liaoning, Hebei, Guizhou and Sichuan, offering treatment payment and health management services across the country to cardholders.

As at the end of 2016, the Bank's bank card issuance and transaction volumes are set forth below:

Unit: million cards/RMB billion, except percentages

| Items | As at 31 December 2016 | As at 31 December 2015 | Change (%) |
|---|---|---|---|
| Cumulative number of debit cards | **441.4327** | 419.4756 | 5.23% |
| Cumulative number of effective credit cards | **59.3356** | 53.2818 | 11.36% |
| Cumulative number of social security cards with financial functions | **83.7278** | 73.9719 | 13.19% |
| | **2016** | 2015 | Change (%) |
| Transaction amount of debit cards | **3,397.818** | 2,726.753 | 24.61% |
| Instalment volume of credit cards | **212.196** | 159.050 | 33.41% |

## Financial Markets Business

The Bank actively aligned itself with the trend towards interest rate and exchange rate liberalisation and RMB internationalisation, closely tracked developments in financial markets, leveraged its specialised advantages, continued to deepen the adjustment of its business structure and enhanced its efforts in financial market innovation, thus further enhancing its influence in financial markets.

### Securities Investment

The Bank strengthened its research and judgment regarding market interest rates and actively seized market opportunities arising from interest rate fluctuations to realise bond investment gains. The Bank continued to increase the investment of RMB interest rate bonds, narrowed its credit risk exposure and rationally adjusted its investment portfolio duration, thus further optimising its investment structure. Consistent with national macroeconomic policy, the Bank participated in local government bond investment in a market-oriented manner. The Bank tracked trends in international bond markets and optimised its foreign currency investment structure, preventing interest rate risk and credit risk. Furthermore, the Bank strengthened the centralised management of group-wide bond investment.

### Trading

Effectively responding to market changes, the Bank continually strived for innovation-driven development, enhanced its core trading capabilities and promoted customer structure optimisation, thus registering a stable yet rapid growth in its trading business. Specifically, it sped up the construction of the Hong Kong Offshore RMB Trading Centre and the London Trading Centre, as well as highlighting its offshore RMB quotation capacity, thereby becoming the top pick of other financial institutions for exchange rate enquiries. Thanks to enhanced product innovation and business transformation, the Bank became one of the first core trading institutions for credit risk mitigation in the domestic interbank market. The Bank was among the first group of market makers for the direct trading of 12 currency pairs including RMB/ZAR, RMB/HUF, RMB/PLN and RMB/DKK in the interbank foreign exchange market, meaning that the Bank now offers direct transactions of 22 foreign currencies against RMB. The Bank became one of the first batch of "Shanghai Gold" pricing members. It conducted the first interbank gold enquiry option deal, launched an iron ore forward hedging business, completed the first OTC bond transaction and handled the first currency swap of RMB against foreign currency on behalf of customers and the first FTF foreign exchange business in Shanghai FTZ. Closely following the "Belt and Road" initiative, the Bank bolstered its hedging business in emerging markets to help China's "Going Global" companies manage their foreign exchange and interest rate risks, conducted Saudi Arabian Riyal cash exchange trading and Turkish Lira cash/spot exchange trading businesses against RMB, and launched trading in 19 emerging market currencies including the Czech Koruna and Mongolian Tugrik, bringing the total number of tradable foreign currencies up to 47. Following trends in internet finance and big data, the Bank vigorously expanded its online transaction business by releasing a comprehensive treasury transaction brand called "E Rong Hui" and sharpening the first-mover advantages of its e-trading platforms for corporate customers. Actively playing its part in the opening up of domestic financial markets, the Bank promoted its agency business in the interbank bond market and foreign exchange market to overseas institutional investors and established trading relationships with a number of sovereign agencies and international multilateral organisations. The Bank secured the leading market share in foreign currency exchange against the RMB.

### Investment Banking and Asset Management

The Bank grasped opportunities arising from the rapid development of asset management in the domestic market, leveraged the competitive advantages of its diversified businesses and provided customers with comprehensive, professional and customised investment banking and asset management services, including bond underwriting and distribution, asset management and financial advisory. To facilitate the building of China's multi-layered capital markets system and to support domestic customers' direct financing needs, it underwrote 384 debt financing instruments for non-financial enterprises in the domestic open market with a total financing amount of RMB348.3 billion. The Bank assisted its overseas customers with financing activities in the domestic market and has successfully underwritten 15 Panda Bonds for customers including the Canadian Province of British Columbia and the Ministry of Finance of the Republic of Poland, etc., becoming the only bank in the Chinese mainland to successfully underwrite Panda Bonds issued by enterprises, financial institutions and sovereign institutions around the globe. Following the trend of RMB internationalisation, the Bank assisted sovereign and quasi-sovereign institutions in offshore

## Leading Best Practices in Green Finance

The Bank vigorously implemented the nation's "Green Development" concept and continually built a global and multi-dimensional green financial system. The Bank successively issued senior green bonds and green covered bonds in the international market, the proceeds of which were used to support the development of its domestic green credit projects.

On 5 July 2016, the Bank successfully issued green bonds totalling USD3 billion equivalent, denominated in USD, EUR and RMB, in the international market. The bonds, covering three tenors and five tranches, were issued through the Luxembourg Branch and New York Branch simultaneously and listed on the Luxembourg Stock Exchange and Hong Kong Stock Exchange respectively. The bonds conformed to the *Green Bond Principles, 2016*, including related recommended best practices on information disclosure. The bonds received "green assurance" and quantitative "green assessment" from the international third party, with a score of GB-AAA and a "Dark Green" classification owing to assessment of the management mechanism, as well as the actual green projects related to the bonds. The bonds were the largest green credit bonds covering the most tranches in the international market, and were included in well-recognised green bond indices such as the Barclays MSCI Green Bond Index and Bank of America Merrill Lynch Green Bond Index. The Bank consequently was awarded the "SRI Bond of the Year" by *International Financing Review*.

The Bank carried out a pilot programme of green finance innovation in active response to the "Green Finance" theme of the G20 Hangzhou Summit. On 3 November 2016, the London Branch successfully issued USD500 million green covered bonds in the international market. The bonds, listed on the London Stock Exchange, were the first covered bonds ever issued by a Chinese bank. The bonds were backed by the onshore green assets of the Bank, which provided a guarantee for the payment obligation. The bonds were rated "Aa3" by Moody's, the same as China's sovereign rating and one notch higher than the Bank's rating (A1), making it the highest international rating for Chinese green bonds. The bonds represented "double greenness", both in terms of the use of proceeds and the underlying assets in the cover pool. The proceeds of the bonds were allocated to the Bank's domestic green credit projects and all of the green assets in the cover pool were components of the China Bond-China Climate Aligned Bond Index. The bonds were in line with both international and domestic green bond standards and best practices. With green structure and cross-border nature, the bonds not only introduced offshore funds to high-quality domestic green projects but also connected the domestic green industry with international green investors, thus increasing the international market's understanding of China's green industry policy and green finance policy as well as promoting the gradual merging of China's onshore and offshore green bond markets.


The first China Green Covered Bond issued by the Bank was listed on the London Stock Exchange

RMB bond issuance. It acted as the sole underwriter and bookrunner for the Republic of Hungary in its Dim Sum Bond issuance and led the underwriting of Dim Sum Bond issued in London for the Ministry of Finance of China. The Bank solidly maintained its leading market share among Chinese peers in offshore RMB bond underwriting. Leveraging the advantages arising from its globally integrated operations, the Bank assisted its customers with cross-border financing services and participated in the underwriting of foreign currency bond and offshore RMB bond in overseas market for a number of medium and large-sized enterprises, sovereign institutions, financial institutions and international development institutions. The Bank participated in the bookrunning of the first offshore USD-denominated sovereign bonds issued by Saudi Arabia, which amounted to USD17.5 billion, as the only Chinese underwriter. It captured the leading market share as an underwriter of Chinese enterprises' offshore G3 currency (i.e. USD, EUR and JPY) bonds.

The Bank optimised and transformed its asset management business to refocus on the substance of asset management business. Building on its competitive advantages in global asset allocation, the Bank launched new products, such as BOC Rong Hui, BOC Strategy, BOC Structural-Linked Products and BOC Accumulated Asset Series (USD), to fulfil customers' diversified investment needs. In 2016, the Bank issued 5,879 wealth management products with a total year-end value of RMB1,512.1 billion, including RMB1,176.8 billion of non-principal-guaranteed products and RMB335.3 billion of principal-guaranteed products. The Bank also established Private Wealth Management Product Centres to provide differentiated products for clients with diverse risk appetites. Meanwhile, the Bank expanded its investment targets in the private equity and capital markets, broadened investment channels and optimised overall asset allocation to improve asset yields. It leveraged the advantage of cross-border integration within the BOC Group to promote its overseas asset management business. It established Bank of China Asset Management Centre (Asia) and Bank of China Asset Management Centre (Europe), which successfully issued the BOC Group's first Undertakings for Collective Investment in Transferable Securities (UCITS) fund.

The Bank enhanced the quality of its financial advisory services and provided professional advisory including financing plans, cross-border finance advisory and restructuring and M&A advisory, so as to satisfy customers' multifaceted demands regarding financing and cross-border operations. The Bank steadily promoted its credit asset-backed securitisation business and stepped up the structural optimisation of its existing assets. It successfully issued three residential mortgage-backed securities with a total amount of RMB30.941 billion and two non-performing credit asset-backed securities with a total amount of RMB0.916 billion, including the first non-performing credit asset-backed securities since the resumption of domestic credit asset-backed securitisation business.

**Custody Business**

The Bank actively seized market opportunities and continuously promoted marketing, product innovation, service optimisation and systematic upgrading in its custody business, working towards the initial formation of a globally-integrated custody service network. The Bank proactively embraced the opportunities arising from prosperous development of assets management business and vigorously promoted its custody products such as insurance funds, securitisation, industry funds, RQFIIs and overseas institutions in the interbank bond market. It mounted a successful bid to become the custody bank for basic endowment insurance funds, and its assets under custody continued to expand. The Bank accelerated the construction of its global custody network, established and improved its global custody service capacity and set up multiple domestic and overseas custody centres in Asia and Europe, becoming the first commercial bank in the Chinese mainland to launch an overseas custody system. The Bank is also among the first to provide a custody service for clients investing in the Shenzhen-Hong Kong Stock Connect, enhancing its capacity to provide a one-stop service for clients' global asset allocation needs. By the end of 2016, the Group's assets under custody exceeded RMB8 trillion.

**Village Bank**

BOC Fullerton Community Bank actively implemented national strategies on agriculture, farmers and rural areas, with the aim of "focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities". It is committed to providing modern financial services to farmers, micro and small-sized enterprises, individual merchants and the wage-earning class, thus promoting the construction of China's "New Countryside". The Bank focused its business efforts on agriculture, farmers and rural areas, introducing more than 50 kinds of products belonging to 10 agricultural categories, i.e. poultry, cattle, aquaculture and plants. All products were highly praised by customers.

BOC Fullerton Community Bank significantly expanded its institutional reach with a focus on counties in central and western regions where financial services were previously lacking. As at the end of 2016, 82 BOC Fullerton Community Banks and 77 sub-branches had been established in 12 provinces (including municipalities directly under the Central Government). In particular, 78% of BOC Fullerton Community Banks and sub-branches were established in central and western regions, and 33% were in official poverty-level counties. BOC Fullerton Community Bank has become the largest domestic village bank in terms of total institutions and business scope. In 2016, BOC Fullerton Community Bank served 1.048 million customers, an increase of 43.56% compared with the prior year-end. The balances of total deposits and loans of these banks were RMB20.219 billion and RMB18.511 billion respectively, an increase of 34.08% and 21.43% compared with the prior year-end, among which loans to farmers and micro and small-sized enterprises accounted for 92.52%. The NPL ratio was 1.70% and the ratio of allowance for loan impairment losses to NPLs stood at 208.53%.

BOC Fullerton Community Bank received several prizes including the "Best Innovation Award for Financial Model" issued by *China Business Journal*, the "Outstanding Management of Community Banks Award" issued by *China Finance* and the "2016 Corporate Social Responsibility Award" issued by xinhuanet.com.

## *Overseas Commercial Banking*

In 2016, the Bank practically implemented national strategies and seized market opportunities arising from the construction of the financial artery of the "Belt and Road" initiative, RMB internationalisation and Chinese enterprises' "Going Global" initiative. It promoted the establishment of overseas institutions in an organised manner and pushed forward the integrated development of its domestic and overseas operations, thus continually enhancing its global service and support capabilities and sharpening its market competitiveness. As at the end of 2016, the balance of due to customers and loans of the Bank's overseas commercial banking operations amounted to USD372.832 billion and USD308.591 billion respectively. In 2016, the Bank's overseas commercial banking achieved a profit before income tax of USD11.329 billion, accounting for 33.88% of the Group's total profit before income tax. The Bank continued to lead its domestic peers in international business in terms of scale, profitability and the overall proportion of its internationalised operations.

Regarding branch distribution, the Bank closely kept up with customers' financial service needs around the globe, accelerated improvements in the distribution of institutions in countries along the "Belt and Road" and in emerging markets, and increased outlets in countries with an existing BOC presence, so as to provide comprehensive financial services for customers. As at the end of 2016, overseas institutions of the Bank totalled 578, covering 50 countries and regions across six continents, up by four new countries, of which 19 countries are along the "Belt and Road".

For corporate banking, the Bank tapped into the "Blue Ocean" of cross-border business, improving its global hierarchical customer service system and the construction of its cross-border financing product and service system. Giving full play to its advantages in overseas business, the Bank supported the large-scale cross-border projects of Chinese enterprises, mainly through high-end products including syndicated loans, project financing, M&A financing, leverage financing and private equity financing. This included projects in global infrastructure construction, energy and mineral resources, equipment manufacturing and cooperation to improve production capacity. In this way, the Bank assisted both the "Going Global" initiative for Chinese enterprises and the "Bringing In" initiative for overseas enterprises, helping them carry out cross-border investment and international cooperation in production capacity and supporting the internationalisation of overseas enterprises. As a result, the Bank continuously optimised the core customer group of its overseas corporate banking business. Strengthening its business cooperation with international mainstream banks and policy financial institutions, the Bank committed to provide more financial support and deliver better services to the major projects of countries along the "Belt and Road".

For personal banking, the Bank provided "one-stop" financial services for personal "Going Global" customers by leveraging its extensive overseas institutions network. Targeting customers studying or working overseas, the Bank offered an account opening witness service in 18 countries and regions covering North America, Europe, Asia and Australia and built up account opening witness service brands such as "Brilliant Tomorrow" in the US, "Golden Age" and "UK Manager" in the UK, "Home in Canada", and "Golden Years" in Australia, continually enhancing its integrated service capabilities. The Bank increased its efforts to push forward the development of its cross-border payment business and continuously developed a differentiated, multi-feature cross-border system for its products and services, thus enhancing the cross-border customer experience. It launched the "Traveller's Credit Card + Multi-Currency Credit Card" product portfolio in order to diversify its cross-border products offers, and upgraded the "basic cashback + products cashback + additional special offers" market system in order to diversify its cross-border services. The Bank insisted to differentiated and localised strategies for the development of its overseas bank card business, continued to promote the research and development of new products including business credit card in Macau and UnionPay credit card in Sydney, and expanded cooperation with overseas mainstream and well-known merchants and third-party institutions in an in-depth manner. The Bank optimised the structure of its overseas debit card system and launched UnionPay dual-currency (RMB and local currency) debit cards and Visa and MasterCard single currency debit cards. As at the end of 2016, overseas institutions of the Bank that issue debit card products covered 17 countries and regions.

For financial market business, the Bank continued to leverage the advantages arising from its integrated domestic and overseas businesses, expanded the business scope of its overseas operations, and delegated authority to RMB clearing banks to perform local primary quotation, thus stimulating the development of its offshore RMB trading business. It sped up the construction of overseas trading centres with the London Trading Centre bringing all business lines' products into operation. It also focused on improving its offshore RMB quotation capacity, becoming the top pick of other financial institutions for exchange rate enquiry. It conducted forward cross-border RMB purchase and sale business for multinational corporations in Frankfurt, New York, Sydney, etc., and provided debt hedging services for China's "Going Global" enterprises. The Bank took full advantage of its cross-border operational strengths by actively marketing custody services to domestic sovereign investment funds, qualified domestic institutional investors (QDII), QFIIs, RQFIIs and overseas institutions with funds invested in the interbank bond market, and developed innovative custody services for Shenzhen-Hong Kong Stock Connect. Assets under custody for its overseas institutions ranked among the top in the industry. The Bank successfully issued green bonds totalling USD3 billion equivalent, the largest green credit bond issuance covering the most tranches in the international market. The Bank also issued USD500 million green covered bonds, which were the first covered bonds ever issued by a Chinese bank.

For clearing services, the Bank consolidated its position at the leading edge of international payments by continuously improving its cross-border RMB clearing capabilities. In 2016, the Bank's cross-border RMB clearing transactions totalled RMB311.98 trillion, maintaining first place in global markets. The Bank was designated as the local RMB clearing bank in the US, thus accounting for 11 of the world's 23 authorised RMB clearing banks, leading its peers. The Bank ranked first in terms of the number of CIPS indirect participants, further improving its comprehensive settlement services.

For e-banking, the Bank further expanded the coverage of its overseas channel services and promoted its online banking service in Bank of China (Canada), Toronto Branch, Panama Branch and Vienna Branch, etc. The Bank further expanded its mobile financial services and promoted personal mobile banking services in its 15 overseas institutions including its Tokyo Branch, Bank of China (Thai) Public Company Limited, Bank of China (Malaysia) Berhad, Frankfurt Branch and Milan Branch. The service functionality of overseas online banking, telephone banking and SMS banking was further enhanced.

**BOCHK**

In 2016, BOCHK vigorously implemented the Group's strategies, captured development opportunities arising in the market and leveraged its own competitive advantages. Its core business realised sound growth and key financial indicators remained at solid levels. BOCHK actively explored business opportunities in the ASEAN region and saw the strategic value of its regional development beginning to emerge. It expedited business transformation and technological innovation and continued to refine its business structure to become more customer-centric. It optimised its distribution channels and internet finance capabilities in order to enhance overall service capabilities. BOCHK continued to sharpen its competitive edge in the RMB clearing business and stepped up its efforts in building key business platforms.

BOCHK's operating results reached another record high and it maintained leadership in key business areas. In 2016, BOCHK effectively improved its income mix and saw its financial performance reach a new high. It further optimised its asset and liability structure. The total deposits and loans grew rapidly and ahead of the market with a higher market share. The proportion of low-cost and interest-free deposits continued to rise. The growth rate of loans and deposits outpaced that of market peers. BOCHK's asset quality also outperformed that of its peers. In its role as the Asia-Pacific Syndicated Loan Centre, BOCHK diversified its corporate finance business and maintained its status as the top mandated arranger in the Hong Kong-Macau syndicated loan market for the 12th consecutive year. It cultivated the local market in Hong Kong, providing comprehensive financial solutions to industrial and commercial enterprises. It maintained its leadership in the UnionPay merchant acquiring and card issuance business in Hong Kong. It accelerated the acquisition of SMEs, government and institutional customers, and introduced a new wealth management service model, achieving continuous growth in the total number of middle to high-end customers together with related total assets under management (AUM). BOCHK continued to optimise its private banking products and service platform, resulting in solid growth in the number of private banking customers.

BOCHK accelerated the optimisation of its regional distribution and saw regional synergies beginning to emerge. BOCHK successfully completed the sale of NCB and pushed forward its proposed sale of shares in Chiyu Banking Corporation Limited. Meanwhile, its regional development within the ASEAN region proceeded smoothly. It completed the share acquisition of Bank of China (Malaysia) Berhad and Bank of China (Thai) Public Company Limited on 17 October 2016 and 9 January 2017 respectively. On 20 December 2016, BOCHK's first overseas institution, the Brunei Branch, formally commenced business, further improving its business structure and distribution.

BOCHK deepened collaborative activities and strengthened cross-border business development. By capitalising on the Group's competitive advantage in internal collaboration, BOCHK provided leading Chinese mainland enterprises in their expansion into the ASEAN region, as well as enterprises in countries along the "Belt and Road", with a comprehensive range of financial solutions. Business support was also extended to non-Chinese and leading local enterprises, and business relationships were established with overseas central banks and financial institutions. Moreover, by leveraging its advantage in banking product, BOCHK cooperated closely with the Group's ASEAN entities to help them expand their business, while raising their influence and competitive edge in the ASEAN region. BOCHK pursued its business development in FTZs and made use of the Group's collaborative mechanism and platform for cross-border business to develop the cross-border financing and cross-border cash pooling business. To meet the growing demand among the Chinese mainland customers for overseas asset deployment, BOCHK set up a new service model to facilitate two-way customer referral activities.

BOCHK consolidated its competitive edge in RMB clearing business and developed its key business platforms. In 2016, BOCHK successfully joined the CIPS, becoming the only clearing bank with both CIPS and the China National Advanced Payment System (CNAPS) as its clearing channels. It continued to consolidate and enhance its leading position in the global RMB clearing business. BOCHK successfully obtained all business qualifications for Shenzhen-Hong Kong Stock Connect and became the sole settlement bank for the Northbound Shenzhen Trading Link as well as a provider of cross-border fund settlement services for the Southbound Hong Kong Trading Link. At the same time, BOCHK expedited the development of its key business platforms with continuous expansion of business scale in key businesses such as credit cards, asset management and cash management.

BOCHK fully implemented its channel integration and strengthened its competitive advantages in internet finance. BOCHK leveraged its advantages in branch network and implemented the branch transformation project to be more customer-centric. Following changes to the reporting structure, functions and duties of its branches, BOCHK was able to optimise its branch service offerings to both corporate and personal customers. It deepened the integration of both online and offline channels to improve business process. BOCHK remains committed to the development of internet finance. It pioneered the blockchain technology application for mortgage property valuation and completed the first property valuation case with this application, thereby increasing operational efficiency in financial services. BOCHK also actively developed mobile payment services with the introduction of services such as mobile banking small value transfers and QR code payment. It also stepped up its establishment of the big data platform with enhanced overall service capabilities, leading to a continuous rise in the total number of customers using e-channels.

BOCHK was recognised with a number of awards from *The Asian Banker*, including the "Strongest Bank in Asia Pacific and Hong Kong", "Best Cash Management Bank in Hong Kong", "Best Retail Bank in Hong Kong", "Best Transaction Bank in Hong Kong", "Best Corporate Trade Finance Deal in Hong Kong", "Technology Innovation Awards — Best Mobile Social Media Engagement Project" and "Wealth Management Business of the Year". It won the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the ninth consecutive year.

*(Please refer to the results report of BOCHK for a full review of BOCHK's business performance and related information.)*

## Diversified Business Platforms

The Bank gave full play to the competitive advantages arising from its diversified business platforms and fully implemented the "Belt and Road" initiative by focusing on its specialised business areas, deepening business collaboration and promoting cross-selling and product innovation, thus enhancing synergies across the Group while providing comprehensive and high quality financial services to customers.

### *Investment Banking Business*

**BOCI**

The Bank is engaged in investment banking through BOCI. As at the end of 2016, BOCI had total assets of HKD60.87 billion, net assets of HKD15.73 billion, and realised an operating revenue of HKD3.15 billion. BOCI achieved leading positions in multiple core businesses.

BOCI emphasised a customer-centric approach and improved its customer management system. It established Sales, Trading and Research division, further enhancing its overall service capability to global institutional customers. BOCI continued to strengthen its research capability and expand its research coverage, saw the value of this "think tank" function gradually emerge as a consequence. It further explored the business potential of "investment banking + commercial banking" dual driving model. BOCI accelerated the implementation of its internationalisation strategy, further leveraged the expertise of its Government Services Division and Financial Solutions Team, providing comprehensive financial solutions to both domestic and overseas customers.

BOCI's equity financing and financial advisory services recorded solid growth with 15 IPO projects, three financial advisory projects and one placement project completed in 2016. BOCI also ranked first in Hong Kong's IPO underwriting market in terms of total raised funds. BOCI involved in the largest banking M&A transaction in Asia (ex. Japan) and the largest financial services M&A transaction in China. BOCI's bond underwriting business maintained a leading position while expanding step-by-step worldwide. It provided a one-stop professional bond financing services, including bond underwriting, sales support, market making, B&D and fixed income research. In 2016, it successfully participated in the underwriting of 66 bond issues. Its structure products business also recorded steady growth in 2016.

As one of the largest brokerage houses in Hong Kong, BOCI maintained its leading position in the securities industry, recording a substantial turnover. It strived to expand the business related to Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, and continuously developed the employee stock option programmes with sufficient project pipelines. By paying equal attention to development and compliance, BOCI strengthened and improved its private banking products and service platform, thus providing diversified, value-added wealth management services to customers. It recorded strong growth in insurance business. In addition, its subsidiary, BOCI-Prudential Asset Management Limited, maintained its position as the top-ranked service provider in the Hong Kong Mandatory Provident Fund market and the Macau pension market, and received official designation as an asset manager for the Mandatory Provident Fund Scheme of the Hong Kong Special Administrative Region Government from 2016 to 2026.

BOCI recorded steady development of its global commodity business and further strengthened its market making capability. It became the first Chinese financial institution to obtain the trading membership of Bursa Malaysia. By fully leveraging its self-clearing system, BOCI provided clearing services on the London Metal Exchange (LME) and InterContinental Exchange Europe (ICE Europe) to other Chinese securities firms. In line with economic and industry trends, it comprehensively improved its equity investment business structure and investment portfolio. Its Bohai Industrial Investment Fund, China Culture Industrial Investment Fund and BOCI Infrastructure Fund all achieved good performance, investing in several landmark projects in different industries.

BOCI was awarded "Best Investment Bank in China" and "Best DCM House in Asia-Pacific" by *Global Finance*, "Best Chinese DCM House in Hong Kong" and "Best FIG Deal" by *FinanceAsia*, "Best Investment Grade Corporate Bond" by *AsiaMoney*, "Best Investment Management Company, Hong Kong" by *World Finance*, "CAPITAL Merits of Achievements in Banking & Finance — MPF & ETF" by *CAPITAL*, "Best Fund Management Company Hong Kong 2016" by *Global Banking and Finance Review*, and "The Most Welcomed Broker in Greater China" by *Hong Kong Commercial Newspapers*.

**BOCI China**

The Bank is engaged in securities-related business in the Chinese mainland through BOCI China. As at the end of 2016, BOCI China had total assets of RMB42.439 billion and net assets of RMB10.706 billion.

Adhering to a robust and aggressive development principle, BOCI China implemented the "Synergy + Transition" strategy and pushed forward business development in order to cultivate its core competitiveness while focusing on risk compliance. As a result, its industry influence increased. It transformed its investment banking business model to "investment bank + commercial bank", "investment bank + investment" and "domestic + overseas". It shifted its brokerage business focus towards wealth management, improved the versatility of its branches and continually increased its service capability and market share. BOCI China maintained its leading position in AUM and successfully issued its first publicly offered fund product.

BOCI China was awarded "Best Bond Investment Bank in China", "Best Refinancing Investment Bank" and "Best Securities Company for Institutional Service" by *Securities Times*, "Three-Year Golden Bull Securities Company's Collective Asset Management Plan" by *China Securities Journal* and "Best IPO", "Best Refinancing Project", "Best Enterprise Bond Project" and "Best Financial Advisory Project" by *New Fortune*.

**BOCIM**

The Bank is engaged in fund management business in the Chinese mainland through BOCIM. As at the end of 2016, BOCIM's total assets stood at RMB2.627 billion and its net assets totalled RMB1.861 billion. BOCIM realised a profit after tax of RMB1.009 billion, up by 35.62% compared with the prior year.

BOCIM's total AUM reached RMB928.0 billion, an increase of 37% compared with the prior year-end. Total AUM for publicly offered funds reached RMB342.1 billion, up by 23% compared with the prior year-end. In addition, BOCIM maintained sound internal control and risk management, and greatly enhanced its brand image and market reputation.

BOCIM has been honoured as a "Five-year Sustainable Return Star Fund Company" for four consecutive years. Its BOC Steadiness Increased Income Bond Seed Fund was awarded "Golden Fund One-year Bond Star Fund" and its BOC Guaranteed Fund was awarded "Three Years Continuous Return Guaranteed Star Fund".

## *Insurance*

**BOCG Insurance**

The Bank is engaged in general insurance business in Hong Kong through BOCG Insurance. As at the end of 2016, BOCG Insurance reported total assets of HKD7.607 billion and net assets of HKD3.875 billion. In 2016, BOCG Insurance recorded gross written premium of HKD2.008 billion and a profit after tax of HKD103 million. Its gross written premium remained consistently at the forefront of the Hong Kong general insurance market.

BOCG Insurance continuously promoted business restructuring and intensified the expansion of its high-quality business. In 2016, it recorded gross written premium for its high-quality business of HKD1.240 billion, accounting for 61.76% of total gross written premium, an increase of 8.92 percentage points compared with the prior year.

BOCG Insurance deepened business linkages within the Group and strengthened cross-border cooperation synergies. Giving full play to the advantages arising from the integrated and diversified operations of the Group, BOCG Insurance promoted multilevel synergies and provided comprehensive combined banking and insurance service solutions to customers. It continued to strengthen cooperation with other domestic and international insurance companies, effectively widened its sales channels and explored business opportunities in overseas markets.

BOCG Insurance grasped market trends and increased efforts to promote its e-channels. It provided online application and claims services inquiry in respect of travel insurance, home comprehensive insurance and motor insurance, etc. through its official website, mobile app and WeChat, etc. Sales from its online platforms expanded rapidly. In 2016, the gross written premium contributed by online platforms increased by 44.98%.

BOCG Insurance improved the comprehensiveness of its risk management and effectively guarded against business risks. Based on a sound risk management system, it enhanced risk control standards and implemented full-scale, full-process and all-staff risk management measures. By proactively managing post-underwriting risks, it strengthened the effective management of its insurance programmes and reduced various risks at the source.

BOCG Insurance geared up promotion of its key product and established a professional brand image. It hosted the third "BOCG Insurance Forum" which was well received by the industry. In "The Hong Kong Insurance Award 2016", BOCG Insurance was awarded the "Outstanding Online Platform Award — General Insurance" and the finalist of "Outstanding Training and Development Award".

**BOC Life**

The Bank is engaged in life insurance business in Hong Kong through BOC Life. As at the end of 2016, BOC Life's total assets amounted to HKD111.186 billion and net assets amounted to HKD7.402 billion. In 2016, BOC Life recorded a gross premium income of HKD19.357 billion and a profit after tax of HKD1.041 billion.

BOC Life strengthened collaboration with the Group and maintained its leading position in the Hong Kong RMB life insurance market. It leveraged its multiple distribution channels and continued to enhance product and service innovation. It launched featured products such as the MaxiWealth ULife Insurance Plan, UltraReach Insurance Plan, Cancer Rider and SmartUp Whole Life Insurance Plan, so as to further enrich its product portfolio and meet the different needs of customers. BOC Life solidified its distribution capabilities so as to enhance service quality to customers, achieving stronger growth in its tied agency and broker business. It also opened a new customer service centre to provide a one-stop professional and integrated life insurance service to customers.

BOC Life received the "Insurance Company of the Year — Outstanding Performance" and "Saving Plan — Excellence Awards" from *Bloomberg Businessweek*. It also received the "RMB Business Outstanding Award — Outstanding Insurance Business" from *Hong Kong Wen Wei Po*.

**BOC Insurance**

The Bank is engaged in property insurance business in the Chinese mainland through BOC Insurance. As at the end of 2016, BOC Insurance reported total assets of RMB12.180 billion and net assets of RMB4.881 billion. In 2016, it realised gross written premiums of RMB5.171 billion, and a profit after tax of RMB152 million.

In response to the opportunities brought about by the implementation of the "Belt and Road" initiative, BOC Insurance accelerated the pace of its overseas business development. Its overseas business generated written premiums of RMB155 million, up by 165% compared with the prior year. It completed 90 overseas projects in 2016, reporting a total investment and project contracting amount of over RMB1.6 trillion. In the meantime, BOC Insurance also supported large Chinese "Going Global" enterprises such as China National Petroleum Corporation, China Petroleum & Chemical Corporation, China Communications Construction Group, Power Construction Corporation of China and China Railway Construction Corporation Limited, and operated overseas insurance-related programmes in nearly 60 countries and regions in Asia, Africa and South America. Undertaking the social responsibilities, BOC Insurance responded immediately and worked tirelessly to handle a variety of insurance claims. BOC Insurance pushed forward the reform of commercial auto insurance premiums, with all of its branches receiving regulatory acceptance by the China Insurance Regulatory Commission regarding commercial auto insurance premium reform. BOC Insurance accelerated business channel innovation, and developed its key customer and e-channels in a coordinated manner. By expanding accident insurance and health insurance products through new channels such as "direct mailing + telesales", BOC Insurance recorded a year-on-year growth of 28% in written premiums in 2016. After substantially expanding its key customer-related programmes, it accumulatively contracted with a total of 216 key customers. BOC Insurance enhanced its comprehensive capacity and was granted an "A-" rating by Standard & Poor's.

**BOC-Samsung Life**

The Bank engages in life insurance business in the Chinese mainland through BOC-Samsung Life. As at the end of 2016, BOC-Samsung Life recorded total assets of RMB10.173 billion and net assets of RMB1.275 billion. In 2016, it realised written premiums and premium deposits of RMB5.377 billion.

BOC-Samsung Life accelerated the optimisation of its business portfolio, placing more weight on regular premium sales and high-value business. It expanded its distribution channels, including adding life insurance sales to BOC online banking, mobile banking and self-service terminals. It optimised its customer services by launching an official WeChat account, upgrading the functionality of its call centre, and integrating its service hotline into BOC's "95566" call centre. It also devoted much more efforts to product innovation, introducing the protection product "YuanFu", critical illness insurance "XiangFu", life insurance "ZunXiangJiaYing" for middle and high-end customers, cancer insurance "XiangRui" and accidental fracture insurance "XiangTai" for elderly customers.

BOC-Samsung Life was awarded "Life Insurer of Excellent Competitiveness" in the "Financial Institutions of Excellent Competitiveness Selection" by *China Business Journal*. It also received "The 7th JinDing Prize Fund — Quality Customer Service Award" by *National Business Daily* and "Corporate Citizen Award" in the "2016 Innovation and Development Forum of Chinese Insurance Industry". Its critical illness insurance "XiangFu" and annuity insurance "ZunXiangJiaCheng" were awarded "Health Insurance Product of the Year" and "Endowment Insurance Product of the Year" respectively by *China Insurance News* and other media.

## *Investment Business*

**BOCG Investment**

The Bank is engaged in direct investment and investment management business through BOCG Investment. BOCG Investment's business scope includes private equity investment, fund investment and management, real estate investment and management, and non-performing asset (NPA) investment. As at the end of 2016, BOCG Investment recorded total assets of HKD87.518 billion and net assets of HKD54.456 billion. In 2016, it recorded a profit after tax of HKD1.317 billion.

BOCG Investment implemented the Group's internationalisation and diversification strategies and continued to innovate its business model. It grasped opportunities arising from China's new urbanisation plan and plans for infrastructure development in important strategic regions by establishing the "Bank of China Urban Development Fund" and "Bank of China Innovative Development Fund", thus constantly intensifying its financial synergies within the Group. Taking advantage of market opportunities, it exploited potential investments arising from emerging industries and successfully completed its investment in Shanghai Lujiazui International Financial Asset Exchange Co., Ltd. ("Lufax") and Shanghai Insurance Exchange, China's first insurance exchange. It expanded its overseas real estate investment business and successfully completed the acquisition of a property project in Sydney, Australia. It continued to carry forward business model transformation from "investment" to "investment management", resolved non-performing assets of the Group in the form of funds, and pushed forward innovative businesses such as entrusted investment and asset securitisation. It constantly enhanced its investment value by strengthening post-investment management and exit management.

**BOC Aviation**

The Bank is engaged in the aircraft leasing business through BOC Aviation. BOC Aviation is one of the world's top five aircraft operating leasing companies and is the largest aircraft operating leasing company headquartered in Asia, as measured by the value of owned aircraft.

On 1 June 2016, BOC Aviation completed the largest-ever IPO by market value of any aircraft operating lessor through its public listing on the main board of the HKSE. The successful listing has supported BOC Aviation's financial stability, grown its balance sheet, enhanced its standing and influence in the aircraft leasing industry, and further promoted the Group's diversification.

BOC Aviation implemented an active aircraft portfolio management strategy and had sold all aircraft older than 10 years of age by 30 June 2016, ahead of schedule. As at the end of 2016, BOC Aviation had an average fleet age of 3.2 years (weighted by net book value), maintaining one of the youngest aircraft portfolios in the aircraft leasing industry. BOC Aviation actively services customer demand, build on its existing order book and invests in new technology aircraft to pursue sustainable growth. In 2016, it committed to purchase 25 additional Boeing and Airbus aircraft. At the end of the year, BOC Aviation had commitments to acquire 199 aircraft, delivering through 2021.

BOC Aviation continues to maintain its solid financial strength. In 2016, it raised over USD2.7 billion in debt financing, including USD1.25 billion from two separate benchmark bond offerings in the 144A-Regulation S markets and further diversified its debt investor base. BOC Aviation has corporate credit ratings of "A-" from Standard & Poor's and Fitch.

*(Please refer to the results report of BOC Aviation for a full review of BOC Aviation's business performance and related information.)*

BOC Aviation listed on the main board of Hong Kong Stock Exchange

## Service Channels

As the most internationalised and diversified bank in China, the Bank established specialised and diversified service channels and provided comprehensive financial services to customers in the Chinese mainland and many other countries and regions. The Bank is committed to further developing its physical outlets and electronic service channels in a coordinated manner, and providing one-stop services and a consistent customer experience through the integrated functions of its different channels. By integrating IT systems and financial services, the Bank streamlined its banking services and ensured that a customer accessing the Bank's services from any spot would trigger a full response, allowing it to satisfactorily meet customers' needs anytime and anywhere.

### *Outlet Development*

The Bank comprehensively carried out the upgrading of outlets towards smarter functionality across its entire network. In doing this, the Bank further specified the functions of different departments within each bank outlet, upgraded the on-site service system and increased the application of smart devices. It also streamlined the business handling process and standardised the sales process to provide a refreshing customer experience and enhance the brand image of the Bank. In 2016, a total of 2,683 bank outlets achieved smart functionality and the number of smart outlets reached 5,281, accounting for approximately 50% of total domestic outlets, thus significantly optimising business processes.

The Bank consistently improved the management and operation of its bank outlets. The Bank continued to optimise its outlet performance evaluation system and performance rating system, and increased profitability of its low-efficiency outlets. The Bank expanded the range of services offered by its outlets and increased the number of marketing personnel in order to improve its marketing and servicing capacities. It also reinforced the risk management of all businesses and improved comprehensive efficiency in business development of its outlets. The Bank made greater efforts to encourage collaborative innovation across channels to embrace the changes brought about by the development of internet banking and changes in customer behaviour. It launched the Paperless-Counter Project, provided a service to allow companies to fill out their corporate internet banking application forms online, optimised the processes of queue number calling and customer feedback rating and promoted the transformation of its outlets from "transaction-oriented" to "market-oriented". It also encouraged its branches to differentiate themselves with featured services based on their own business environments. A number of featured branches were successfully set up, including Fudan University Library-featured Branch in Shanghai and Financial Street Library-featured Branch in Beijing, and more featured services were developed in 22 branches located in Tianjin and Hebei, etc. As at the end of 2016, the domestic commercial banking network (including Head Office, tier-1 branches, tier-2 branches and outlets) comprised of 10,651 branches and outlets, domestic non-commercial banking institutions totalled 327, and institutions in Hong Kong, Macau, Taiwan and other countries and regions totalled 578.

Unit: single item, except percentages

| Item | As at 31 December 2016 | As at 31 December 2015 | Change (%) |
|---|---|---|---|
| ATM | **46,810** | 45,506 | 2.87% |
| Self-service terminal | **36,083** | 32,302 | 11.71% |
| Self-service bank | **14,444** | 14,045 | 2.84% |

### *E-Banking*

The Bank focused on mobile internet in an effort to foster electronic banking habits among its customers. The Bank's e-channel customers have become consistently more active and more loyal, leading to rapid growth in the volume of mobile banking business. This in turn has given strong momentum to its customer service and business development. In 2016, the Bank's cumulative e-channel transaction amount reached RMB160.69 trillion, an increase of 4.72% compared with the prior year. The substitution ratio of e-banking channels for outlet-based business transactions reached 90.74%. Among this, mobile banking transaction volumes hit RMB6.84 trillion, an increase of 32.14% year-on-year, meaning that mobile banking is gradually growing into one of the Bank's major customer service channels.

Unit: million customers, except percentages

| Items | As at 31 December 2016 | As at 31 December 2015 | Change (%) |
|---|---|---|---|
| Number of corporate online banking customers | **3.1408** | 2.8505 | 10.18% |
| Number of personal online banking customers | **133.7110** | 122.4606 | 9.19% |
| Number of mobile banking customers | **94.3995** | 79.9885 | 18.02% |
| Number of telephone banking customers | **111.2993** | 105.4931 | 5.50% |

Unit: RMB billion, except percentages

| Items | 2016 | 2015 | Change (%) |
|---|---|---|---|
| Transaction amount of corporate online banking | **135,853.067** | 129,322.199 | 5.05% |
| Transaction amount of personal e-banking | **20,333.010** | 19,792.780 | 2.73% |
| Transaction amount of mobile banking | **6,842.408** | 5,178.079 | 32.14% |
| Transaction amount of self-service banking | **4,487.556** | 4,297.750 | 4.42% |

The Bank continually enhanced the service ability and functionality of its e-banking channels and fully implemented its mobile finance strategy. It further optimised the functionality of its mobile banking, online banking, telephone banking and WeChat banking channels, thus further improving customer experience. For mobile banking and online banking, in an effort to build a comprehensive mobile financial portal, the Bank conducted an all-round upgrade of its mobile banking service by developing new functions such as "e-account opening", "life insurance product sales service", "BOC E-Credit" and "WMP pledged loan" and upgrading its bill payment function. For WeChat banking, the Bank launched three major functions, namely debit card binding, loan application and foreign exchange trading. For personal online banking, the Bank added a function allowing for the online contracting of foreign exchange option transactions. For corporate online banking, the Bank launched loan application and appeal functions for SMEs. Regarding self-service equipment, the Bank refined the most frequently used functions of ATMs and other self-service terminals. In terms of security authentication, the Bank developed a further multi-layer security authentication system and diversified approaches for interim monitoring, to further enhance both security and convenience. The Bank consolidated its strength in cross-border services by launching an FTZ remittance service and global batch remittance authorisation in corporate online banking, further expanding such global cash management services as foreign currency transfer and uniform payment, developing a dedicated sub-channel for cross-border financial services for personal online banking and launching personal foreign currency remittance services for the PAD client of mobile banking and online banking.

The Bank made remarkable achievements in the development of its internet finance business. Accelerating its strategy for internet finance development, the Bank established the Internet Finance Committee and promoted the sustained development of internet finance based on the core tactic of "Scenario Integration and Data Insight". The Bank enriched product lines covering payment, asset management, trading and financing businesses through internet finance models and extended its service coverage through scenario building, thus continually enhancing its internet finance service capacity. In terms of mobile payment innovation, it launched NFC payment products, such as HCE Quick


Pass payment-based product, Apple Pay, Samsung Pay, etc. Its B2C online payment service grew rapidly and its productivity has increased significantly. The Bank pushed forward the building of the BOC financial supermarket, continually diversified its online asset management ecosystem and unveiled the innovative "E Rong Hui" mobile fund trading service, on which trading volumes exceeded RMB250.0 billion in 2016. The Bank helped China's export and foreign trade industries to reorient towards "Internet Plus", providing service solutions for both importing and exporting scenarios. It also delivered match-making services for cross-border e-commerce businesses in London, Macau, etc. Moreover, its "BOC Easy-trade Cyber-tariff" service maintained a market-leading share for the tenth consecutive year. The Bank enhanced its data insight capacity and used big data to realise precision marketing and bank-wide risk management. It launched "BOC E-Credit", a whole-process, online consumption-oriented credit product featuring immediate disbursement. The Bank also launched the BOC e-commerce platform, including pilot projects in targeted poverty alleviation, cross-border e-commerce and other special areas.

## Information Technology Development

Guided by innovations in information technology, the Bank reinforced the establishment of its IT governance system and promoted deep integration between business and technology. It continually strengthened top-level design and formulated a three-year IT development plan, laying out the strategic direction, risk appetite and technical route for IT development. The Bank pushed forward IT architecture adjustment by establishing software development sub-centres in Xi'an and Hefei, and improved its independent R&D and service capabilities in internet finance and in its domestic and overseas institutions.

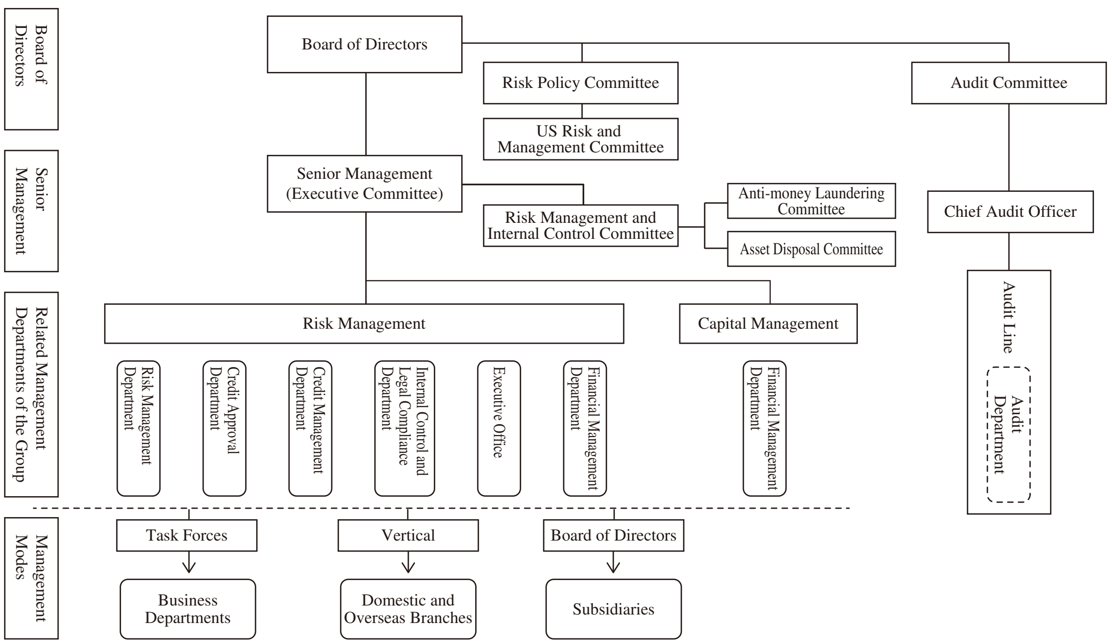
The Bank's IT function actively supported business development. It completed the launch of the Global Limit Management System, the upgrading of the Global Cash Management System and the promotion of integrated front, middle and back-office processing for treasury operations in the Asia Pacific region, all of which strongly supported the Bank's international development. Adapting to adjustments in regulatory policies, the Bank launched BT-to-VAT reform and PBOC-led personal banking account reform projects, becoming one of the first banks to provide online opening services for Category II and Category III accounts. It intensified system building for internet finance and was among the first of its peers to launch a mobile payment function. It also vigorously pushed forward the implementation of its business process optimisation system, effectively improving the experience of internal and external customers.

The Bank steadily rolled out its overseas information system integration and transformation project and successfully launched the system in the Americas. It supported information system building in newly established overseas institutions, successfully realising version unification, centralised deployment and integrated operation and management of overseas institutions in 34 countries and regions. It was also the first among its domestic peers to establish a 24/7 nonstop globally integrated operation and maintenance system. The Bank enhanced the regionally-integrated IT service capability of the three overseas information centres in the Americas, Europe and Asia Pacific. This enabled the Bank to put in place a firm foundation on which to further consolidate and enlarge its internationalised advantages.

The Bank boosted the transformation of its IT technical architecture and accelerated the building of a distributed private cloud platform. It set up a blockchain research team and explored blockchain technology-based application models and scenarios. It also cooperated with prestigious domestic universities and professional institutions to establish a joint laboratory for financial information security, so as to improve research and application capabilities in new information security technologies.

Based on its status as a Global Systemically Important Bank, the Bank actively responded to the "new normal" of economic development and continued to meet external regulatory requirements. Adhering to the principles of taking an issues-focused approach and implementing top-level design, the Bank pushed forward the establishment of its risk management system in line with its business model. The Bank refined its consolidated risk management mechanism and improved procedures for product risk management. In addition, it advanced the building of the "three lines of defence" in risk management, specifying the outline and responsibilities of each line. The Bank implemented advanced capital management approaches in an in-depth manner, actively promoted the improvement of its risk measurement model, built its risk management information system at a faster pace and integrated its risk database, thus improving its risk reporting capability.

The risk management framework of the Bank is set forth below:




## Credit Risk Management

Closely tracking changes in macroeconomic and financial conditions, the Bank controlled and mitigated risks, promoted development and consolidated the foundations of its credit risk management function. In addition, the Bank strengthened credit asset quality management, further improved its credit risk management policies, pushed forward adjustments to its credit structure and took a proactive and forward-looking stance on risk management.

Taking a customer-centric approach, the Bank further strengthened its unified credit granting management. It improved its asset quality monitoring system and intensified post-lending management. It further enhanced potential risk identification, control and mitigation mechanisms by reinforcing customer concentration control and establishing large borrower risk mitigation accountability. The Bank maintained relative stability of asset quality by enhancing the supervision of risk analysis and asset quality control in key regions, and strengthening window guidance on all business lines.

The Bank continuously adjusted and optimised its credit structure. With the aim of advancing strategic implementation and balancing risk, capital and return, the Bank stepped up the application of the New Basel Capital Accord and improved the management plans of its credit portfolios. In line with the government's macro-control measures and the direction of industrial policy, the Bank enacted guidelines for industrial lending and continued to push forward the building of an industrial policy system so as to optimise its credit structure.

In terms of corporate banking, the Bank further strengthened risk identification and control, proactively reduced and exited credit relationships in key fields, strictly controlled the gross outstanding amount and portfolio of loans through limit management and prevented and mitigated risk from overcapacity industries. It intensified the management of loans to local government financing vehicles (LGFVs) and strictly controlled the outstanding balances. In addition, the Bank implemented the government's macro-control policies and regulatory measures in the real estate sector so as to strengthen the risk management of real estate loans.

In terms of personal banking, the Bank enforced regulatory requirements on residential mortgages and continued to strictly implement differentiated policies. It improved management policies for personal housing loans, personal consumption loans, personal carport loans, overseas personal loans and credit card loans. It also strengthened risk control of key products and regions.

The Bank strengthened country risk management and incorporated it into its comprehensive risk management system. It performed an annual review of country risk ratings and implemented limit management of country risk exposures. It constantly optimised the Country Risk Exposure Statistical System to assess, monitor, analyse and report its exposures on a regular basis, thereby managing the use of limits in a precise manner. The Bank also established a country risk monitoring and reporting system covering yearly reporting, quarterly monitoring and the timely reporting of material risk events, which made it possible to regularly publish country risk analysis reports, provide updates on the country risk monitoring tables, make timely assessments of the impact of material country risk events and publish risk prompts. In addition, the Bank differentiated the management of potentially high-risk and sensitive countries and regions.

The Bank further stepped up the collection of NPAs. It continued to carry forward centralised collection through the unified allocation of internal and external collection resources. The Bank centrally managed NPA projects and took measures such as continually enhancing hierarchical management, reinforcing control of key regions and key customers and promoting advanced experience and typical cases regarding NPA mitigation to improve the quality and efficiency of disposals. The Bank tapped the potential value of NPAs through multiple measures and leveraged its internationalised and diversified business advantages to successfully explore innovative means such as NPA securitisation. It adopted policies based on the actual conditions of individual enterprises, strengthened restructuring efforts and strived to help enterprises get out of difficulty. The Bank actively participated in the study and adjustment of regulatory policies and strengthened support to the real economy. It conducted NPA disposal and continued to implement accountability measures for losses in compliance with relevant laws and regulations.

The Bank scientifically measured and managed the quality of credit assets based on the *Guidelines for Loan Credit Risk Classification* issued by the CBRC, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are recognised as NPLs. In order to further refine its credit asset risk management, the Bank used a 13-tier risk classification criteria scheme for corporate loans to domestic companies, covering on-balance sheet and off-balance sheet credit assets. In addition, the Bank strengthened risk classification management of key industries, regions and material risk events, and dynamically adjusted classification results. It strengthened the management of loan terms, managed overdue loans by the name list system and made timely adjustments to risk classification results, so as to truly reflect asset quality. The *Guideline for Loan Credit Risk Classification* is also applicable to the overseas operations of the Bank. However, the Bank classified credit assets in line with local applicable rules and requirements if they were stricter.

As at the end of 2016, the Group's NPLs totalled RMB146.003 billion, an increase of RMB15.106 billion compared with the prior year-end. The NPL ratio was 1.46%, up by 0.03 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB237.716 billion, an increase of RMB37.051 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 162.82%, up by 9.52 percentage points from the prior year-end. The NPLs of domestic institutions totalled RMB141.458 billion, an increase of RMB13.823 billion compared with the prior year-end. Domestic institutions' NPL ratio was 1.81%, up by 0.04 percentage point compared with the prior year-end. The Group's outstanding special-mention loans stood at RMB310.630 billion, an increase of RMB81.465 billion compared with the prior year-end, accounting for 3.11% of total loans and advances, up by 0.60 percentage point from the prior year-end.

### Five-category Loan Classification

Unit: RMB million, except percentages

| Items | As at 31 December 2016 Amount | As at 31 December 2016 % of total | As at 31 December 2015 Amount | As at 31 December 2015 % of total |
|---|---|---|---|---|
| **Group** | | | | |
| Pass | **9,516,729** | **95.43%** | 8,775,798 | 96.06% |
| Special-mention | **310,630** | **3.11%** | 229,165 | 2.51% |
| Substandard | **61,247** | **0.61%** | 58,741 | 0.64% |
| Doubtful | **36,817** | **0.37%** | 41,516 | 0.45% |
| Loss | **47,939** | **0.48%** | 30,640 | 0.34% |
| **Total** | **9,973,362** | **100.00%** | 9,135,860 | 100.00% |
| NPLs | **146,003** | **1.46%** | 130,897 | 1.43% |
| **Domestic** | | | | |
| Pass | **7,387,949** | **94.49%** | 6,854,159 | 95.21% |
| Special-mention | **289,101** | **3.70%** | 217,300 | 3.02% |
| Substandard | **58,763** | **0.75%** | 57,049 | 0.79% |
| Doubtful | **35,758** | **0.46%** | 40,612 | 0.56% |
| Loss | **46,937** | **0.60%** | 29,974 | 0.42% |
| **Total** | **7,818,508** | **100.00%** | 7,199,094 | 100.00% |
| NPLs | **141,458** | **1.81%** | 127,635 | 1.77% |

### Migration Ratio

Unit: %

| Items | 2016 | 2015 | 2014 |
|---|---|---|---|
| Pass | **3.05** | 2.22 | 1.92 |
| Special-mention | **19.39** | 22.07 | 9.89 |
| Substandard | **36.67** | 48.25 | 42.38 |
| Doubtful | **44.31** | 46.25 | 46.94 |

In accordance with International Accounting Standard No. 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2016, the Group's identified impaired loans totalled RMB145.311 billion, an increase of RMB15.074 billion compared with the prior year-end. The identified impaired loans to total loans ratio was 1.46%, an increase of 0.03 percentage point compared with the prior year-end. For domestic institutions, identified impaired loans totalled RMB141.458 billion, an increase of RMB13.823 billion compared with the prior year-end. The identified impaired loans to total loans ratio of domestic institutions was 1.81%, up by 0.04 percentage point compared with the prior year-end. The Bank's operations in Hong Kong, Macau, Taiwan and other countries reported identified impaired loans of RMB3.853 billion and the identified impaired loans to total loans ratio of 0.18%, representing an increase of RMB1.251 billion and 0.05 percentage point compared with the prior year-end respectively.

### Movement of Identified Impaired Loans

Unit: RMB million

| Items | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Group** | | | |
| Balance at the beginning of the year | **130,237** | 99,789 | 73,119 |
| Increase during the year | **72,721** | 71,325 | 60,197 |
| Decrease during the year | **(57,647)** | (40,877) | (33,527) |
| Balance at the end of the year | **145,311** | 130,237 | 99,789 |
| **Domestic** | | | |
| Balance at the beginning of the year | **127,635** | 97,057 | 70,433 |
| Increase during the year | **70,700** | 69,422 | 58,577 |
| Decrease during the year | **(56,877)** | (38,844) | (31,953) |
| Balance at the end of the year | **141,458** | 127,635 | 97,057 |

### Loans and Identified Impaired Loans by Currency

Unit: RMB million

| Items | As at 31 December 2016 | | As at 31 December 2015 | | As at 31 December 2014 | |
|---|---|---|---|---|---|---|
| | Total loans | Impaired loans | Total loans | Impaired loans | Total loans | Impaired loans |
| **Group** | | | | | | |
| RMB | **7,607,730** | **130,301** | 7,011,867 | 112,983 | 6,339,052 | 86,914 |
| Foreign currency | **2,365,632** | **15,010** | 2,123,993 | 17,254 | 2,144,223 | 12,875 |
| **Total** | **9,973,362** | **145,311** | 9,135,860 | 130,237 | 8,483,275 | 99,789 |
| **Domestic** | | | | | | |
| RMB | **7,480,833** | **130,277** | 6,799,585 | 112,763 | 6,104,014 | 86,205 |
| Foreign currency | **337,675** | **11,181** | 399,509 | 14,872 | 501,759 | 10,852 |
| **Total** | **7,818,508** | **141,458** | 7,199,094 | 127,635 | 6,605,773 | 97,057 |

The Bank makes adequate and timely allowance for loan impairment losses in accordance with the principles of prudence and authenticity. Allowance for impairment losses on loans consist of individually assessed and collectively assessed allowance. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for the accounting policy in relation to allowance for impairment losses.

In 2016, the Group's impairment losses on loans and advances stood at RMB86.795 billion, an increase of RMB30.923 billion compared with the prior year. The credit cost was 0.91%, an increase of 0.28 percentage point compared with the prior year. In particular, domestic institutions registered impairment losses on loans and advances of RMB85.282 billion, an increase of RMB31.955 billion compared with the prior year. The credit cost of domestic institutions was 1.14%, an increase of 0.37 percentage point compared with the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with regulatory requirements on borrower concentration.

Unit: %

| Indicators | Regulatory Standard | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|---|---|
| Loan concentration ratio of the largest single borrower | ≤10 | **2.3** | 2.3 | 2.4 |
| Loan concentration ratio of the ten largest borrowers | ≤50 | **14.2** | 14.0 | 14.7 |

Notes:

1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower ÷ net regulatory capital.

2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers ÷ net regulatory capital.

Please refer to Notes V.18 and VI.3 to the Consolidated Financial Statements for detailed information regarding loan classification, the classification of identified impaired loans and allowance for loan impairment losses.

The following table shows the top ten individual borrowers as at the end of 2016.

Unit: RMB million, except percentages

| | Industry | Connected Parties or not | Outstanding loans | % of total loans |
|---|---|---|---|---|
| Customer A | Manufacturing | No | 36,765 | 0.37% |
| Customer B | Transportation, storage and postal services | No | 32,776 | 0.33% |
| Customer C | Transportation, storage and postal services | No | 31,297 | 0.31% |
| Customer D | Commerce and services | No | 19,751 | 0.20% |
| Customer E | Water, environment and public utility management | No | 18,984 | 0.19% |
| Customer F | Commerce and services | No | 18,965 | 0.19% |
| Customer G | Transportation, storage and postal services | No | 18,751 | 0.19% |
| Customer H | Transportation, storage and postal services | No | 17,501 | 0.18% |
| Customer I | Production and supply of electricity, heating, gas, and water | No | 17,091 | 0.17% |
| Customer J | Mining | No | 16,736 | 0.17% |

## Market Risk Management

In response to changes in the market environment and in line with its business development and management requirements, the Bank adopted improvement measures to comprehensively enhance the effectiveness of its market risk management system and continuously made its market risk management more flexible and forward-looking.

Based on its judgement of financial market trends, the Bank actively adjusted its business strategies to prevent and control market risk. It upgraded its internal model measurement system for market risk and strengthened its data mining and processing ability, thus improving the overall accuracy and time-effectiveness of risk measurement. In addition, the Bank established a system to evaluate the capacity of its branches in managing market risk and counterparty credit risk, so as to enhance risk management and control capacity. The Bank closely tracked new regulatory requirements on market risk capital measurement, carried out quantitative estimation and planned an implementation route. It also improved requirements for managing the credit risk of central counterparties, and reviewed and optimised the risk weight of treasury business products. Please refer to Note VI.4 to the Consolidated Financial Statements for detailed information regarding market risk.

In order to focus on improving credit risk and contagion risk management, the Bank continually carried out group-wide risk identification for its bond investments. Moreover, the Bank enhanced its risk alert system and introduced innovative risk monitoring techniques by activating a system for tracking bond issuers' negative information, all with the aim of enhancing the efficiency and accuracy of risk alerts and continually optimising the graded warning and hierarchical management of the Group's integrated credit bond risk warning mechanism.

The Bank assessed the interest rate risk in its banking book mainly through analysis of interest rate re-pricing gaps, made timely adjustments to the structure of its assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income at an acceptable level. Assuming that the yield curves of all currencies were to shift up or down 25 basis points in parallel, the Group's banking book sensitivity analysis of net interest income on all currencies is as follows[5]:

Unit: RMB million

| | As at 31 December 2016 | | | | As at 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Items | RMB | USD | HKD | Other | RMB | USD | HKD | Other |
| Up 25 bps | **(2,316)** | **(560)** | **97** | **(222)** | (2,046) | (191) | (90) | (239) |
| Down 25 bps | **2,316** | **560** | **(97)** | **222** | 2,046 | 191 | 90 | 239 |

In terms of the management of exchange rate risk, the Bank sought to achieve currency matching between fund source and application and managed exchange rate risk through timely settlement, thus effectively controlling its foreign exchange exposure.

5 This analysis is based on the approach prescribed by the CBRC, which includes all off-balance sheet positions. This is presented for illustrative purposes only, and is based on the Group's gap position as at the end of 2016 without taking into account any change in customer behaviour, basis risks or any prepayment options on debt securities. The table has only shown the potential impact on the Group's net interest rates moving up or down 25 basis points. The analysis is based on the Group's audited financial information.

## Liquidity Risk Management

The Bank continued to develop and improve its liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

Seeking at all times to balance safety, liquidity and profitability, and following regulatory requirements, the Bank improved its liquidity risk management system and continually upgraded its liquidity management function in a forward-looking and scientific manner. The Bank enhanced liquidity risk management at the institution and group level, including that of branches, subsidiaries and business lines. The Bank formulated sound liquidity risk management policies and contingency plans, periodically re-examined the liquidity risk limit, upgraded the early warning system for liquidity risk and strengthened the management of high-quality liquid assets, such as bond investments, in order to strike a balance between risk and return. In addition, the Bank regularly improved its liquidity stress-testing scheme and performed stress tests on a quarterly basis. The stress tests showed that the Bank had adequate payment ability to cope with distressed scenarios.

As at the end of 2016, the Bank's liquidity risk indicators met regulatory requirements, as shown in the table below (liquidity ratios apply to the Group's operations and excess reserve ratios and interbank ratios apply to the Bank's domestic operations. Major regulatory ratios here are calculated in accordance with relevant provisions of domestic regulatory authorities):

Unit: %

| Major regulatory ratios | | Regulatory standard | **As at 31 December 2016** | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|---|---|---|
| Liquidity ratio | RMB | ≥25 | **45.6** | 48.6 | 49.9 |
| | Foreign currency | ≥25 | **52.7** | 62.0 | 59.9 |
| Excess reserve ratio | RMB | – | **1.3** | 1.5 | 2.3 |
| | Foreign currency | – | **10.9** | 19.0 | 14.6 |
| Inter-bank ratio | Interbank borrowings ratio | ≤8 | **0.05** | 1.1 | 0.3 |
| | Interbank loans ratio | ≤8 | **0.04** | 0.1 | 0.4 |

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing. As at the end of 2016, the Bank's liquidity gap was as follows (please refer to Note VI.5 to the Consolidated Financial Statements):

Unit: RMB million

| Items | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Overdue/undated | **2,132,049** | 1,940,702 |
| On demand | **(6,502,279)** | (5,673,516) |
| Up to 1 month | **(1,130,916)** | (1,163,853) |
| 1–3 months (inclusive) | **(73,401)** | (236,711) |
| 3–12 months (inclusive) | **39,125** | 734,148 |
| 1–5 years (inclusive) | **2,561,345** | 2,009,358 |
| Over 5 years | **4,461,169** | 3,747,477 |
| **Total** | **1,487,092** | 1,357,605 |

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature in the same period.

## Reputational Risk Management

The Bank implemented the policy on reputational risk management, continued to improve its reputational risk management system and mechanism, and strengthened the consolidated management of reputational risk so as to enhance the reputational risk management capability. It attached great importance to the investigation of potential reputational risk factors, strengthened daily public opinion monitoring and continually carried out monitoring, identification and pre-warning of reputational risks. It established a coordination mechanism between reputational risk management departments and liable departments, and dealt appropriately with reputational risk events, thus effectively maintaining the brand reputation of the Group. In addition, the Bank continued to implement training sessions on reputational risk management so as to enhance employees' awareness of reputational risk management and cultivate the reputational risk management culture.

## Internal Control and Operational Risk Management

### *Internal Control*

The Board of Directors, senior management and their special committees earnestly performed their duties regarding internal control and supervision, emphasising early risk warning and prevention.

The Bank continued to improve the "three lines of defence" mechanism for internal control. The first line of defence consists of departments of the Head Office, tier-1 branches, direct branches, tier-2 branches and all banking outlets under tier-2 branches (with the exception of those departments that form part of the second or third lines of defence). They are the owners of, and are accountable for, local risks and controls. They undertake self-control risk management functions in the course of their business operations, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organisation of rectification measures.

The internal control and risk management departments of the Bank's institutions at all levels form the second line of defence. They are responsible for overall planning, implementing, examining and assessing risk management and internal control. They are also responsible for identifying, measuring, monitoring and controlling risks. The Group's operational risk monitoring and analysis platform is used to realise the regular and automated smart monitoring of major risks, helping the Bank to take timely risk prevention and mitigation measures. To enhance business processes and systems, the Bank adjusted policies and regulations in a timely manner during the year.

The third line of defence rests in the audit and inspection departments of the Bank. The audit department is responsible for performing internal audit of the Bank's internal control and risk management function in respect of its adequacy and effectiveness. The inspection department is responsible for staff non-compliance sanction, investigation of cases and management accountability. In 2016, the Bank accelerated the reform of its human resource management system for the audit line. It clarified that domestic audit sub-divisions are dispatched institutions of the Audit Department of the Head Office, with their personnel dispatched and directly managed by the Head Office, so as to further strengthen audit independence. Taking an issue-oriented approach that concentrates attention on matters of systemic, emerging trends, concerning tendency and importance, the audit department strengthened inspection and monitoring of the Bank's high-risk institutions and businesses, the Group's priority areas for risk control and fields of special concern to regulators, all with the aim of effectively performing the pre-warning and prevention function of internal audit. It actively promoted IT-based audit approaches, strengthened off-site technology applications and enhanced on-site examination efficiency. It refined mechanisms for rectification management by establishing specific institutions and procedures and clearly assigning responsibilities for rectification. It advanced rectification management at various levels including grassroots outlets, line management departments and the Head Office, so as to facilitate the effective rectification and systematic solution of issues and increase the efficiency of the Bank's internal governance and management mechanism.

In order to continually improve its anti-fraud management system, the Bank clarified which bodies were responsible for organisational leadership, policy-making and enforcement, supervision and inspection and accountability. To secure a comprehensive performance of counter-fraud duties, it adhered to the basic principles of fraud case accountability, including "inquiry of four accountable subjects into one case", "both institutional and business-line management accountability" and "management two levels higher than the branch-outlet accountable where serious fraud occurs", and established the mechanism of "presenting one case to five units". The Bank comprehensively enhanced day-to-day internal control management by giving full play to the guiding role of the risk management and internal control committee in tier-2 branches, and rolling out such practices as "branch outlet head contact" to enhance the risk prevention and control capacity of sub-branches and outlets. It also used management tools such as on-site examination, off-site monitoring and issue rectification to enhance its fraud case prevention and resolution capacity. In addition, the Bank carried out governance of internal control cases and used the review mechanism of "Two Strengthen and Two Curbing", investigated risks, rectified problems and held relevant parties accountable.

The Bank continued to implement the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, adhering to the primary goal of ensuring the effectiveness of its internal control over financial reporting and the accuracy of its financial information. It also constantly improved non-financial internal control. The Bank earnestly implemented the *Guidelines for Internal Control of Commercial Banks* by following the basic principles of "complete coverage, checks and balances, prudence and correspondence", so as to promote internal control governance and an organisational structure characterised by a reasonable division of work, well-defined responsibilities and clear reporting relationships.

The Bank established and implemented a systematic financial accounting policy system in accordance with the relevant accounting laws and regulations. Accordingly, the Bank's accounting basis was solidified and the level of standardisation and refinement of its financial accounting management was further improved. The Bank set criteria for accounting appraisal and continued to promote the qualification of accounting groundwork in-depth. The Bank continually strengthened the quality management of its accounting information, so as to ensure the effectiveness of internal control over financial reporting. The financial statements of the Bank were prepared in accordance with the applicable accounting standards and related accounting regulations, and the financial position, operational performance and cash flows of the Bank were fairly presented in all material respects.

The Bank paid close attention to fraud risk prevention and control, proactively identifying, assessing, controlling and mitigating risks. In 2016, the Bank succeeded in preventing 89 external cases involving RMB624 million.

### *Operational Risk Management*

The Bank continually improved its operational risk management system. It promoted the application of operational risk management tools, using the three major tools of Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC) to continually identify, assess and monitor operational risks. The Bank enhanced its system supporting capability by optimising its operational risk management information system. It continually strengthened its business continuity management system and improved operating mechanism. It carried out business impact analysis and risk assessment, and launched emergency drills in key businesses to enhance the capacity for continuous business operation.

### *Compliance Management*

The Bank continually improved its compliance risk governance mechanism to better meet compliance risk management requirements. It continued to track compliance risk information including regulatory requirements, inspections and evaluations, so as to ensure compliance with domestic and overseas regulatory requirements. It monitored and assessed compliance risk and adopted a reporting mechanism for compliance risk information and material risk events, hence enhancing its compliance risk management capacity.

The Bank enhanced group-wide anti-money laundering (AML) management by implementing the plan for AML. It enhanced its processes for customer identification and due diligence and strengthened its real time control capability. It improved the sanctions aspect of its compliance management by improving the policies for sanction management and the sanction list as well as its related system functions. The Bank improved the functions of its large-amount and suspicious AML transaction system and optimised the new screening models for suspicious transactions. It continued to roll out the AML system in its overseas institutions, tailoring the transformation and overall optimisation of each system based on the regulatory requirements of each business location. It also conducted various forms of training, and implemented AML training plans for all employees.

The Bank enhanced the management of its connected transactions and internal transactions. It strengthened the routine monitoring of its connected transactions and strictly controlled their risks. It carried out special self-inspections on connected transactions by conducting self-evaluation and seeking improvement with regard to regulation implementation, system management, data quality and other dimensions. In addition, it implemented internal transaction monitoring and reporting, and guided and standardised the operation mechanism of internal transaction verification.

## Capital Management

The Bank continually reinforced its capital management to tap its internal potential. It optimised its capital allocation methods, improved its capital budget mechanism, and reinforced capital assessment in order to guide all units of the Bank to improve their awareness of capital constraints. It continually optimised its on-balance sheet and off-balance sheet asset structures, developed capital-lite businesses, reduced the proportion of high-capital-consumption assets, properly controlled increases in off-balance sheet risk assets and expanded asset securitisation. These methods were effective as the Bank's risk weight decreased year-on-year, while its capital adequacy ratio continuously increased and hit a historic high. The Bank continued to replenish capital in a prudent manner. The shareholders' meeting approved the issuance of qualified write-down tier-2 capital instruments amounting to RMB60.0 billion or equivalent in foreign currencies. The Bank will continue to implement its capital replenishment plan so as to enhance its capital strength and improve capital structure. The Bank was awarded "Best Capital Management Bank" by *The Chinese Banker*.

## *Capital Adequacy Ratios*

As at the end of 2016, the capital adequacy ratios separately calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Regulation Governing Capital Adequacy of Commercial Banks* are listed below:

### Capital Adequacy Ratios

Unit: RMB million, except percentages

| Items | Group | | Bank | |
|---|---|---|---|---|
| | **As at 31 December 2016** | As at 31 December 2015 | **As at 31 December 2016** | As at 31 December 2015 |
| **Calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*** | | | | |
| Net common equity tier 1 capital | **1,280,841** | 1,182,300 | **1,106,112** | 1,042,396 |
| Net tier 1 capital | **1,384,364** | 1,285,459 | **1,205,826** | 1,142,110 |
| Net capital | **1,609,537** | 1,498,396 | **1,414,052** | 1,335,327 |
| Common equity tier 1 capital adequacy ratio | **11.37%** | 11.10% | **10.98%** | 11.06% |
| Tier 1 capital adequacy ratio | **12.28%** | 12.07% | **11.96%** | 12.12% |
| Capital adequacy ratio | **14.28%** | 14.06% | **14.03%** | 14.17% |
| **Calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks*** | | | | |
| Core capital adequacy ratio | **11.77%** | 11.38% | **11.65%** | 11.56% |
| Capital adequacy ratio | **14.67%** | 14.45% | **14.50%** | 14.53% |

Please refer to Note VI.7 to the Consolidated Financial Statements for detailed information.

### Leverage Ratio

As at the end of 2016, the leverage ratio calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* is listed below:

Unit: RMB million, except percentages

| Items | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Net tier 1 capital | **1,384,364** | 1,285,459 |
| Adjusted on- and off-balance sheet assets | **19,604,737** | 18,297,331 |
| Leverage ratio | **7.06%** | 7.03% |

Please refer to Supplementary Information II.5 to the Consolidated Financial Statements for detailed information.

# Management Discussion and Analysis — Organisational Management, Human Resources Development and Management

## Organisational Management

As at the end of 2016, the Bank had a total of 11,556 institutions worldwide, including 10,978 institutions in the Chinese mainland and 578 institutions in Hong Kong, Macau, Taiwan and other countries. Its domestic commercial banking business comprised 10,651 institutions, including 37 tier-1 and direct branches, 326 tier-2 branches and 10,287 outlets.

The geographic distribution of organisations and employees of the Bank is set forth below:

Unit: RMB million/unit/person, except percentages

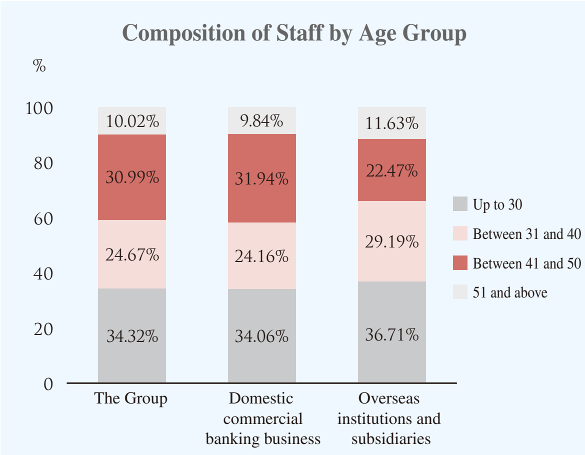
| Items | Assets | | Organisations | | Employees | |
|---|---|---|---|---|---|---|
| | Total assets | % of total | Number | % of total | Number | % of total |
| Northern China | 5,469,424 | 28.09% | 1,925 | 16.66% | 58,998 | 19.10% |
| Northeastern China | 682,682 | 3.51% | 951 | 8.23% | 26,019 | 8.42% |
| Eastern China | 3,930,025 | 20.19% | 3,601 | 31.16% | 94,024 | 30.43% |
| Central and Southern China | 2,861,340 | 14.70% | 2,789 | 24.13% | 69,092 | 22.37% |
| Western China | 1,453,868 | 7.47% | 1,712 | 14.81% | 38,258 | 12.39% |
| Hong Kong, Macau and Taiwan | 3,256,526 | 16.73% | 440 | 3.82% | 17,270 | 5.59% |
| Other countries | 1,812,521 | 9.31% | 138 | 1.19% | 5,239 | 1.70% |
| Elimination | (1,317,497) | | | | | |
| **Total** | 18,148,889 | 100.00% | 11,556 | 100.00% | 308,900 | 100.00% |

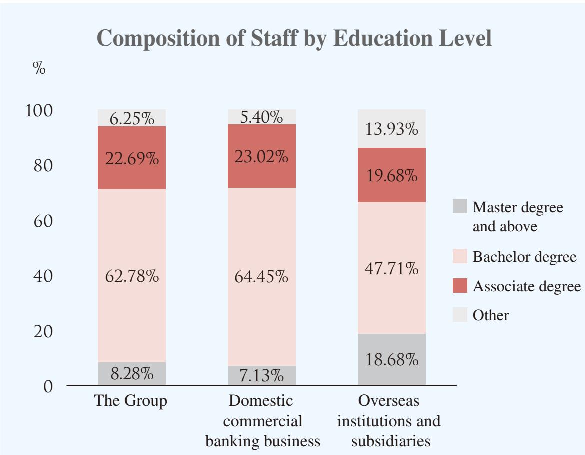
Note: The proportion of geographic assets was based on data before intra-group elimination.

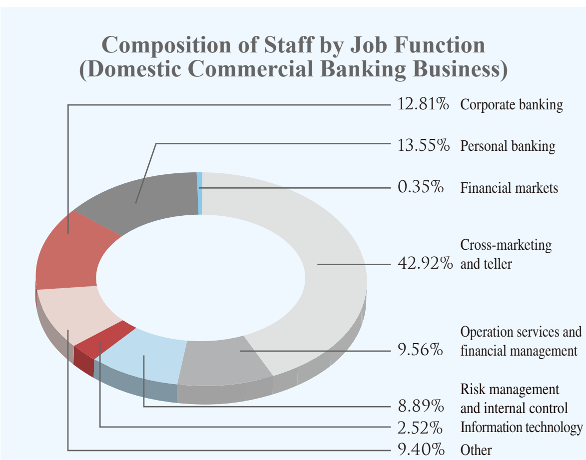
## Human Resources Development and Management

As at the end of 2016, the Bank had 308,900 employees. There were 286,391 employees in the Chinese mainland, of which 277,966 worked in the Bank's domestic commercial banking business. The Bank had 22,509 employees in Hong Kong, Macau, Taiwan and other countries. As at the end of 2016, the Bank bore costs for a total of 5,855 retirees.

In 2016, in line with the strategic development plan and annual priorities, the Bank further deepened reform of its organisational structure and management mechanism. It reorganised institutions in Liaoning and Shandong, so as to enhance market competitiveness in the Bohai Rim. The Bank actively responded to "smart channel" development, and optimised its channel management functions, providing solid support for the implementation of strategic development plan and operational development.




The Bank accelerated the construction of personnel teams, implemented its special personnel supplementation plan in key strategic areas, increased staffing in important business areas, stepped up efforts in cultivating the international and diversified experience of its personnel and reinforced the construction of a talent pool of employees fluent in minority languages. In compliance with China's targeted poverty alleviation policy, the Bank assigned cadres for eliminating poverty to the certain poverty areas in batches and hired low-income university graduates through a special programme within its campus recruitment campaign. The Bank ranked first in the "Best Employer in Financial Industry in the Opinion of Chinese University Students" for the ninth consecutive year and ranked second in the overall list of the 14th "Employers in the Opinion of Chinese University Students".

The Bank optimised personnel expense allocation and promoted the "broad-band" remuneration system in a bid to improve the input-output efficiency of resources. It continued to improve its remuneration policies and implement the "position-related and performance-based" remuneration distribution principle, in line with corporate governance requirements, operational and development strategy and market positioning and talent competition strategy. According to these policies, base salary is determined by the job's value and the employee's duty performance, while the performance-related bonus is determined by the performance assessment results of the Bank, employees' institutions or departments and employees. These remuneration policies apply to all employees who sign an employment contract with the Bank.

The Bank held a "Belt and Road" international financial communication and cooperation seminar in the Philippines, thus actively promoting national strategies. The Bank conducted key training programmes so as to enhance the professional capabilities of employees with regard to the internal control of risk and mitigation of non-performing loans, RMB internationalisation, the integrated development of the Beijing-Tianjin-Hebei region, internet finance, interest rate liberalisation and green credit. In 2016, the domestic commercial banking institutions of the Bank held a variety of training courses, totalling 68,122 sessions with 2,725,361 participants.

# Management Discussion and Analysis — Outlook

The domestic and international economic situation will remain complicated in 2017. On the international front, global economy will continue to stay in complex, unstable and uncertain condition and become further divergent in macroeconomic policies. On the domestic front, China's economy is in a critical transition period, shifting from old to new growth drivers and experiencing structural challenges. Meanwhile, commercial banks will continue to see development opportunities from the implementation of China's 13th Five-Year Plan, as supply-side structural reform will continue to deepen and the quality of economic growth is expected to improve further.

The Bank will implement national macroeconomic policy, uphold the strategic goal of "Serving Society, Delivering Excellence", maintain the overall theme of seeking progress while ensuring stability and make solid progress towards key tasks related to "innovation, transformation, mitigation and control", in pursuit of the sustainable and healthy development of all businesses.

**Remain confident and endeavour to fulfil five commitments.** First, the Bank will persevere in international development. It will accelerate the construction of the "Belt and Road" financial artery, fully leverage its global operations and traditional advantages and continue to improve its international development system while helping domestic enterprises to "Going Global". Second, the Bank will persevere in serving the people. Dedicated to a customer-centric approach, the Bank will accelerate the improvement of business procedures and comprehensively enhance customer experience. Third, the Bank will persevere in serving SMEs. The Bank will optimise the business flow of the "Credit Factory", further develop cross-border matchmaking services and encourage innovation-driven development. Fourth, the Bank will persevere in technological innovation. The Bank will strengthen the guiding role of technology, continue to develop mobile finance, smart counters, and e-finance, and promote deeper integration between business and technology. Fifth, the Bank will persevere in team building.

**Forge ahead to achieve stability and progress in six aspects.** First, the Bank will seek progress in structural adjustment while maintaining stable scale in terms of assets. It will continue to uphold a prudent operational approach, strengthen capital constraints, pursue structural improvements and continuously improve the quality and efficiency of its development. Second, the Bank will seek progress in its liability business while maintaining stable asset business. Giving balanced consideration to capital and liquidity constraints, the Bank will endeavour to achieve stable and moderate credit growth and the RMB loan of its domestic operations is expected to increase by 10% in 2017. The Bank will also maintain deposit business as a core business, in a bid to provide stable sources of funding for the development of its asset business. Third, the Bank will seek progress in its overseas business while maintaining stable in its domestic business. It will rely on the Group's overall strengths to seek new opportunities from global market development and create new sources of growth. Fourth, the Bank will seek progress in building its non-interest income while maintaining stable interest income. It will strengthen the balanced management of assets and liabilities, maintain steady growth in interest income, step up products and service innovation and sharpen its competitive edge in fee-based business. Fifth, the Bank will seek progress in service quality while maintaining stable service fundamentals. The Bank will improve service quality and customer experience through product R&D, process optimisation and business innovation, so as to further cement its service foundations. Sixth, the Bank will seek progress in the mitigation of NPAs while maintaining stable asset quality. The Bank will spare no effort to mitigate potential risks and existing NPAs, promote innovative practices for NPAs mitigation and increase the efficiency and effectiveness of NPAs disposal.

# Corporate Social Responsibilities

Guangdong Branch actively participated in the financial knowledge promotion activity


Henan Branch carried out targeted poverty alleviation through financial innovation

## Responsibility to the country

The Bank continued to deeply implement its the development strategy of "Serving Society, Delivering Excellence". The Bank was visited by political leaders of many countries including the United Kingdom, the Philippines, Peru, Cambodia and Turkey. It also held a "Belt and Road" international financial cooperation seminar for Cambodia and the Philippines. The Group's loans were largely granted to major programmes and projects that the country supported as well as to the key sectors and areas that benefit the people's livelihood. The Bank accelerated the construction of the financial artery of the "Belt and Road" initiative and gave significant support to projects related to the coordinated development of the Beijing-Tianjin-Hebei economic area. The financial business in Shanghai FTZ continued to lead its peers in terms of financial innovation and business scale. The Bank held 10 cross-border matchmaking conferences for global SMEs and published the *Five-year Action Plan for Promoting the Internationalised Development of Small and Medium-sized Enterprises* together with the Ministry of Industry and Information Technology of PRC. It accelerated the building of BOC Fullerton Community Banks.

## Responsibility to shareholders

Attaching great importance to shareholders' rights, the Bank continuously innovated and improved its corporate governance mechanism and proactively promoted the construction of the information disclosure system. It maintained a stable external rating, and continued to deliver long-term value to shareholders. As of the end of 2016, the Bank's total assets achieved RMB18.15 trillion, ranking it among the top global banks. With Stand-alone Credit Profile and preference share rating upgraded by Standard & Poor's Rating Services, the Bank's various ratings reached the highest level amid Chinese peers. The Bank ranked 35th among the "Global 500", up 10 places compared to last year, 4th in "Top 1,000 World Banks" and 6th in the "Top 500 Global Banking Brands in 2016" with a brand value of USD27.7 billion, up 36% year on year.

## Responsibility to customers

The Bank served as the RMB clearing bank in 11 countries and regions and established an RMB clearing network that covers five continents to provide 24x7 service. It was the first Chinese bank to set up subsidiaries in 51 foreign countries and regions. Throughout the year, the Bank completed RMB311.98 trillion in cross-border RMB clearing and RMB4 trillion in settlement volume, maintaining its leading position among global peers. A comprehensive online financial services platform was realised through the building of the "E-BOC" internet finance brand. The Bank launched "Mobile Banking 3.0", which greatly improved customer experience. With the launch of "smart counters", the Bank's smaller outlets largely achieved "immediately business handling" for customers, while larger outlets substantially shortened customer waiting time. The substitution ratio of e-banking channels for outlet-based business transactions reached 90.74%, up 2.77 percentage points on a yearly basis.

## Responsibility to employees

Adhering to the principle of "people first", the Bank placed high importance on employee needs and proactively developed a human resource management model suited to its corporate culture and operational management. In addition to offering continuous enhanced trainings, the Bank encouraged employees to gain working experience both in its outlets and overseas. The aim is to develop inter-disciplinary professional expertise with international profiles and to provide employees with the space needed for further career development. The Bank held training courses for outstanding local employees overseas on the Bank's history and national education. It encouraged employees to work in grassroots and challenging areas. The Bank has topped the "Best Employer in Financial Industry in the Opinion of Chinese University Students" ranking organised by ChinaHR.com for nine consecutive years.

## Responsibility to the society

The Bank supported the poverty alleviation work in Yongshou, Changwu, Xunyi and Chunhua counties of Xianyang, Shaanxi Province (the "Four North Counties") for the 14th consecutive year. In 2016, it formulated the *Management Measures for Targeted Poverty Alleviation of Bank of China* and the *13th Five-Year Plan for Financial Poverty Alleviation of Bank of China* and drew up and implemented the "Ten One-batch" poverty alleviation programs. It dispatched two batches of officials to work in the Four North Counties, and helped households registered as living in poverty to increase their incomes. It carried out the Recruitment Program for Impoverished College Graduates and recruited more than 100 graduates in need. It organised the development of "BOC for Public Welfare", a targeted poverty alleviation platform in which people in poverty in the Four North Counties link to the supply side and BOC employees to the

Milan Branch actively engaged in community charity activity

Macau Branch conferred academic awards to employees' children demand side. The Bank prepared to set up Charity Foundation of the Bank. Fully mobilising its own strengths and those of the international community, its customers and its employees, it built up a brand for BOC Targeted Poverty Alleviation and explore a path that is sustainable and replicable.

The Bank extended government-sponsored student loans for the 17th consecutive year and accumulatively provided RMB22 billion for over 1.7 million financially underprivileged students. It supported the Chinese Spring Festival celebrations in Trafalgar Square in London for the 16th consecutive year, making the activity the largest one of its kind outside Asia. The Bank sponsored the Tan Kah Kee Science Award for the 13th consecutive year to honour Chinese scientists who had made original scientific and technological achievements. For the eighth consecutive year, it conducted strategic cooperation with the National Center for the Performing Arts. The Bank sponsored the Rainbow Bridge programme for the fifth consecutive year, supporting more than 250 outstanding but financially disadvantaged Chinese and American students to take part in cross-border study exchanges. It continued to support the poverty alleviation programmes in Xinjiang for the third consecutive year.

## Responsibility to the environment

The Bank continually improved its credit policies in favor of environmental protection. It vigorously enhanced innovations in green financial products and services, actively conducted international exchange and cooperation in green finance and successfully issued the first China Green Covered Bond. It persisted in green and low-carbon operation and adopted electronic seals for all businesses. Furthermore, it fully implemented electronic review and encouraged staff to hold meetings by video and telephone conference to reduce resource consumption. The Bank won the awards of "Asian Bank of the Year", "China Bond House" and "SRI Bond of the Year" conferred by Thomson Reuters' *International Financing Review*.

The Bank's fulfilment of its social responsibilities was widely recognised by the society. In 2016, it won the awards including "Most Socially Responsible Financial Institution" from the China Banking Association, the "Most Socially Responsible Enterprise" from China News Service and the "Outstanding Chinese Enterprise in Social Responsibilities" from *Southern Weekly*.

For details of the Bank's corporate social responsibility performance, please refer to the Bank's 2016 Corporate Social Responsibility Report published on the websites of SSE, HKEx and the Bank.

# Changes in Share Capital and Shareholdings of Shareholders

## Ordinary Shares

### *Changes in Ordinary Share Capital*

Unit: Share

| | | As at 1 January 2016 | | Increase/decrease during the reporting period | | | | | As at 31 December 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Number of share | Percentage | Issuance of new shares | Bonus shares | Shares transferred from surplus reserve | Others | Subtotal | Number of shares | Percentage |
| **I.** | **Shares subject to selling restrictions** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **II.** | **Shares not subject to selling restrictions** | **294,387,791,241** | **100.00%** | **–** | **–** | **–** | **–** | **–** | **294,387,791,241** | **100.00%** |
| 1. | RMB-denominated ordinary shares | 210,765,514,846 | 71.59% | – | – | – | – | – | 210,765,514,846 | 71.59% |
| 2. | Domestically listed foreign shares | – | – | – | – | – | – | – | – | – |
| 3. | Overseas listed foreign shares | 83,622,276,395 | 28.41% | – | – | – | – | – | 83,622,276,395 | 28.41% |
| 4. | Others | – | – | – | – | – | – | – | – | – |
| **III.** | **Total Ordinary Shares** | **294,387,791,241** | **100.00%** | **–** | **–** | **–** | **–** | **–** | **294,387,791,241** | **100.00%** |

Notes:

1 As at 31 December 2016, the Bank had issued a total of 294,387,791,241 ordinary shares, including 210,765,514,846 A Shares and 83,622,276,395 H Shares.

2 As at 31 December 2016, none of the Bank's A Shares and H Shares were subject to selling restrictions.

## Number of Ordinary Shareholders and Shareholdings

Number of ordinary shareholders as at 31 December 2016: 860,471 (including 660,201 A-Share Holders and 200,270 H-Share Holders)

Number of ordinary shareholders as at the end of the last month before the disclosure of this report: 833,098 (including 633,536 A-Share Holders and 199,562 H-Share Holders)

The top ten ordinary shareholders as at 31 December 2016 are set forth below:

Unit: Share

| No. | Name of ordinary shareholder | Changes during the reporting period | Number of shares held as at the end of the reporting period | Percentage of total ordinary shares | Number of shares subject to selling restrictions | Number of shares pledged or frozen | Type of shareholder | Type of ordinary shares |
|---|---|---|---|---|---|---|---|---|
| 1 | Central Huijin Investment Ltd. | – | 188,461,533,607 | 64.02% | – | None | State | A |
| 2 | HKSCC Nominees Limited | (7,155,493) | 81,797,876,460 | 27.79% | – | Unknown | Foreign legal person | H |
| 3 | China Securities Finance Co., Ltd. | 163,611,354 | 7,604,218,558 | 2.58% | – | None | State-owned legal person | A |
| 4 | Central Huijin Asset Management Ltd. | – | 1,810,024,500 | 0.61% | – | None | State-owned legal person | A |
| 5 | Buttonwood Investment Platform Ltd. | – | 1,060,059,360 | 0.36% | – | None | State-owned legal person | A |
| 6 | The Bank of Tokyo-Mitsubishi UFJ Ltd. | – | 520,357,200 | 0.18% | – | Unknown | Foreign legal person | H |
| 7 | Anbang Life Insurance Co., Ltd. — Conservative Investment Portfolio | – | 477,023,612 | 0.16% | – | None | Other | A |
| 8 | HKSCC Limited | 158,856,026 | 313,708,551 | 0.11% | – | None | Foreign legal person | A |
| 9 | Anbang Property & Casualty Insurance Co., Ltd. — Traditional Product | – | 208,018,959 | 0.07% | – | None | Other | A |
| 10 | China 50 ETF | (7,668,100) | 156,180,250 | 0.05% | – | None | Other | A |

The number of shares held by H-Share Holders was recorded in the register of members kept at the H-Share Registrar of the Bank.

HKSCC Nominees Limited acted as the nominee for all the institutional and individual investors that maintain an account with it as at 31 December 2016. The aggregate number of the Bank's H Shares held by HKSCC Nominees Limited included the number of shares held by the National Council for Social Security Fund.

Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Central Huijin Investment Ltd.

Both Anbang Life Insurance Co., Ltd. and Anbang Property & Casualty Insurance Co., Ltd. are subsidiaries of Anbang Insurance Group Co., Ltd.

HKSCC Limited is the nominee holder who holds securities on behalf of others. The securities included the SSE securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect.

Save as disclosed above, the Bank is not aware of any connected relation or concerted action among the aforementioned ordinary shareholders.

## *Substantial Shareholder Interests*

The register maintained by the Bank under section 336 of the SFO recorded that, as at 31 December 2016, the shareholders indicated in the following table were substantial shareholders having interests in shares of the Bank (as defined in the SFO):

| Name of shareholder | Capacity (types of interest) | Number of shares held/Number of underlying shares (unit: share) | Type of shares | Percentage of total issued A-Share capital | Percentage of total issued H-Share capital | Percentage of total issued ordinary share capital |
|---|---|---|---|---|---|---|
| Central Huijin Investment Ltd. | Beneficial owner | 188,461,533,607 | A | 89.42% | – | 64.02% |
| | Interest of controlled corporations | 1,810,024,500 | A | 0.86% | – | 0.61% |
| | Total | 190,271,558,107 | A | 90.28% | – | 64.63% |
| National Council for Social Security Fund | Beneficial owner | 7,518,157,041 | H | – | 8.99% | 2.55% |
| BlackRock, Inc. | Interest of controlled corporations | 5,806,249,443 | H | – | 6.94% | 1.97% |
| JPMorgan Chase & Co. | Beneficial owner | 2,152,000,896 | H | – | 2.57% | 0.73% |
| | | 180,789,229(S) | H | – | 0.22% | 0.06% |
| | Investment manager | 325,820,115 | H | – | 0.39% | 0.11% |
| | Trustee | 28,075 | H | – | 0.00003% | 0.00001% |
| | Custodian corporation/ approved lending agent | 2,482,887,298(P) | H | – | 2.97% | 0.84% |
| | Total | 4,960,736,384 | H | – | 5.93% | 1.69% |
| | | 180,789,229(S) | H | – | 0.22% | 0.06% |
| | | 2,482,887,298(P) | H | – | 2.97% | 0.84% |

Notes:

1 BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., while BlackRock Holdco 2 Inc. holds the entire issued share capital of BlackRock Financial Management, Inc. Thus BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have equal interests in shares of the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 5,806,249,443 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it, including 17,050,000 H Shares which are held through derivatives.

2 JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. Thus JPMorgan Chase & Co. is deemed to have equal interests in shares of the Bank as JPMorgan Chase Bank, N.A. under the SFO. JPMorgan Chase & Co. holds a long position of 4,960,736,384 H Shares and a short position of 180,789,229 H Shares of the Bank through JPMorgan Chase Bank, N.A. and other corporations controlled by it. In the long position of 4,960,736,384 H Shares, 2,482,887,298 H Shares are held in the lending pool and 162,206,912 H Shares are held through derivatives. In the short position of 180,789,229 H Shares, 180,446,728 H Shares are held through derivatives.

3 "S" denotes short position, "P" denotes lending pool.

Unless stated otherwise, all interests stated above represented long positions. Save as disclosed above, as at 31 December 2016, no other interests (including derivative interests) or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

## *Controlling Shareholder of the Bank*

### Central Huijin Investment Ltd.

Central Huijin Investment Ltd. ("Huijin") is a state-owned investment company established under the Company Law on 16 December 2003, with Mr. DING Xuedong as its legal representative. Wholly owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State Council. To the extent of its capital contribution, Huijin exercises its rights and fulfils its obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions of which it is the controlling shareholder.

As at 31 December 2016, the basic information of companies directly held by Huijin is as follows:

| No. | Company name | Proportion of the total capital held by Huijin |
|---|---|---|
| 1 | China Development Bank | 34.68% |
| 2 | Industrial and Commercial Bank of China Limited ★☆ | 34.71% |
| 3 | Agricultural Bank of China Limited ★☆ | 40.03% |
| 4 | Bank of China Limited ★☆ | 64.02% |
| 5 | China Construction Bank Corporation ★☆ | 57.11% |
| 6 | China Everbright Group Ltd. | 55.67% |
| 7 | China Everbright Bank Company Limited ★☆ | 21.96% |
| 8 | China Export & Credit Insurance Corporation | 73.63% |
| 9 | China Reinsurance (Group) Corporation ☆ | 71.56% |
| 10 | New China Life Insurance Company Limited ★☆ | 31.34% |
| 11 | China Jianyin Investment Limited | 100.00% |
| 12 | China Galaxy Financial Holding Co., Ltd. | 78.57% |
| 13 | Shenwan Hongyuan Group Co., Ltd. ★ | 25.03% |
| 14 | China International Capital Corporation Limited ☆ | 28.45% |
| 15 | China Securities Co., Ltd. ☆ | 33.29% |
| 16 | China Investment Securities Co., Ltd. | 100.00% |
| 17 | Jiantou & Zhongxin Assets Management Limited | 70.00% |
| 18 | Guotai Junan Investment Management Co., Ltd. | 14.54% |

Notes:

1 ★ denotes A share listed company and ☆ denotes H share listed company.

2 Huijin entered into an equity transfer agreement with China International Capital Corporation Limited ("CICC") on 4 November 2016. CICC purchased 100% of shares of China Investment Securities Co., Ltd. through share issuance to Huijin. As at the end of 2016, the relevant procedures were still in process. Upon completion of the above transaction, Huijin will directly hold 58.58% of the shares of CICC and China Investment Securities Co., Ltd. will be a wholly-owned subsidiary of CICC.

3 On 30 December 2016, China Securities Co., Ltd. exercised over-allotment option. After its completion on 5 January 2017, Huijin directly held 32.93% of shares of China Securities Co., Ltd.

4 Besides the above companies controlled or held by Huijin, Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Central Huijin Asset Management Ltd., established in November 2015 and registered in Beijing with registered capital of RMB5 billion, provides asset management business.

For further details regarding China Investment Corporation, please refer to the information on its website (www.china-inv.cn). China Investment Corporation was established in 2007. Please refer to the *Announcement on Matters Related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank for relevant information.

As at 31 December 2016, no other legal-person shareholder held 10% or more voting shares of the Bank (excluding HKSCC Nominees Limited).

## Preference Shares

### *Issuance and Listing of Preference Shares*

With the approvals of CBRC (Yinjianfu [2014] No. 563) and CSRC (Zhengjianxuke [2014] No. 938), the Bank made a non-public issuance of RMB39.94 billion (approximately USD6.5 billion) Offshore Preference Shares on 23 October 2014 in the offshore market. Such Offshore Preference Shares have been listed on the Hong Kong Stock Exchange since 24 October 2014.

With the approvals of CBRC (Yinjianfu [2014] No. 562) and CSRC (Zhengjianxuke [2014] No.990), the Bank made a non-public issuance of RMB32 billion Domestic Preference Shares (First Tranche) on 21 November 2014 in the domestic market. With the approval of SSE (Shangzhenghan [2014] No. 818), Domestic Preference Shares (First Tranche) have been traded on the Comprehensive Business Platform of SSE since 8 December 2014. The Bank made a non-public issuance of RMB28 billion Domestic Preference Shares (Second Tranche) on 13 March 2015 in the domestic market. With the approval of SSE (Shangzhenghan [2015] No. 377), Domestic Preference Shares (Second Tranche) have been traded on the Comprehensive Business Platform of SSE since 31 March 2015.

For the terms of issuance of the Offshore Preference Shares and Domestic Preference Shares, please refer to the Bank's announcements published on the websites of SSE, HKEx and the Bank.

### *Number of Preference Shareholders and Shareholdings*

Number of preference shareholders as at 31 December 2016: 48 (including 47 domestic preference shareholders and 1 offshore preference shareholder)

Number of preference shareholders as at the end of the last month before the disclosure of this report: 48 (including 47 domestic preference shareholders and 1 offshore preference shareholder)

The top ten preference shareholders as at 31 December 2016 are set forth below:

Unit: Share

| No. | Name of preference shareholder | Changes during the reporting period | Number of shares held as at the end of the reporting period | Percentage of total preference shares | Number of shares pledged or frozen | Type of shareholder | Type of preference shares |
|---|---|---|---|---|---|---|---|
| 1 | Bank of New York Mellon Corporation | – | 399,400,000 | 39.96% | Unknown | Foreign legal person | Offshore Preference Shares |
| 2 | China Mobile Communications Corporation | – | 180,000,000 | 18.01% | None | State-owned legal person | Domestic Preference Shares |
| 3 | China National Tobacco Corporation | – | 50,000,000 | 5.00% | None | State-owned legal person | Domestic Preference Shares |
| 4 | Zhongwei Real Estate Co., Ltd. | – | 30,000,000 | 3.00% | None | State-owned legal person | Domestic Preference Shares |
| 5 | Yunnan Branch of China National Tobacco Corporation | – | 22,000,000 | 2.20% | None | State-owned legal person | Domestic Preference Shares |
| 6 | China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH | – | 21,000,000 | 2.10% | None | Other | Domestic Preference Shares |
| 7 | China Shuangwei Investment Co., Ltd. | – | 20,000,000 | 2.00% | None | State-owned legal person | Domestic Preference Shares |
| 7 | National Social Security Fund Portfolio 304 | – | 20,000,000 | 2.00% | None | Other | Domestic Preference Shares |
| 7 | Bosera Fund — ICBC — Bosera — ICBC — Flexible Allocation No. 5 Specific Multi-customer Assets Management Plan | – | 20,000,000 | 2.00% | None | Other | Domestic Preference Shares |
| 10 | Ping An Life Insurance Company of China, Ltd. — proprietary fund | – | 19,000,000 | 1.90% | None | Domestic non-state-owned legal person | Domestic Preference Shares |

The Bank of New York Mellon Corporation, acting as the custodian for all the offshore preference shareholders that maintain an account with Euroclear and Clearstream as at 31 December 2016, held 399,400,000 Offshore Preference Shares, representing 100% of the Offshore Preference Shares.

Both Yunnan Branch of China National Tobacco Corporation and China Shuangwei Investment Co., Ltd. are wholly-owned subsidiaries of China National Tobacco Corporation. Zhongwei Real Estate Co., Ltd. is a subsidiary of China Shuangwei Investment Co., Ltd.

Save as disclosed above, the Bank is not aware of any connected relation or concerted action among the aforementioned preference shareholders, and between the aforementioned preference shareholders and the Bank's aforementioned top ten ordinary shareholders.

### *Profit Distribution of the Preference Shares*

For the profit distribution policy of the preference shares and the profit distribution arrangement during the reporting period, please refer to the section "Report of the Board of Directors".

### *Other Information regarding the Preference Shares*

During the reporting period, there was no redemption, conversion into ordinary shares or voting rights recovery in respect of the preference shares of the Bank.

Preference shares issued by the Bank contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; and preference shares issued are non-derivative instruments that will be settled in the entity's own equity instruments, but includes no contractual obligation for the entity to deliver a variable number of its own equity instruments. The Bank classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

The funds raised from the issuance of the Offshore Preference Shares and Domestic Preference Shares have been fully used to replenish the Bank's additional tier 1 capital and increase its capital adequacy ratio.

## Issuance of Other Securities

Please refer to Note V.30 to the Consolidated Financial Statements for details of the bonds issued by the Bank.

No shares of the Bank have been specifically issued to its employees.

# Directors, Supervisors and Senior Management Members

## Basic Information

### *Incumbent Directors, Supervisors and Senior Management Members*

| Name | Year of birth | Gender | Position | Term of office |
|---|---|---|---|---|
| TIAN Guoli | 1960 | Male | Chairman | From May 2013 to the date of the Annual General Meeting in 2019 |
| CHEN Siqing | 1960 | Male | Vice Chairman and President | From April 2014 to the date of the Annual General Meeting in 2017 |
| REN Deqi | 1963 | Male | Executive Director and Executive Vice President | From December 2016 to the date of the Annual General Meeting in 2019 |
| GAO Yingxin | 1962 | Male | Executive Director and Executive Vice President | From December 2016 to the date of the Annual General Meeting in 2019 |
| ZHANG Xiangdong | 1957 | Male | Non-executive Director | From July 2011 to the date of the Annual General Meeting in 2017 |
| ZHANG Qi | 1972 | Male | Non-executive Director | From July 2011 to the date of the Annual General Meeting in 2017 |
| LIU Xianghui | 1954 | Male | Non-executive Director | From October 2014 to the date of the Annual General Meeting in 2017 |
| LI Jucai | 1964 | Male | Non-executive Director | From September 2015 to the date of the Annual General Meeting in 2018 |
| Nout WELLINK | 1943 | Male | Independent Director | From October 2012 to the date of the Annual General Meeting in 2018 |
| LU Zhengfei | 1963 | Male | Independent Director | From July 2013 to the date of the Annual General Meeting in 2019 |
| LEUNG Cheuk Yan | 1951 | Male | Independent Director | From September 2013 to the date of the Annual General Meeting in 2019 |
| WANG Changyun | 1964 | Male | Independent Director | From August 2016 to the date of the Annual General Meeting in 2019 |
| Angela CHAO | 1973 | Female | Independent Director | From January 2017 to the date of the Annual General Meeting in 2019 |
| WANG Xiquan | 1960 | Male | Chairman of the Board of Supervisors | From November 2016 to the date of the Annual General Meeting in 2019 |
| WANG Xueqiang | 1957 | Male | Shareholder Supervisor | From August 2004 to the date of the Annual General Meeting in 2019 |
| LIU Wanming | 1958 | Male | Shareholder Supervisor | From August 2004 to the date of the Annual General Meeting in 2019 |
| DENG Zhiying | 1959 | Male | Employee Supervisor | From August 2010 to the date of the 2019 Employee Delegates' Meeting |
| GAO Zhaogang | 1969 | Male | Employee Supervisor | From April 2016 to the date of the 2019 Employee Delegates' Meeting |
| XIANG Xi | 1971 | Female | Employee Supervisor | From August 2012 to the date of the 2019 Employee Delegates' Meeting |
| CHEN Yuhua | 1953 | Male | External Supervisor | From June 2015 to the date of the Annual General Meeting in 2018 |
| XU Luode | 1962 | Male | Executive Vice President | From June 2015 |
| ZHANG Qingsong | 1965 | Male | Executive Vice President and Chief Information Officer | Executive Vice President from November 2016 and Chief Information Officer from March 2017 |
| LIU Qiang | 1971 | Male | Executive Vice President | From November 2016 |
| FAN Dazhi | 1964 | Male | Secretary of Party Discipline Committee | From December 2016 |
| PAN Yuehan | 1964 | Male | Chief Risk Officer | From April 2016 |
| XIAO Wei | 1960 | Male | Chief Audit Officer | From November 2014 |
| GENG Wei | 1963 | Male | Secretary to the Board of Directors and Company Secretary | Secretary to the Board of Directors from June 2015 and Company Secretary from October 2015 |

Note: During the reporting period, no director, supervisor or senior management member held any share of the Bank.

### *Former Directors, Supervisors and Senior Management Members*

| Name | Year of birth | Gender | Position held before leaving the post | Term of office |
|---|---|---|---|---|
| ZHU Hexin | 1968 | Male | Executive Director and Executive Vice President | From February 2016 to June 2016 |
| WANG Yong | 1962 | Male | Non-executive Director | From July 2013 to September 2016 |
| WANG Wei | 1957 | Male | Non-executive Director | From September 2014 to January 2017 |
| CHOW Man Yiu, Paul | 1946 | Male | Independent Director | From October 2010 to August 2016 |
| Jackson TAI | 1950 | Male | Independent Director | From March 2011 to September 2016 |
| LI Jun | 1956 | Male | Chairman of the Board of Supervisors | From March 2010 to November 2016 |
| LIU Xiaozhong | 1956 | Male | Employee Supervisor | From August 2012 to April 2016 |
| ZHANG Lin | 1956 | Female | Secretary of Party Discipline Committee | From August 2004 to July 2016 |
| ZHANG Jinliang | 1969 | Male | Executive Vice President | From July 2014 to January 2016 |

Note: No former director, supervisor or senior management member held any share of the Bank during their terms of office.

## Remuneration of Directors, Supervisors and Senior Management Members Paid in 2016

| Name | Position | Remuneration before tax from the Bank in 2016 (Unit: RMB ten thousand) Remuneration paid | Contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund | Other monetary income | Total | Whether remunerated by shareholding companies or other connected parties |
|---|---|---|---|---|---|---|
| **Incumbent Directors, Supervisors and Senior Management Members** | | | | | | |
| TIAN Guoli | Chairman | 48.44 | 17.68 | – | 66.12 | No |
| CHEN Siqing | Vice Chairman and President | 48.44 | 17.49 | – | 65.93 | No |
| REN Deqi | Executive Director and Executive Vice President | 43.60 | 13.96 | – | 57.56 | No |
| GAO Yingxin | Executive Director and Executive Vice President | 43.60 | 15.65 | – | 59.25 | No |
| ZHANG Xiangdong | Non-executive Director | – | – | – | – | Yes |
| ZHANG Qi | Non-executive Director | – | – | – | – | Yes |
| LIU Xianghui | Non-executive Director | – | – | – | – | Yes |
| LI Jucai | Non-executive Director | – | – | – | – | Yes |
| Nout WELLINK | Independent Director | 50.00 | – | – | 50.00 | No |
| LU Zhengfei | Independent Director | 51.39 | – | – | 51.39 | Yes |
| LEUNG Cheuk Yan | Independent Director | 40.00 | – | – | 40.00 | No |
| WANG Changyun | Independent Director | 12.98 | – | – | 12.98 | Yes |
| Angela CHAO | Independent Director | – | – | – | – | – |
| WANG Xiquan | Chairman of the Board of Supervisors | 4.04 | 1.06 | – | 5.10 | No |
| WANG Xueqiang | Shareholder Supervisor | 77.63 | 33.01 | 4.58 | 115.22 | No |
| LIU Wanming | Shareholder Supervisor | 72.63 | 31.50 | 4.58 | 108.71 | No |
| DENG Zhiying | Employee Supervisor | 5.00 | – | – | 5.00 | No |
| GAO Zhaogang | Employee Supervisor | 3.75 | – | – | 3.75 | No |
| XIANG Xi | Employee Supervisor | 5.00 | – | – | 5.00 | No |
| CHEN Yuhua | External Supervisor | 18.00 | – | – | 18.00 | No |
| XU Luode | Executive Vice President | 43.60 | 13.96 | – | 57.56 | No |
| ZHANG Qingsong | Executive Vice President and Chief Information Officer | 3.63 | 1.17 | – | 4.80 | No |
| LIU Qiang | Executive Vice President | 3.63 | 1.05 | – | 4.68 | No |
| FAN Dazhi | Secretary of Party Discipline Committee | – | – | – | – | No |
| PAN Yuehan | Chief Risk Officer | 55.22 | 23.47 | 3.30 | 81.99 | No |
| XIAO Wei | Chief Audit Officer | 82.83 | 37.03 | 4.22 | 124.08 | No |
| GENG Wei | Secretary to the Board of Directors and Company Secretary | 78.89 | 31.25 | 4.58 | 114.72 | No |
| **Former Directors, Supervisors and Senior Management Members** | | | | | | |
| ZHU Hexin | Executive Director and Executive Vice President | 18.17 | 6.07 | – | 24.24 | No |
| WANG Yong | Non-executive Director | – | – | – | – | Yes |
| WANG Wei | Non-executive Director | – | – | – | – | Yes |
| CHOW Man Yiu, Paul | Independent Director | 30.00 | – | – | 30.00 | Yes |
| Jackson TAI | Independent Director | 26.67 | – | – | 26.67 | Yes |
| LI Jun | Chairman of the Board of Supervisors | 44.40 | 17.99 | – | 62.39 | No |
| LIU Xiaozhong | Employee Supervisor | 1.67 | – | – | 1.67 | No |
| ZHANG Lin | Secretary of Party Discipline Committee | 21.80 | 9.95 | – | 31.75 | No |
| ZHANG Jinliang | Executive Vice President | 3.63 | 1.21 | – | 4.84 | No |

Notes:

1 In accordance with the government regulations, since 1 January 2015, the Bank remunerates Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, Secretary of Party Discipline Committee and executive vice presidents pursuant to the rules on remuneration reform for central enterprises.

2 The 2016 final remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, shareholder supervisors and other senior management remembers is to be determined and will be disclosed in an additional announcement by the Bank.

3 The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income. Independent directors receive directors' remunerations and allowances. Other directors are not remunerated by the Bank. Chairman of the Board of Directors, executive directors and senior management members do not receive any remuneration from the Bank's subsidiaries.

4 Independent directors receive remuneration in accordance with the resolution of the 2007 Annual General Meeting. External supervisors receive remuneration in accordance with the resolution of the 2009 Annual General Meeting. Remuneration for shareholder supervisors is in accordance with relevant remuneration scheme of the Bank and approved by the shareholders' meeting.

5 In 2016, Non-executive Directors Mr. ZHANG Xiangdong, Mr. ZHANG Qi, Mr. LIU Xianghui, Mr. LI Jucai, Mr. WANG Yong and Mr. WANG Wei were not remunerated by the Bank.

6 Some independent directors of the Bank served as independent non-executive directors of other legal entities or organisations, which caused such legal entities or organisations to be defined as connected parties of the Bank. Save as disclosed above, none of the directors, supervisors or senior management members of the Bank was remunerated by the connected parties of the Bank during the reporting period.

7 The above persons' remuneration is calculated on the basis of their actual time working as directors, supervisors or senior management members of the Bank in 2016. Employee supervisors' remuneration above is paid for their service as supervisors of the Bank during the reporting period.

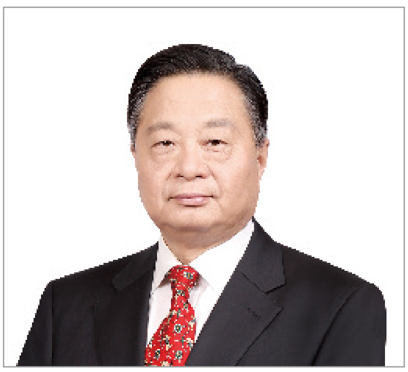
8 For the starting time of the term of office of the above-mentioned directors, supervisors and senior management members, please refer to the section "Basic Information". Mr. FAN Dazhi began to serve as Secretary of Party Discipline Committee of the Bank as of 27 December 2016. Ms. Angela CHAO began to serve as Independent Director of the Bank as of 4 January 2017. During the reporting period, Mr. FAN Dazhi and Ms. Angela CHAO were not remunerated by the Bank.

9 The Bank incurred RMB12.3340 million in remuneration to its directors, supervisors and senior management members' services in 2016.

## Positions held in Shareholding Companies by Directors, Supervisors and Senior Management Members

From 1 January 2016 to 23 December 2016, Non-executive Director Mr. ZHANG Xiangdong served as Director of the Bank of China Equity Investment Management Division of Banking Institutions Department I, Huijin. Save as disclosed above, in 2016, none of the Bank's directors, supervisors or senior management members held any position in the shareholding companies of the Bank.

# Directors



| | | |
|---|---|---|
| 1 | | |
| 2 | 3 | 4 |
| 5 | 6 | 7 |
| 8 | | |

## 1 TIAN Guoli

Chairman

Chairman of the Board of Directors since May 2013. Mr. TIAN joined the Bank in April 2013. From December 2010 to April 2013, Mr. TIAN served as Vice Chairman of the Board of Directors and General Manager of China CITIC Group. During this period, he also served as Chairman of the Board of Directors and Non-executive Director of China CITIC Bank. From April 1999 to December 2010, Mr. TIAN served successively as Vice President and President of China Cinda Asset Management Company, and Chairman of the Board of Directors of China Cinda Asset Management Co., Ltd. From July 1983 to April 1999, Mr. TIAN held various positions in China Construction Bank ("CCB"), including sub-branch general manager, deputy branch general manager, department general manager of the CCB Head Office, and Executive Assistant President of CCB. Mr. TIAN has been serving as Chairman of the Board of Directors and a Non-executive Director of BOC Hong Kong (Holdings) Limited since June 2013. Mr. TIAN received a Bachelor's Degree in Economics from Hubei Institute of Finance and Economics in 1983. He holds the title of Senior Economist.

## 2 CHEN Siqing

Vice Chairman and President

Vice Chairman of the Board of Directors since April 2014 and President of the Bank since February 2014. Mr. CHEN joined the Bank in 1990 and served as Executive Vice President of the Bank from June 2008 to February 2014. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager and Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN previously worked in the Hunan Branch of the Bank before he was dispatched to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Since December 2011, Mr. CHEN has been serving as a Non-executive Director of BOC Hong Kong (Holdings) Limited and Chairman of the Board of Directors of BOC Aviation Limited. Mr. CHEN has been serving as Vice Chairman of the Board of Directors of BOCHK (Holdings) since March 2014. Mr. CHEN graduated from Hubei Institute of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant and holds the title of Senior Economist.

## 3 REN Deqi

Executive Director and Executive Vice President

Executive Director of the Bank since December 2016 and Executive Vice President of the Bank since July 2014. Mr. REN joined the Bank in 2014. He worked in China Construction Bank ("CCB") for many years and held various positions. From October 2013 to May 2014, Mr. REN served as General Manager of Risk Management Department of CCB. From August 2003 to October 2013, Mr. REN successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, and General Manager of the Hubei Branch of CCB. Mr. REN has been serving as a Non-executive Director of BOC Hong Kong (Holdings) Limited since October 2015, and President of Shanghai RMB Trading Unit since September 2016. He obtained a Master's Degree in Engineering from Tsinghua University in 1988. He holds the title of Senior Economist.

## 4 GAO Yingxin

Executive Director and Executive Vice President

Executive Director of the Bank since December 2016 and Executive Vice President of the Bank since May 2015. Mr. GAO joined the Bank in 1986. He served as Executive Director and Deputy Chief Executive of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited from February 2005 to March 2015, as President and Chief Operating Officer of BOC International Holdings Limited from July 2004 to February 2005, and as Deputy General Manager of the Credit Business Department of the Head Office and Deputy General Manager and General Manager of the Corporate Banking Department of the Head Office from September 1996 to July 2004. Mr. GAO has been serving as a Non-executive Director of BOCHK (Holdings) since March 2015 and has been serving as Chairman of BOC International Holdings Limited, Bank of China (UK) Limited and Bank of China (Luxembourg) S.A. since August 2015, and has been severing as Chairman of BOC International (China) Limited since September 2016. Currently, Mr. GAO also serves as Chairman of the Board of Directors of China Culture Industrial Investment Fund Co., Ltd. Mr. GAO graduated from East China University of Science and Technology in 1986 with a Master's Degree in Engineering. He holds the title of Senior Economist.

## 5 ZHANG Xiangdong

Non-executive Director

Non-executive Director of the Bank since July 2011. Mr. ZHANG served as a non-executive director of China Construction Bank Corporation from November 2004 to June 2010, and served as Chairman of the Risk Management Committee under its Board of Directors from April 2005 to June 2010. From August 2001 to November 2004, Mr. ZHANG worked as Vice President of PBOC's Haikou Central Sub-branch and concurrently served in the SAFE as Deputy Director General of Hainan Province Branch and Deputy Director General and Inspector of the General Affairs Department. Mr. ZHANG served as a member of the Stock Offering Approval Committee of CSRC from September 1999 to September 2001. He served as a member of China International Economic and Trade Arbitration Commission from January 2004 to December 2008. Mr. ZHANG graduated from Renmin University of China with a Bachelor's degree in Law in 1986. He completed his post-graduate studies in international economic law at Renmin University of China in 1988, and was awarded a Master's degree in Law in 1990. Mr. ZHANG holds the professional title of senior economist and is qualified to practice law in China.

## 6 ZHANG Qi

Non-executive Director

Non-executive Director of the Bank since July 2011. Mr. ZHANG worked in Central Expenditure Division One, Comprehensive Division of the Budget Department, and Ministers' Office of the General Office of Ministry of Finance, as well as in the Operation Department of China Investment Corporation, serving as Deputy Director, Director and Senior Manager from 2001 to 2011. Mr. ZHANG studied in the Investment Department and Finance Department of China Northeast University of Finance and Economics from 1991 to 2001, and obtained the Bachelor's degree, Master's degree and Doctorate in Economics respectively in 1995, 1998 and 2001.

## 7 LIU Xianghui

Non-executive Director

Non-executive Director of the Bank since October 2014. Mr. LIU served as the external supervisor of China Cinda Asset Management Co., Ltd. from June 2013 to June 2014. He served as the non-executive director of China Cinda Asset Management Company from June 2010 to June 2013, and non-executive director of China Construction Bank Corporation from September 2004 to June 2010. From September 1978 to May 1994, he held various positions at the State Economic Commission and the State Planning Commission and he worked for half a year at the United States Environmental Protection Agency in 1993. From May 1994 to September 2004, he worked consecutively as the division chief of the Industry and Transportation Group, assistant inspector (deputy director-general level) and inspector (director-general level) of the Economic and Trade Group under the Office of Central Leading Group on the Financial and Economic Affairs. Mr. LIU graduated from Liaoning University in August 1978, and studied the senior courses of national economic planning at the Central College of Planning and Statistics of Poland from October 1989 to February 1990. He also studied modern economic management at Beijing Economic Correspondence University from April 1985 to April 1986. Mr. LIU is a senior economist.

## 8 LI Jucai

Non-executive Director

Non-executive Director of the Bank since September 2015. Mr. LI served as Party Committee Member and Secretary of Party Discipline Committee of the Information Network Center under the Ministry of Finance from December 2014 to September 2015. He acted as the specialised Deputy Secretary of Party Committee of the Information Network Center under the Ministry of Finance from April 2010 to December 2014. From November 1996 to April 2010, he had successively been the Deputy Head of the Science Division of the Culture, Education and Administration Department, Division Head of the Investment Evaluation Center, Director of Administration Office and Head of the Administrative Division of the Information Network Center under the Ministry of Finance. Mr. LI majored in Finance in China Northeast University of Finance and Economics and graduated with a Bachelor's degree in 1986. Mr. LI has qualification of senior economist.

# Directors





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## 9 Nout WELLINK

Independent Director

Independent Director of the Bank since October 2012. Mr. WELLINK served as a member of the Executive Board of the Dutch Central Bank ("DNB") for almost 30 years, the last 14 years as its President. He retired from DNB on 1 July 2011. DNB is part of the European System of Central Banks since 1999, but still holds supervision on national pension funds and insurance companies. Since the establishment of the European Monetary Union, Mr. WELLINK served as a member of the Governing Council of the European Central Bank ("ECB"). Starting from 1997, Mr. WELLINK served as a member of the Board of Directors of the Bank for International Settlements, which he chaired from 2002 to 2006. From 2006 to 2011, he also chaired the Basel Committee on Banking Supervision. From 1997 to 2011, Mr. WELLINK was a member of the Group of Ten Central Bank Governors and Governor of the International Monetary Fund. Prior to his appointment in 1982 as an executive director of DNB, Mr. WELLINK held several posts in the Dutch Ministry of Finance, including as the Treasurer General from 1977 to 1982. After studying Dutch law at Leyden University from 1961 to 1968 with a Master's degree obtained, Mr. WELLINK obtained a doctor's degree in economics at the Rotterdam Erasmus University in 1975. In 2008 he received an honorary doctorate from Tilburg University. From 1988 to 1998, Mr. WELLINK was an Extraordinary Professor at the Free University in Amsterdam. Mr. WELLINK is currently Vice Chairman of Supervisory Board of PricewaterhouseCoopers Accountants N.V., and Member of Advisory Board of Systemic Risk Council. Mr. WELLINK had served many additional functions in the past, including member of the supervisory board of a bank, a re-insurance company and other enterprises on behalf of the Dutch authorities, Chairman of the Board of Supervisors of the Netherlands Open Air Museum, member and treasurer of the Royal Picture Gallery Mauritshuis and the Westeinde Hospital in The Hague. He was awarded a Knighthood in the Order of the Netherlands Lion in 1980 and is Commander of the Order of Orange-Nassau since 2011.

## 10 LU Zhengfei

Independent Director

Independent Director of the Bank since July 2013. Mr. LU currently serves as the distinguished professor of Cheung Kong Scholar of Guanghua School of Management, Peking University. He served as the head of the Accounting Department of the School of Business, Nanjing University between 1994 and 1999, and the head of the Accounting Department of Guanghua School of Management, Peking University between 2001 and 2007, and Associate Dean of Guanghua School of Management, Peking University between 2007 and 2014. Mr. LU also currently serves as an executive director of the Accounting Society of China and Deputy Director of Financial Management Committee, an editorial board member of *Accounting Research* and *Audit Research*, and a member of the Disciplinary Committee of the Chinese Institute of Certified Public Accountants. In 2001, he was elected as a member of "The Hundred People Project of Beijing New Century Social Science Theoretical Talent". In 2005, he was elected to the "New Century Excellent Talent Support Plan" of the Ministry of Education, PRC. In 2013, he was elected to the "Renowned Expert Training Project" (first batch) of the Ministry of Finance. In 2014, he was elected as distinguished professor of Cheung Kong Scholar of the Ministry of Education, PRC. He currently serves as an independent non-executive director or an independent supervisor of a number of companies listed on the Hong Kong Stock Exchange, including: Independent Non-executive Director of Sinotrans Ltd. since September 2004, Independent Non-executive Director of Sino Biopharmaceutical Ltd. since November 2005, Independent Non-executive Director of China National Materials Co., Ltd. since December 2009, and Independent Supervisor of PICC Property and Casualty Co., Ltd. ("PICC P&C") since January 2011. He was an independent non-executive director of PICC P&C from February 2004 to December 2010. Mr. LU graduated from Renmin University of China in 1988 with a Master's degree in Economics (Accounting), and received his Doctor's degree in Economics (Management) from Nanjing University in 1996.

## 11 LEUNG Cheuk Yan

Independent Director

Independent Director of the Bank since September 2013. He is a former partner of Baker & McKenzie, which he joined in July 1987 and from which he retired in June 2011. During 2009 and 2010, he had served as a part-time member of the Central Policy Unit of The Hong Kong Special Administrative Region Government. Mr. LEUNG has been an independent non-executive director of MMG Limited, which is listed on The Stock Exchange of Hong Kong Limited, since July 2012. Mr. LEUNG graduated from The Chinese University of Hong Kong with a Bachelor of Social Science degree (First Class Honours) in 1976, obtained a Master of Philosophy degree from The University of Oxford in 1981 and completed his legal study at The College of Law in England in 1982. He was admitted to practice as a solicitor in Hong Kong in 1985, in England and Wales in 1988, in the Australian Capital Territory in 1989 and in Victoria, Australia in 1991. He is a Senior Associate Member of St. Antony's College, Oxford.

## 12 WANG Changyun

Independent Director

Independent Director of the Bank since August 2016. Mr. WANG currently serves as professor and doctoral supervisor in finance at Renmin University of China ("RUC"). He served as a lecturer at RUC from 1989 to 1995 and as a lecturer at Business School, National University of Singapore from 1999 to 2005. He served successively as the Chair of Applied Finance Department of RUC, Director of China Financial Policy Research Center (a key research base of Ministry of Education) and Executive Vice Dean of Hanqing Advanced Institute of Economics and Finance at RUC from 2006 to 2016. Mr. WANG is currently also the Vice Chairman of China Investment Specialty Construction Association, Director of China Finance Annual Meeting Committee, Director of China Finance Association, Deputy Editor of *Finance Research Quarterly*, Deputy Editor of *China Finance Research*, and Deputy Editor of *China Financial Review*. He also serves as the standing committee member of Beijing Haidian District People's Political Consultative Conference, the Central Committee member of China Democratic League, the special auditor of State Auditing Administration, the independent non-executive director of Hope Commercial Factoring Co., Ltd., Sichuan Star Cable Co., Ltd. and Beijing Haohua Energy Resource Co., Ltd. Mr. WANG has received social recognition and prizes including the Special Government Allowance of State Council, Best Paper Award of Chicago Board of Trade in 2001, and the "Middle Age Experts with National Outstanding Contribution", membership of "the Program for New Century Excellent Talents" of Ministry of Education in 2004, "Financial Support of National Science Fund for Distinguished Young Scholars" in 2007, a member of the "New Century National Hundred, Thousand and Ten Thousand Talent Program" in 2013, and the "Cheung Kong Distinguished Professor" of Ministry of Education in 2014. He obtained his Master degree in economics from RUC in July 1989 and Doctorate in Financial Economics from the University of London in January 1999.

## 13 Angela CHAO

Independent Director

Independent Director of the Bank since January 2017. Ms. CHAO serves as Deputy Chairman of Foremost Group where she is responsible for international shipping finance, strategy, chartering and ship management and operations. From 1994 to 1996, Ms. CHAO worked in the mergers & acquisitions department of Smith Barney, which is now Morgan Stanley Smith Barney. From 1996 to 1999, Ms. CHAO served as deputy general manager of Foremost Group, and from 2001 to 2008, Ms. CHAO had successively served as vice president and senior vice president of Foremost Group. Since 2008, she has served as deputy chairman of Foremost Group. In May 2005, Ms. CHAO was unanimously voted to be BIMCO39's (The Baltic and International Maritime Council 39) Counsellor. In September 2005, she was selected as "Eminent Young Overseas Chinese" by the Overseas Chinese Affairs Office of the State Council of China. In November 2007, she was invited as speaker of World Shipping (China) Summit. In April 2011, she became a Founding Member of the *Wall Street Journal*'s Task Force on Women in the Economy. Ms. CHAO currently serves on the Boards of The Metropolitan Opera, Museum of Modern Art PS1, the UK P&I Marine Insurance Mutual, Foremost Foundation, Shanghai Mulan Education Foundation, and she also serves on the Harvard Business School's Board of Dean's Advisors, Carnegie-Tsinghua Center for Global Policy Board of Advisors, Lincoln Center Global's China Advisory Council, the Chairman's Council of the Metropolitan Museum of Art and American Bureau of Shipping Council. In addition, she is also a member of the Council on Foreign Relations, serves on the Young Leaders Forum of the National Committee on US-China Relations and serves as the member of Shanghai Jiao Tong University's Antai College of Economics and Management Advisory Board, and honorary chairperson of the Jiao Tong University Alumni Association in America. Ms. CHAO graduated from Harvard College in three years in 1994 with a Bachelor's degree in economics (Magna Cum Laude), and received her Master of Business Administration degree from Harvard Business School in 2001.

# Supervisors

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## 1 WANG Xiquan

Chairman of the Board of Supervisors

Chairman of the Board of Supervisors of the Bank since November 2016 and Vice Party Secretary of the Bank since June 2016. Mr. WANG previously served in several positions at Industrial and Commercial Bank of China Limited ("ICBC") for many years. He served as the Executive Vice President of ICBC from September 2012 to July 2016 and Executive Director from June 2015 to July 2016. Mr. WANG served as a member of the senior management of ICBC from April 2010 to September 2012. Between September 1999 and April 2010, he successively served as Deputy Head of the Hebei Branch of ICBC, General Manager of Risk Management Department, General Manager of Internal Audit Bureau, and General Manager of Human Resource Department. Mr. WANG graduated from Shanxi Institute of Finance and Economics in 1983 and received a Doctorate degree in Management from Nanjing University in 2009. He holds the title of Senior Economist.

## 2 WANG Xueqiang

Shareholder Supervisor

Shareholder Supervisor of the Bank since August 2004 and Head of the Office of Board of Supervisors since April 2005. Mr. WANG served as Deputy Director General Supervisor and Director General Supervisor of the Bank from July 2003 to August 2004 before the Bank's corporate restructuring. Mr. WANG served as Deputy Director General Supervisor at Agricultural Development Bank of China from October 2001 to July 2003, and worked with the Central Financial Working Commission from October 2000 to October 2001. From November 1996 to September 2000, Mr. WANG worked with Hong Kong Gang Ao International (Holdings) Co., Ltd. and Hong Kong Fujian Group Limited in succession. Prior to that, Mr. WANG worked with the Ministry of Finance from August 1985 to October 1996. Mr. WANG graduated from China Central University of Finance and Economics in 1985 and obtained his Doctorate in Economics from Public Finance Institute of the Ministry of Finance in 2008. Mr. WANG is a senior accountant and Certified Public Accountant, accredited by the Chinese Institute of Certified Public Accountants.

## 3 LIU Wanming

Shareholder Supervisor

Shareholder Supervisor of the Bank since August 2004 and Deputy General Manager of the Office of Board of Supervisors since April 2005. Since January 2014, Mr. LIU has served as Deputy General Manager of the Audit Department of the Head Office of the Bank. From November 2001 to August 2004, Mr. LIU was designated by the State Council to serve as Director Supervisor and a Deputy Director General Supervisor at Bank of Communications and the Bank respectively. From August 1984 to November 2001, he worked with the National Audit Office, Agricultural Development Bank of China and the Central Financial Working Commission. Mr. LIU received a Bachelor's degree in Economics from Jiangxi University of Finance and Economics in 1984.

## 4 DENG Zhiying

Employee Supervisor

Employee Supervisor of the Bank since August 2010. Mr. DENG currently serves as General Manager of the Supervisory Department in the Bank's Head Office. Mr. DENG has served as Deputy General Manager of the Supervisory Department in the Bank's Head Office from July 2008 to July 2010. From June 2007 to July 2008, Mr. DENG served as a member of the Party Committee and as secretary of the Party Discipline Committee in the Tianjin Branch of the Bank. From February 2008 to July 2008, Mr. DENG also served as the Director of the Labour Union of the branch. From June 1993 to June 2007, Mr. DENG worked in the Supervisory Office, the Inspection and Audit Department and the Supervisory Department of the Bank's Head Office. From August 1984 to June 1993, Mr. DENG worked in the Party Discipline Committee. Mr. DENG received a Bachelor's degree in History from Nankai University in 1984.

## 5 GAO Zhaogang

Employee Supervisor

Employee Supervisor of the Bank since April 2016. Mr. GAO is currently the General Manager of the Human Resources Department of the Bank. Mr. GAO worked in the Organization Department of the CPC Central Committee from January 2001 to July 2014, successively serving as a Consultant (of deputy head level) of the Office of Enterprise Cadres, the Deputy Head, Head and Deputy Inspector of the Bureau Five of Cadres. From December 1998 to January 2001, he served as the Deputy Head of Development Research Department of China National Petroleum Corporation. Mr. GAO worked in Dagang Oilfield and China National Petroleum Company from July 1992 to December 1998. Mr. GAO graduated from Xi'an Shiyou Institute in 1992 and obtained Doctorate in Management Science and Engineering from Beijing University of Technology in 2012.

## 6 XIANG Xi

Employee Supervisor

Employee Supervisor of the Bank since August 2012. Ms. XIANG is currently Deputy General Manager and Chief Financial Officer of Jiangsu Branch of the Bank. She previously held the following various positions in the Bank, including Deputy General Manager and Chief Financial Officer of Suzhou Branch of the Bank from March 2010 to June 2015, a member of the CPC Committee, Deputy General Manager and Chief Financial Officer of Suzhou Branch from July 2005 to March 2010, Assistant to General Manager of the Suzhou Branch from March 2003 to July 2005, Deputy General Manager and General Manager of High-tech Industrial Development Zone Sub-branch of the Suzhou Branch from October 2000 to July 2005, cadre, deputy group chief, section chief, Deputy Director and Deputy General Manager of the International Trade Settlement Division of the Suzhou Branch from July 1993 to October 2000. Ms. XIANG graduated from the Department of English of East China University of Science and Technology in 1993, and obtained an MBA Degree jointly conferred by Fudan University and University of Washington in December 2004.

## 7 CHEN Yuhua

External Supervisor

External Supervisor of the Bank since June 2015. Mr. CHEN served as Vice President of China Cinda Asset Management Co., Ltd. from December 2008 to August 2013. Mr. CHEN served as Chairman of China Cinda Investment Co., Ltd. from April 2004 to December 2008. Mr. CHEN served as Head of the Equity Department of China Cinda Asset Management Company and General Manager of China Cinda Investment Co., Ltd from March 2000 to April 2004. Mr. CHEN served as President of China Cinda Trust & Investment Company from December 1996 to March 2000. Mr. CHEN served as Deputy General Manager of the Personnel Department and Deputy General Manager of the Personnel & Training Department of China Construction Bank (CCB) Head Office from April 1994 to December 1996. Mr. CHEN served as Division Head of the Construction Economy Department of CCB Head Office and General Manager of CCB Real Estate Consulting Corporation from March 1992 to March 1994. Mr. CHEN served as Deputy Head of the Construction Economy Division, Deputy Head of the Real Estate Credit Department and Head of a direct sub-branch of CCB Sichuan Branch from August 1986 to March 1992. Mr. CHEN graduated from Zhongnan University of Finance and Economics in 1986 and received a Master's degree in Economics.

# Senior Management Members

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## 1 CHEN Siqing

Vice Chairman and President

Please refer to the section "Directors".

## 2 REN Deqi

Executive Director and Executive Vice President

Please refer to the section "Directors".

## 3 GAO Yingxin

Executive Director and Executive Vice President

Please refer to the section "Directors".

## 4 XU Luode

Executive Vice President

Executive Vice President of the Bank since June 2015. Mr. XU joined the Bank in 2015. From August 2013 to April 2015, he served as President of Shanghai Gold Exchange. Mr. XU worked as Vice Chairman and President of China Unionpay from August 2007 to August 2013. He also worked in the People's Bank of China ("PBOC") for many years. The positions he held in PBOC included Director of the Payment and Settlement Department from October 2003 to August 2007 and Deputy Director of the General Executive Office from March 1999 to October 2003. Mr. XU has been serving as Chairman of Bank of China Consumer Finance Company Limited, Non-executive Director of BOC Hong Kong (Holdings) Limited, and Chairman of Expresspay Co., Ltd. since July 2015, October 2015, and April 2016, respectively. Mr. XU graduated from Hunan University of Finance and Economics with a Bachelor's Degree in Economics in 1983. He has the qualification of Senior Accountant.

## 5 ZHANG Qingsong

Executive Vice President and Chief Information Officer

Executive Vice President of the Bank since November 2016 and Chief Information Officer of the Bank since March 2017. Mr. ZHANG joined the Bank in 1990. He served as General Manager of the Clearing Department of the Bank from March 2014 to July 2016, and served as General Manager of Singapore Branch from December 2011 to June 2014. From March 2006 to December 2011, he successively served as Deputy General Manager of the Asset-Liability Management Department, Deputy General Manager of the Treasury, Director of the Global Markets Department, Director (Securities Investment) of the Global Markets Unit, General Manager (Securities Investment) of the Global Markets Unit, and also as General Manager of Hong Kong Trading Center (Hong Kong Branch) from July 2009 to December 2011. He graduated from Graduate School of People's Bank of China with a Master's degree in Economics in 1990. He holds the title of Associate Researcher.

## 6 LIU Qiang

Executive Vice President

Executive Vice President of the Bank since November 2016. Mr. LIU joined the Bank in 2016. He worked in Agricultural Bank of China ("ABC") for many years and held various positions. He served as General Manager of the Shanghai Branch of ABC from July 2015 to July 2016 and also as Executive Deputy Director of Shanghai Management Department of ABC from September 2015 to July 2016. From June 2005 to June 2015, he successively served as Deputy General Manager and General Manager of Business Department, General Manager of Important Client Department, and Deputy General of Beijing Branch, General Manager of the Asset-Liability Management Department/County Area Capital and Funds Management Center, and also served as Chairman of the Board of Supervisors of ABC Financial Leasing Co.,Ltd. He graduated from China Agricultural University in 1993 and obtained a Master's degree in Agriculture from China Agricultural University in 1997. He holds the title of Senior Economist.

## 7 FAN Dazhi

Secretary of Party Discipline Committee

Secretary of Party Discipline Committee of the Bank since December 2016. Mr. FAN joined the Bank in 2016. He served as Chairman of the Board of Directors of Hua Xia Bank since November 2016. From August 2007 to November 2016, he served as Director, Vice President, and President of Hua Xia Bank. From January 2004 to August 2007, he served as Director and General Manager of Beijing Securities Co,.Ltd. From December 1999 to January 2004, Mr. FAN successively served as Deputy Head of Beijing Overseas Financing and Investment Management Center, Director and Deputy General Manager of Beijing State-owned Assets Management Co.,Ltd. He graduated from Dongbei University of Finance and Economics in 1987, and graduated from Graduate School of China Academy of Social Sciences with a Doctor's degree in Economics in 2012. He has the qualification of Senior Accountant.

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## 8 PAN Yuehan

Chief Risk Officer

Chief Risk Officer of the Bank since April 2016. Mr. PAN joined the Bank in 1984. He served as General Manager of the Shanghai Branch of the Bank from March 2011 to November 2015 and concurrently as Vice President of Shanghai RMB Trading Unit of the Bank from March 2012 to November 2015. From April 2009 to March 2011, he served as General Manager of the Suzhou Branch of the Bank. He previously served as the Deputy General Manager and Chief Financial Officer of the Jiangsu Branch of the Bank. He obtained a Master's Degree from China Europe International Business School in 2008.

## 9 XIAO Wei

Chief Audit Officer

Chief Audit Officer of the Bank since November 2014. Mr. XIAO joined the Bank in 1994, and served as General Manager of Financial Management Department of the Bank's Head Office from November 2009 to November 2014. Mr. XIAO served as Deputy General Manager of the Beijing Branch of the Bank from May 2004 to November 2009, and also concurrently served as Chief Financial Officer of the Beijing Branch of the Bank from January 2007 to November 2009. He successively served as the Assistant General Manager and the Deputy General Manager of the Asset-and-Liability Management Department of the Bank's Head Office from December 1999 to May 2004, and also served as temporary Deputy General Manager of the Beijing Branch of the Bank from November 2002 to May 2004. Mr. XIAO obtained a Doctorate's Degree in Economics from Renmin University of China in 1994. He has the qualification of Senior Accountant.

## 10 GENG Wei

Secretary to the Board of Directors and Company Secretary

Secretary to the Board of Directors of the Bank since June 2015 and Company Secretary of the Bank since October 2015. Mr. GENG joined the Bank in 2006. He had assumed various positions including the Chief Compliance Officer of the Legal and Compliance Department, Deputy General Manager and Chief Compliance Officer of the Risk Management Unit (Compliance Management), and Deputy General Manager (in charge of the department's work) and Chief Compliance Officer of the Legal and Compliance Department, General Manager of the Board Secretariat. Before joining the Bank, he served various positions of Industrial and Commercial Bank of China, including the Deputy Division Head, Division Head and Deputy General Manager of the Legal Affairs Department, and Deputy Director of the Joint Stock Reform Office. Mr. GENG obtained a Doctorate's degree in law from Peking University in 1995.

## Changes in Directors, Supervisors and Senior Management Members

Changes in the Bank's directors were as follows:

Mr. ZHU Hexin began to serve as Executive Director and member of the Connected Transactions Control Committee of the Bank as of 1 February 2016. Mr. ZHU Hexin ceased to serve as Executive Director and member of the Connected Transactions Control Committee of the Bank as of 1 June 2016 due to change of job.

Mr. WANG Changyun began to serve as Independent Director of the Bank as of 18 August 2016, and began to serve as a member of the Strategic Development Committee, the Audit Committee, the Risk Policy Committee and the Personnel and Remuneration Committee of the Bank as of 21 September 2016.

Mr. CHOW Man Yiu, Paul ceased to serve as Independent Director, Chairman of the Personnel and Remuneration Committee, and member of the Audit Committee, the Risk Policy Committee and the Connected Transactions Control Committee of the Bank as of 18 August 2016 due to the fulfilment of his term of office.

Mr. Jackson TAI ceased to serve as Independent Director and member of the Strategic Development Committee, the Audit Committee, the Risk Policy Committee and the Connected Transactions Control Committee of the Bank as of 1 September 2016 due to change of job.

Mr. WANG Yong ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Audit Committee of the Bank as of 14 September 2016 due to change of job.

Mr. LU Zhengfei began to serve as Chairman of the Personnel and Remuneration Committee of the Bank as of 21 September 2016.

Mr. REN Deqi began to serve as Executive Director and member of the Connected Transactions Control Committee of the Bank as of 8 December 2016.

Mr. GAO Yingxin began to serve as Executive Director and member of the Risk Policy Committee of the Bank as of 8 December 2016.

Ms. Angela CHAO began to serve as Independent Director and member of the Audit Committee, the Risk Policy Committee and the Connected Transactions Control Committee of the Bank as of 4 January 2017.

Mr. WANG Wei ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Bank as of 19 January 2017 due to change of job.

Changes in the Bank's supervisors were as follows:

Mr. LIU Xiaozhong ceased to serve as Employee Supervisor and member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 14 April 2016 due to the fulfilment of his term of office.

Mr. GAO Zhaogang began to serve as Employee Supervisor of the Bank as of 14 April 2016. Mr. GAO Zhaogang began to serve as member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 20 February 2017.

Mr. LI Jun ceased to serve as Supervisor and Chairman of the Board of Supervisors and Chairman of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 18 November 2016 due to the reason of age.

Mr. WANG Xiquan began to serve as Supervisor, Chairman of the Board of Supervisors and Chairman of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 18 November 2016.

Mr. CHEN Yuhua began to serve as Chairman of the Financial and Internal Control Supervision Committee of the Board of Supervisors of the Bank as of 20 February 2017.

Changes in the Bank's senior management members were as follows:

Mr. ZHANG Jinliang ceased to serve as Executive Vice President of the Bank as of 14 January 2016.

Mr. PAN Yuehan began to serve as Chief Risk Officer of the Bank as of 20 April 2016.

Mr. ZHU Hexin ceased to serve as Executive Vice President of the Bank as of 1 June 2016.

Ms. ZHANG Lin ceased to serve as Secretary of Party Discipline Committee of the Bank as of 5 July 2016.

Mr. ZHANG Qingsong began to serve as Executive Vice President of the Bank as of 16 November 2016. Mr. ZHANG Qingsong began to serve as Chief Information Officer of the Bank as of 31 March 2017.

Mr. LIU Qiang began to serve as Executive Vice President of the Bank as of 16 November 2016.

Mr. FAN Dazhi began to serve as Secretary of Party Discipline Committee of the Bank as of 27 December 2016.

# Corporate Governance

## Overview of the Corporate Governance

The Bank takes excellent corporate governance as an important objective. Adhering to the rules and regulations governing capital markets and relevant industries, the Bank has made constant efforts to improve its corporate governance framework, which comprises the shareholders' meeting, the Board of Directors, the Board of Supervisors, and the Senior Management. This framework operates smoothly owing to a clear division of duties. All special committees of the Board of Directors and the Board of Supervisors have performed their duties and functioned effectively, thereby enhancing the Bank's corporate governance capabilities.

The Bank continually refines its corporate governance system. Its corporate governance normative documents including the Articles of Association are constantly revised to reflect regulatory requirements and the Bank's actual development. This includes the implementation on the authorisation to the Board of Directors granted by the shareholders' meeting and that to the President granted by the Board of Directors. In this way, the Bank has established a system of responsibilities based on a clear division of powers and effective checks and balances.

The Bank places great emphasis on improving its corporate governance mechanisms. It ensures that minority shareholders are properly informed and able to participate and make decisions. The annual shareholders' meetings are held in Beijing and Hong Kong by way of video conference, allowing shareholders from both the Chinese mainland and Hong Kong to attend in person. In addition, online voting for A-Share Holders is available to guarantee the rights of minority shareholders. By constantly improving the mechanisms for the smooth operations of the Board of Directors, information disclosure and stakeholder engagement, the Bank continuously enhances the effectiveness of the Board's work, supports the scientific and highly efficient decision-making of the Board and increases the corporate transparency, thus meeting its responsibilities to all of its stakeholders, including shareholders, customers, employees and society.

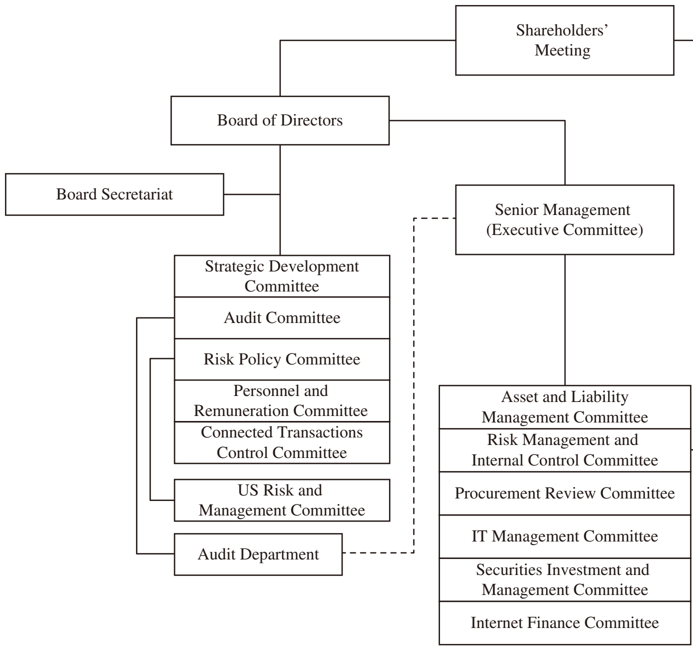
The Bank makes great efforts to promote Board diversity. It has formulated the *Bank of China Limited Board Diversity Policy*, which lays out the stance of the Bank on the diversity of the Board of Directors and specifies the approaches to realise Board diversity on an on-going basis. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires, and taking into account various aspects of the Board diversity which include but not limited to regulatory requirements and gender, age, cultural and educational background, geographical location, professional experience, skills, knowledge, and length of service of directors, etc. The Bank implements the aforementioned diversity policy and requirements throughout the director selection and engagement process.

The Bank highly recognises the importance of the independence of the election of independent director. The work of election of independent director is led and promoted by the independent director who serves as the Chairman of the Personnel and Remuneration Committee of the Board of Directors. Candidates for independent directors are mainly recommended by incumbent independent directors and are proposed to the Board of Directors after discussion at the selection meetings attended by all independent directors. The selection and engagement procedures of independent directors are compliant and independent, which ensure the objective and fair duty performance of independent directors and safeguard the overall interests of shareholders especially the legitimate rights and interests of minority shareholders.

In 2016, the Bank's corporate governance performance continued to be recognised by the capital markets and the wider public. The Bank was granted the 12th "Golden Prize of Round Table" for Best Board of Directors of Chinese Listed Companies, the "2016 Best Corporate Governance Award — Gold Award" by Hong Kong Institute of Certified Public Accountants and the "Best Board Secretary of China Securities Golden Bauhinia Awards" by Ta Kung Wen Wei Media Group, and other corporate governance awards.

## *Corporate Governance Framework*

The Bank's corporate governance framework is shown below:




## *Corporate Governance Compliance*

During the reporting period, the actual performance of the Bank's corporate governance was fully in compliance with the Company Law and the requirements for the governance of listed companies set out in the normative documents of CSRC.

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "*Code*") as set out in Appendix 14 to the Hong Kong Listing Rules. Save as disclosed in this annual report, during the reporting period, the Bank has complied with all provisions of the *Code* and has substantially complied with most of the recommended best practices set out in the *Code*.

## *Amendments to the Articles of Association*

The 2016 First Extraordinary General Meeting approved the proposal on the amendments to the Articles of Association of the Bank. These amendments are made to reflect the latest status of share capital of the Bank and to satisfy the new requirements on corporate governance put forward in regulatory rules of Chinese mainland and Hong Kong. The corporate governance section of the amendments clarified certain rights and obligations of the shareholders, particularly the major shareholders, added and clarified certain requirements on the duties and procedural rules of the shareholders' meeting, the Board of Directors and the Board of Supervisors, as well as the duty performance by directors and supervisors, made further provisions on the shareholders' creation of pledge over the shares of the Bank, and updated the scope of functions and responsibilities of the Risk Policy Committee of the Board of Directors of the Bank pursuant to relevant regulatory rules. The amendments are still under the approval by CBRC.

## Shareholders and Shareholders' Rights

The Bank highly values the protection of its shareholders' interests and has established and maintained an effective and multi-channel shareholder communication platform. This includes holding shareholders' meetings and maintaining an investor hotline to ensure that all shareholders are treated equally, properly informed and able to participate in and exercise their voting and other rights regarding the major issues of the Bank. The Bank is independent and completely autonomous in all of its business operations. It operates independently and separately from its controlling shareholder, Huijin, in respect of its business, personnel, asset, institutional and financial matters.

### *Shareholders' Right to Convene an Extraordinary Shareholders' Meeting and a Meeting of Shareholders of Different Categories*

According to the Articles of Association, shareholders individually or in aggregate holding a total of 10% or more voting shares of the Bank have the right to make a written request to the Board of Directors to convene an extraordinary shareholders' meeting. Two or more shareholders holding a total of 10% or more voting shares carrying voting rights of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after receipt of a written request for convening an extraordinary shareholders' meeting or a meeting of shareholders of different categories submitted by the proposing shareholders, the proposing shareholders may by themselves convene the meeting within four months after the Board of Directors received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are convened by the Board of Directors. Where the proposing shareholders convene and hold a meeting because the Board of Directors failed to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

### *Shareholders' Right to Propose Resolutions at Shareholders' Meetings*

According to the Articles of Association, any shareholder who holds, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose a resolution in a shareholders' meeting. Any shareholder who holds, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose and submit in writing to the Board of Directors interim proposals 10 days prior to the convening of a shareholders' meeting. When the Board of Directors decides not to include such proposals in the meeting's agenda, it shall explain and clarify the reasons in the shareholders' meeting. When the proposing shareholders dissent with the Board of Directors' decision to exclude such proposals, they may request to call for an extraordinary shareholders' meeting by themselves based on the relevant procedures stipulated in the Articles of Association.

### *Shareholders' Right to Present Enquiries*

According to the Articles of Association, any shareholder who holds severally or jointly with others 5% or more voting shares of the Bank shall have the right to present enquiries to the shareholders' meeting. The Board of Directors, the Board of Supervisors, or other relevant senior management personnel shall attend the shareholders' meeting, accept enquiries, and answer or explain accordingly.

Please refer to the Articles of Association for details of the rights entitled to shareholders. If shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to the section "Reference for Shareholders — Investor Enquiry" for contact details.

## Shareholders' Meeting

### *Functions and Powers of Shareholders' Meeting*

The shareholders' meeting is the body of authority of the Bank. The shareholders' meeting is responsible for making decisions on important issues of the Bank, including considering and approving the Bank's profit distribution plan, annual financial budget and financial statements, changes in the Bank's registered capital, adopting resolutions on matters such as the issue of bonds and other securities, merger and division, amending the Articles of Association of the Bank, electing directors, electing shareholders' representative supervisors and external supervisors and deciding the remunerations of directors and supervisors.

### *Convening of Shareholders' Meeting*

On 7 June 2016, the Bank held its 2015 Annual General Meeting in Beijing and Hong Kong by way of video conference. Online voting for A-Share Holders was available. This meeting considered and approved 11 proposals including the 2015 work report of the Board of Directors, the 2015 work report of the Board of Supervisors, the 2015 annual financial statements, the 2015 profit distribution plan, the 2016 annual budget for fixed assets investment, the appointment of Ernst & Young Hua Ming as the Bank's external auditor for 2016, the election of directors, independent directors and supervisors of the Bank, the issuance of bonds and the issuance of the qualified write-down tier-2 capital instruments. The meeting also heard the 2015 report on connected transactions, the 2015 duty report of independent directors and the 2015 report on the implementation on the *Scheme on the Authorisation to the Board of Directors Granted by the Shareholders' Meeting of Bank of China*. The proposals regarding the issuance of bonds and the issuance of the qualified write-down tier-2 capital instruments were special resolutions.

On 18 November 2016, the Bank held its 2016 First Extraordinary General Meeting in Beijing. Online voting for A-Share Holders was available. The meeting considered and approved 7 proposals including the election of Mr. WANG Xiquan to be appointed as shareholders' representative supervisor of the Bank, the election of Mr. REN Deqi to be appointed as executive director of the Bank, the election of Mr. GAO Yingxin to be appointed as executive director of the Bank, the election of Ms. Angela CHAO to be appointed as independent director of the Bank, the 2015 remuneration distribution plan for Chairman of the Board of Directors, executive directors, Chairman of the Board of Supervisors and shareholders' representative supervisors, the establishment of the Charity Foundation of the Bank and the amendments to the Articles of Association. The proposal regarding the amendments to the Articles of Association was a special resolution.

All of the aforementioned meetings were convened and held in strict compliance with the relevant laws and regulations as well as the listing rules of the Chinese mainland and Hong Kong. The Bank's directors, supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

The Bank issued announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 7 June 2016 and 18 November 2016 respectively, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEx and the Bank.

### *Implementation of the Resolutions Passed at the Shareholders' Meeting by the Board of Directors*

During the reporting period, the Board of Directors has fully implemented the resolutions and scheme on the authorisation to the Board of Directors granted by the shareholders' meeting passed at the shareholders' meetings, and earnestly carried out the proposals regarding the 2015 profit distribution plan, the 2016 annual budget for fixed assets investment, the issuance of bonds, the appointments of directors and 2016 external auditor and so on.

## Board of Directors

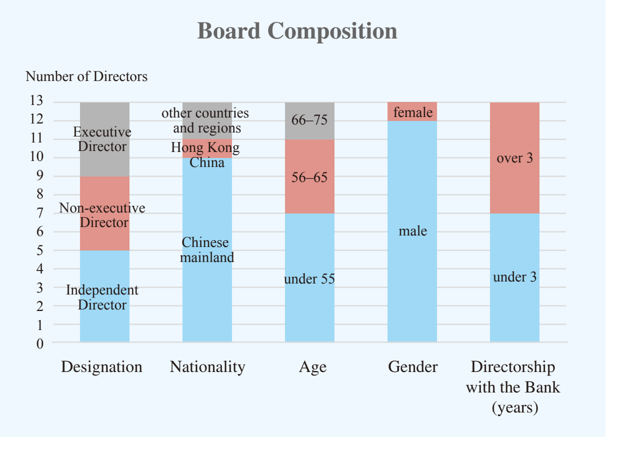
### *Functions and Powers of the Board of Directors*

The Board of Directors, which is responsible to the shareholders' meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association: convening shareholders' meetings and implementing the resolutions of shareholders' meetings; deciding on the Bank's strategic policies, business plans and material investment plans (except for those material investment plans that are subject to shareholders' meeting approval as specified in the Articles of Association); formulating the annual financial budgets, final accounts and plans for profit distribution and loss making-up of the Bank; appointing or dismissing members of special committees and the Senior Management of the Bank; reviewing and deciding on the establishment of the Bank's basic administrative system, internal management framework and important sub-entities; developing and reviewing corporate governance policies of the Bank; taking charge of performance evaluation and matters of material reward and punishment for senior management members, and hearing the reports of the Senior Management and examining their work, among others. The Board of Directors continuously reviews and updates the Articles of Association and the Bank's corporate governance policies and systems in accordance with the applicable laws and regulations, relevant regulatory requirements and listing rules, and ensures compliance with such policies and systems.

### *Composition of the Board of Directors*

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and the Connected Transactions Control Committee, as well as the US Risk and Management Committee established under the Risk Policy Committee, to assist the Board of Directors in performing its functions under the authorisation of the Board of Directors.

The Board of Directors of the Bank is rationally structured and diversified. Currently, the Board of Directors comprises thirteen members. Besides the Chairman, there are three executive directors, four non-executive directors and five independent directors. The proportion of independent directors exceeds one-third of the total number of directors. The Bank's directors are elected at the shareholders' meeting, with a term of office of three years starting from the date when the Bank receives approval of the appointment from CBRC. A director may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations and supervisory requirements. The positions of Chairman and President of the Bank are assumed by two persons. For detailed background and an explanation of recent changes of the Board members, please refer to the section "Directors, Supervisors and Senior Management Members".




### *Convening of Board Meetings*

In 2016, the Bank convened 8 on-site meetings of the Board of Directors on 19 January, 30 March, 26 April, 12 May, 8 June, 30 August, 26 October, and 21 December, respectively. At these meetings, the Board of Directors reviewed and approved 56 proposals related to the Bank's regular reports, the nomination of candidates for the directors, the amendments to the Articles of Association, the establishment of asset management company, the issuance of bonds, the dividend distribution plan, the establishment of overseas branches and subsidiaries, the liquidity risk management policy, the market risk stress test policy, the value at risk policy, the management measures on information disclosure suspension and exemption, and so on. It also heard 6 reports related to the 2015 report on internal control audit and internal control recommendations by the Bank's external auditors, and other matters.

In 2016, the Bank convened 3 meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors mainly reviewed and approved the proposals on the establishment of the Charity Foundation of the Bank, adjustments to chairman and members of the special committees of the Board of Directors, and the *Pilot Plan of the Investment and Loan Linkage Mechanism of Bank of China*, among others.

## *Risk Management and Internal Control by the Board of Directors and its Special Committees*

The Board of Directors of the Bank considers a sound risk management system and continuously improved independence, specialty, foresight, and initiative of risk management are the basis and prerequisite of realising the Bank's strategic goals, ensuring the sound and sustained development of banking businesses and creating greater value for shareholders.

According to regulatory rules and internal management requirements, the Senior Management submits important risk management policies, systems and procedures to the Board of Directors and Risk Policy Committee for review and approval. The Risk Policy Committee regularly reviews the Group's overall risk status (covering major risk categories such as credit risk, market risk, operational risk, liquidity risk, legal and compliance risk and reputational risk) and work plan for the next stage and puts forward corresponding work requirements.

The Board of Directors and the Risk Policy Committee have acknowledged the full effectiveness of the existing risk management system of the Bank based on their close monitoring and quarterly evaluation of the system's effectiveness.

The Board of Directors attached great importance to the Group's far-reaching internal control system and continued to promote its construction. It regularly heard and reviewed Senior Management reports concerning implementation of the *Guidelines on Internal Control of Commercial Banks*, bank-wide operational management, risk management, fraud case management and internal control system construction and assessment, thus earnestly assuming its responsibility to improve and fulfil a sound and effective internal control function.

The Audit Committee closely monitored the changing economic and financial environment at home and abroad, as well as the overall conditions of the Group's internal control function, including the establishment and operation of its internal control systems for both financial reporting and non-financial reporting. In addition, the committee heard and reviewed, on a regular and ad hoc basis, internal audit reports and assessment opinions on internal control, the progress in internal control improvements and remediation suggested by external auditors, as well as the overall situation regarding the prevention, control and redress of fraud cases and risk events. The committee guided and urged the Senior Management to improve the "three lines of defence" system of internal control and conducted special research into internal audit effectiveness.

During the reporting period, the Bank performed self-assessment on internal control in line with the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. No material deficiencies were identified in the internal control systems for both the financial reporting and non-financial reporting of the Bank. Ernst & Young Hua Ming LLP, as the Bank's external auditor for internal control, audited the effectiveness of the Bank's internal controls over financial reporting and issued a standard unqualified opinion. The *2016 Internal Control Assessment Report of Bank of China Limited* and the *Auditor's Report on Internal Control* issued by Ernst & Young Hua Ming LLP have been published on the websites of SSE, HKEx and the Bank.

## *Duty Performance of Directors*

### Directors' Attendance of Shareholders' Meetings, Meetings of the Board of Directors and Special Committees

During the reporting period, the attendance rate of each director of the shareholders' meetings, meetings of the Board of Directors and special committees is given below:

Number of meetings attended in person/Number of meetings convened during term of office

| Directors | Shareholders' Meetings | Meetings of the Board of Directors | Meetings of the Special Committees of the Board of Directors | | | | |
|---|---|---|---|---|---|---|---|
| | | | Strategic Development Committee | Audit Committee | Risk Policy Committee | Personnel and Remuneration Committee | Connected Transactions Control Committee |
| **Incumbent Directors** | | | | | | | |
| TIAN Guoli | 1/2 | 9/11 | 11/11 | – | – | – | – |
| CHEN Siqing | 2/2 | 11/11 | 11/11 | – | – | – | – |
| REN Deqi | 0/0 | 1/1 | – | – | – | – | 1/1 |
| GAO Yingxin | 0/0 | 1/1 | – | – | 1/1 | – | – |
| ZHANG Xiangdong | 2/2 | 11/11 | 11/11 | – | – | 7/7 | – |
| ZHANG Qi | 2/2 | 11/11 | 11/11 | – | – | 7/7 | – |
| LIU Xianghui | 2/2 | 11/11 | 11/11 | – | 5/5 | – | – |
| LI Jucai | 2/2 | 11/11 | 11/11 | 5/5 | – | – | – |
| Nout WELLINK | 2/2 | 11/11 | 11/11 | 5/5 | 5/5 | – | – |
| LU Zhengfei | 1/2 | 11/11 | – | 5/5 | – | 7/7 | 3/3 |
| LEUNG Cheuk Yan | 2/2 | 11/11 | – | 5/5 | – | 7/7 | 3/3 |
| WANG Changyun | 1/1 | 5/5 | 3/3 | 2/2 | 2/2 | 2/2 | – |
| **Former Directors** | | | | | | | |
| ZHU Hexin | 0/0 | 3/3 | – | – | – | – | 1/1 |
| WANG Yong | 1/1 | 6/7 | 6/7 | 2/3 | – | – | – |
| WANG Wei | 2/2 | 11/11 | 11/11 | – | 5/5 | – | – |
| CHOW Man Yiu, Paul | 1/1 | 4/6 | – | 2/2 | 2/2 | 4/4 | 1/1 |
| Jackson TAI | 1/1 | 7/7 | 7/7 | 3/3 | 3/3 | – | 2/2 |

Notes:

1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in directors.

2 Mr. TIAN Guoli was not able to attend the 2016 First Extraordinary General Meeting of the Bank on 18 November 2016 and the meetings of the Board of Directors on 30 March and 30 August 2016 due to other important business engagements. He authorised another director to attend and vote at the meetings of the Board of Directors as his proxy.

3 Mr. LU Zhengfei was not able to attend the 2016 First Extraordinary General Meeting of the Bank on 18 November 2016 due to other important business engagements.

4 Mr. WANG Yong was not able to attend the meeting of the Board of Directors on 30 August 2016, the meeting of the Audit Committee on 29 August 2016 and the meeting of the Strategic Development Committee on 30 August 2016 due to other important business engagements.

5 Mr. CHOW Man Yiu, Paul was not able to attend the meetings of the Board of Directors on 19 January and 12 May 2016 due to other important business engagements.

## Training and Expertise Enhancement of Directors

In 2016, the Board of Directors paid significant attention to enhancing directors' expertise, with a special focus on arranging relevant training. All directors of the Bank fully observed Rule A.6.5 of the *Code* as well as PRC regulatory requirements, actively participating in specialised training including sessions on internet finance, internationalisation strategy, enterprise M&A and reorganisation during reform of state-owned enterprises, key US regulation and supervisory expectations, challenges for banks applying the new international accounting standards, among others. The Bank also gave special presentations and training to the newly appointed directors in 2016 regarding its business operations, risk management system and directors' responsibilities. The Bank's directors also took it upon themselves to enhance their professional skills in various ways, including attending forums and seminars, meeting with domestic and overseas regulators and conducting on-site research exercises at the Bank's domestic and overseas branches as well as at other advanced international banks.

## Independence and Duty Performance of Independent Directors

Following the appointments of Mr. REN Deqi and Mr. GAO Yingxin as Executive Directors of the Bank with effect from 8 December 2016, the number of the members of the Board of Directors of the Bank has been changed to thirteen, four of which were independent directors (the qualifications of Ms. Angela CHAO to be appointed as Independent Director of the Bank were still subject to the approval by CBRC at that time), representing less than one-third of the number of members of the Board of Directors of the Bank. Ms. Angela CHAO has begun to serve as Independent Director of the Bank with effect from 4 January 2017 as approved by CBRC. There are currently five independent directors on the Board of Directors. This exceeds one-third of the total number of directors and is in compliance with the quorum requirement specified in the Articles of Association and relevant regulatory requirements.

For the professional backgrounds and other details of the independent directors, please refer to the section "Directors, Supervisors and Senior Management Members". The independent directors individually serve as the Chairman of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee. As stipulated in the relevant domestic regulatory requirements and Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent director with regard to their independence. Based on these confirmations and relevant information in possession of the Board of Directors, the Bank confirms their independent status.

In 2016, the Bank's independent directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. Please refer to the section "Directors' Attendance of the Shareholders' Meeting, Meetings of the Board of Directors and Special Committees" for the attendance of independent directors at meetings.

In 2016, independent directors put forward constructive recommendations on the Bank's strategic management, group risk management, anti-money laundering and development of overseas institutions, among others. These recommendations were adopted and diligently implemented by the Bank.

In 2016, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

## Specific Explanation and Independent Opinions of Independent Directors on the Guarantee Business of the Bank

Pursuant to the provisions and requirements set forth in the circular (ZhengJianFa [2003] No. 56) issued by CSRC, and according to the principles of justice, fairness and objectivity, the Independent Directors of the Bank, Mr. Nout WELLINK, Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun and Ms. Angela CHAO have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities approved by PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business principally comprises letters of guarantee. As at 31 December 2016, the outstanding amount of letters of guarantee issued by the Bank was RMB1,097.448 billion.

**Responsibility Statement of Directors on Financial Reports**

The following statement, which sets out the responsibilities of the directors regarding financial statements, should be read in conjunction with, but understood separately from, the auditor's statement of their responsibilities as set out in the Independent Auditor's Report contained in this annual report.

The directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the directors, there was no material event or condition during the reporting period that might have a material adverse effect on the continuing operation of the Bank.

## *Special Committees of the Board of Directors*

### Strategic Development Committee

The Strategic Development Committee comprises eight members, including Chairman Mr. TIAN Guoli, Vice Chairman and President Mr. CHEN Siqing, Non-executive Directors Mr. ZHANG Xiangdong, Mr. ZHANG Qi, Mr. LIU Xianghui, Mr. LI Jucai and Independent Directors Mr. Nout WELLINK and Mr. WANG Changyun. Chairman Mr. TIAN Guoli serves as the Chairman of the committee.

The committee is mainly responsible for reviewing the strategic development plans presented by the Senior Management, assessing the factors that may affect the strategies of the Bank and their implementation, and advising the Board with regard to strategy adjustments; reviewing the annual budget, strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off), objectives of asset-liability management, IT development and other special strategic development plans of the Bank, and advising the Board accordingly; coordinating strategies on the overall development of various financial businesses and the development of domestic and overseas institutions, and deciding on the setup, cancellation and increase or decrease of the Bank's capital of domestic and overseas institutions within its scope of authorisation; designing and formulating key investment and financing plans and merger and acquisition plans of the Bank; and reviewing the substantial internal reorganisation and adjustment plans of the Bank, and advising the Board accordingly.

The Strategic Development Committee held eight on-site meetings and three meetings via written resolutions in 2016. At these meetings, it mainly approved the proposal on profit distribution for 2015, the dividend distribution plan for preference shares, pilot plan of the investment and loan linkage mechanism, the establishment of the asset management company and so on. In response to changes in international and domestic economic and financial situations, the Strategic Development Committee stepped up its analysis of the operating environment, paid constant attention to opportunities and challenges brought about by supply-side structural reform, and put forward many important comments and recommendations regarding the implementation of the Bank's strategic development plans and improving its transformational development thus providing strong support to the scientific decision-making of the Board of Directors.

### Audit Committee

The Audit Committee comprises six members, including Non-executive Director Mr. LI Jucai and Independent Directors Mr. Nout WELLINK, Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun and Ms. Angela CHAO. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations formulated by the Senior Management; reviewing the external auditors' audit opinion on financial reporting, annual audit plan and recommendations for management; approving the annual internal audit plan and budget; appraising the duty performance and work quality and effect of the external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing material deficiencies in internal control design and execution by the Senior Management and investigating fraud cases; reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held five meetings in 2016. It mainly reviewed the Bank's quarterly, interim and annual financial reports, the annual internal control assessment report, the scheme on the adjustment of HR management system of audit line and the proposal on the appointment and audit fee of the external auditors for 2017. It also reviewed and approved the 2016 work plan and financial budget for internal audit. In addition, it heard the Senior Management response to the external auditor's management proposal for 2015, report on the 2016 overseas supervision information, reports on internal audit in 2015 and the first half of 2016, report on asset quality in the first quarter of 2016, report on internal control progress in 2016, the prevention and control of external infringement cases in 2016, report on the internal control audit progress and independence compliance of the external auditor in 2016 and report on the audit plan of the external auditors for 2017, among others.

Moreover, in response to changes in domestic and overseas economic trends, the Audit Committee paid close attention to the changes in the Bank's achievements in improving business performance and cost-effectiveness control and put forward many important opinions and suggestions regarding the improvement of corporate governance mechanism, the enhancement of internal audit independence, the amelioration of credit asset quality and the improvement of internal control measures.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2016 audit plan, including areas of focus for auditing the 2016 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control, compliance and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any difference of judgment between the auditors and the Senior Management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee heard and reviewed reports from the Senior Management concerning the Bank's business performance and major financial data. It also requested that the Senior Management submit the annual financial statements to the auditors in a timely manner, so as to ensure sufficient time for the annual audit. During the audit, the committee maintained independent communications with the auditors and arranged independent communications between the auditors and the independent directors. At its first meeting of 2017, the Audit Committee reviewed and approved the Bank's 2016 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the external auditors made a summary audit report and submitted a report on their independence compliance to the committee. The Bank's Senior Management appraised the external auditors' work. Based on this appraisal, the Audit Committee conducted its own assessment on the auditors' performance, effectiveness and independence compliance in 2016. It discussed re-engagement matters, and decided to reappoint Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2017, and to reappoint Ernst & Young as the Bank's international auditor for 2017. Such proposals have been submitted to the Board of Directors for approval.

**Risk Policy Committee**

The Risk Policy Committee of the Bank comprises five members, including Executive Director Mr. GAO Yingxin, Non-executive Director Mr. LIU Xianghui, Independent Directors Mr. Nout WELLINK, Mr. WANG Changyun and Ms. Angela CHAO. Independent Director Mr. Nout WELLINK serves as the Chairman of the committee.

The committee is mainly responsible for reviewing the Bank's risk management strategies, substantial risk management policies and procedures and system, and providing the suggestions to the Board of Directors; discussing with the Senior Management about the risk management procedures and rules, and putting forward relevant suggestions on improvement to make sure that the risk management policies, procedures and rules are uniformly abided by in the Bank; reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors; monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; examining the risk management status and re-checking the risk management procedures and rules; regularly hearing and evaluating the reports on implementation status of risk management and internal control responsibilities by the Senior Management, functional departments and institutions, and putting forward requirements on improvement; assessing the material investigation results of risk management matters and the Senior Management's response to such results voluntarily or as required by the Board of Directors.

The Risk Policy Committee held five meetings in 2016, at which it mainly reviewed and approved the *US Risk and Management Committee Charter*, stress test policy for market risk, liquidity risk management policy, management measures for suspension and exemption of information disclosure, country risk limits, market risk limits, and advanced approach to capital management. The committee also regularly reviewed the Group risk reports and so on.

In addition, the committee paid close attention to critical risk issues, in response to changes in overseas and domestic economic and financial conditions, adjustments of the government's macro policies and overall overseas and domestic regulations. The committee offered important opinions and recommendations regarding the improvement of the Bank's risk governance mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk and so on.

In line with the *Heightened Standards for Large Banks* issued by the US Office of the Comptroller of the Currency (OCC), the Board of Directors of the Bank reviewed and approved the *US Risk and Management Committee Charter*, and established the US Risk and Management Committee on the basis of the former US Risk Committee under the Risk Policy Committee on 30 March 2016. The US Risk and Management Committee oversees and manages all the risks incurred by the Bank's institutions in the US, and performs the duties of the board of directors of the Bank's New York Branch and its special committees.

The US Risk and Management Committee currently comprises three members, all of which are members of the Risk Policy Committee, including Executive Director Mr. GAO Yingxin, Independent Directors Mr. Nout WELLINK and Ms. Angela CHAO. Executive Director Mr. GAO Yingxin and Independent Director Mr. Nout WELLINK serve as co-chairmen of the US Risk and Management Committee.

In 2016, the US Risk and Management Committee convened five meetings and regularly listened to reports on risk management and operation of all the Bank's institutions in the US, latest dynamics of US regulators, etc. In addition, the committee reviewed and approved relevant framework documents and important policies and regulations of the Bank's institutions in the US and the New York Branch.

The US Risk and Management Committee put forward important opinions and recommendations regarding strengthening prevention and control of risks and compliance based on US regulatory dynamics, market changes and the business strategies of US operations.

**Personnel and Remuneration Committee**

The Personnel and Remuneration Committee comprises five members, including Non-executive Directors Mr. ZHANG Xiangdong and Mr. ZHANG Qi, Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan and Mr. WANG Changyun. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and Senior Management, and making recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for the members of the Senior Management and the chairmanship of Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan of directors, supervisors and senior management members, and making recommendations to the Board of Directors; and setting the performance appraisal standards for the Senior Management of the Bank, evaluating the performance of the directors, and members of the Senior Management, and making recommendations to the Board of Directors.

The Personnel and Remuneration Committee held five on-site meetings and two meetings by written resolutions in 2016. At these meetings, the committee mainly approved proposals on the performance evaluation and remuneration distribution plan for the Chairman, executive directors and senior management members for 2015, and the implementation plan for performance evaluation of the Chairman, the President, the Chairman of the Board of Supervisors and other senior management members in 2016, the proposals on nominating Mr. TIAN Guoli, Mr. WANG Yong, Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan to be re-appointed as directors of the Bank, the proposals on nominating Mr. REN Deqi and Mr. GAO Yingxin as executive directors of the Bank, the proposals on appointing Mr. ZHANG Qingsong and Mr. LIU Qiang as executive vice presidents of the Bank, the proposals on nominating Mr. WANG Changyun and Ms. Angela CHAO as independent director candidates of the Bank, the proposal on adjustments of chairman and members of special committees of the Board of Directors, the proposal on appointing Mr. GAO Yingxin to be Co-chairman of the US Risk and Management Committee, and the proposal on adjustment of secretary of the Strategic Development Committee. The committee also reviewed the remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors in 2015. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in line with regulatory requirements.

According to Articles of Association of the Bank, any shareholder who holds by himself or jointly with others 5% or more of the total number of voting shares of the Bank may, by submitting a written proposal to the shareholders' meeting, recommend candidates for directors, provided the number of candidates nominated shall be in accordance with the provisions of the Articles of Association (between 5 and 17) and not exceed the number to be elected. List of candidates for directors may be recommended by the Board of Directors within the number of candidates stipulated in the Articles of Association, with reference to the diversity policy of the Bank and according to the number to be elected. The Personnel and Remuneration Committee shall preliminarily review the qualifications and conditions of candidates for directors, and refer those qualified candidates to the Board of Directors for further examination. After the Board of Directors' approval by resolutions, the candidates shall be referred to shareholders' meeting in written proposals. When directors need to be added or filled temporarily, the Board of Directors shall raise the proposal and suggest the shareholders' meeting to elect or replace. During the reporting period, the Bank appointed directors in strict compliance with the Articles of Association.

**Connected Transactions Control Committee**

The Connected Transactions Control Committee comprises four members, including Executive Director Mr. REN Deqi, Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan and Ms. Angela CHAO. Independent Director Mr. LEUNG Cheuk Yan serves as the Chairman of the committee.

The committee is mainly responsible for administering the connected transactions of the Bank in accordance with relevant laws, regulations and normative documents, and formulating administrative regulations with regard to connected transactions; confirming the Bank's connected parties according to laws, regulations and normative documents, and reporting the relevant confirmation to the Board of Directors and the Board of Supervisors; defining the connected transactions of the Bank in accordance with laws, regulations and normative documents; examining the connected transactions of the Bank pursuant to relevant laws, regulations and normative documents, as well as the business principles of justice and fairness; and examining information disclosure matters related to significant connected transactions of the Bank.

The Connected Transactions Control Committee held three meetings in 2016, at which it mainly reviewed and approved the report on connected transactions in 2015 and the report on the connected party list, among others. It also reviewed the statement of connected transactions of the Bank in 2015 and report on the thematic internal audit of connected transaction management of the Group in 2015, among others. During the reporting period, the Connected Transactions Control Committee paid constant attention to the development of the Bank's connected transaction monitoring system and the transmission of its connected transaction policy. Committee members put forward constructive suggestions regarding connected transaction policymaking and system development.

## Board of Supervisors

### *Functions and Powers of the Board of Supervisors*

The Board of Supervisors is the Bank's supervisory organ and is responsible to the shareholders' meeting. As stipulated in the Company Law and the Articles of Association of the Bank, the Board of Supervisors is responsible for overseeing the Board of Directors so as to ensure a stable operational concept, principles of values and a development strategy suitable for the Bank. It supervises the duty performance and due diligence of the Board of Directors, the Senior Management and its members as well as the Bank's financial activities, internal control and, risk management.

### *Composition of the Board of Supervisors*

The Board of Supervisors currently comprises seven members. There are three shareholder supervisors (including the Chairman of the Board of Supervisors), three employee supervisors and one external supervisor. According to the Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and re-appointment. Shareholder supervisors and external supervisors are elected or replaced by the shareholders' meeting.

The Board of Supervisors has set up the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to assist in performing its authorised duties. The special committees mentioned above are responsible to the Board of Supervisors, members of which are supervisors, and each committee shall have at least three members.

### *Duty Performance of the Board of Supervisors*

In 2016, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held five meetings and made relevant resolutions. The Duty Performance and Due Diligence Supervision Committee held two meetings, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of, and supervisory opinions from the Board of Supervisors during the reporting period, please refer to the section "Report of the Board of Supervisors".

## Senior Management

### *Functions and Powers of the Senior Management*

The Senior Management is the executive organ of the Bank. It is headed by the President, with executive vice presidents and other senior management members assisting the President's work. The main responsibilities of the President include presiding over the Bank's daily administrative, business and financial management; organising the implementation of the business plan and investment schemes; drafting basic management regulations and specific rules; nominating candidates for other senior management members; and reviewing employees' remuneration, benefit, reward and punishment measures.

### *Duty Performance of the Senior Management*

In 2016, the Senior Management of the Bank managed the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorisations of the Board of Directors, and carried out the Bank's development strategy based on the annual performance objectives approved by the Board of Directors. Following the strategic objective of "Serving Society, Delivering Excellence", the Senior Management remained focusing on "innovation, transformation, mitigation, management and control", and thus continuously enhanced the Bank's performance.

During the reporting period, the Senior Management of the Bank held 26 regular meetings, at which it discussed and decided upon a series of significant matters, including the Group's business development, asset and liability management, risk management, IT system development, product innovation, human resources and performance management. It also convened 186 special meetings to arrange for matters relating to internet finance, corporate banking, personal banking, financial markets, process improvement, risk management and internal control, overseas development and integrated operations.

In 2016, in response to business development needs, the Senior Management established the Internet Finance Committee, which is responsible for formulating the development strategy and the medium and long-term development plans of internet finance and for deliberating and determining major issues relating to internet finance. The Senior Management of the Bank currently presides over the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (which governs the Anti-money Laundering Committee and the Asset Disposal Committee), the Procurement Review Committee, the IT Management Committee, the Securities Investment and Management Committee and the Internet Finance Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Executive Committee, and strived to push forward the sound development of the Bank's various operations.

## Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated and implemented the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the "*Management Rules*") to govern securities transactions by directors, supervisors and senior management members of the Bank. The terms of the *Management Rules* are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the "*Model Code*"). All directors and supervisors confirmed that they have complied with the standards set out in both the *Management Rules* and the *Model Code* throughout the reporting period.

## Appointment of External Auditors

Upon approval by the 2015 Annual General Meeting, Ernst & Young Hua Ming LLP was reappointed as the Bank's domestic auditor and internal control auditor for 2016 and Ernst & Young was reappointed as the Bank's international auditor for 2016.

Fees paid to Ernst & Young and its member firms for financial statements audit of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB213 million for the year ended 31 December 2016, of which the fees for internal control audit paid to Ernst & Young Hua Ming LLP totalled RMB14 million.

Ernst & Young and its member firms were not engaged in other significant non-auditing services with the Bank in 2016. The Bank paid RMB32.9838 million for non-auditing services to Ernst & Young and its member firms in the year.

Ernst & Young Hua Ming LLP and Ernst & Young have provided audit services to the Bank for four consecutive years. Mr. ZHANG Xiaodong and Mr. FENG Suoteng are the certificated public accountants who signed the auditor's report on the Bank's financial statements prepared in accordance with CAS for the year ended 31 December 2016.

At the forthcoming 2016 Annual General Meeting, the Board of Directors will tender a resolution for review and approval regarding the proposal on engaging Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2017, providing audit services on its financial statements and internal control pursuant to CAS; and engaging Ernst & Young as the Bank's international auditor for 2017, providing financial statements audit services pursuant to IFRS.

## Investor Relations and Information Disclosure

In 2016, the Bank enhanced its market communication and promotional efforts and continued to promote its differentiated competitive advantages in such areas as the "Belt and Road" initiatives, RMB internationalisation and its diversified businesses. As a result, it received positive recognition from capital markets. The Bank successfully arranged presentations for its 2015 annual results and 2016 interim results, as well as road shows in which the Senior Management continued to actively explain the Bank's development strategies and operating performance to investors from the Chinese mainland, Asia-pacific, Europe and North America. The Senior Management also listened earnestly to market concerns and feedback. Such activities were warmly welcomed by investors. Through active participations in influential investment forums, the Bank increased the frequency of its communications with markets and expanded its investor coverage. During the reporting period, the Bank's Senior Management and representatives from major business departments had approximately 200 meetings and conversations in varied forms with institutional investors and analysts from home and abroad, thus effectively enhancing the investment community's understanding of the investment value in the Bank. The Bank continued to explore new communication channels, continuously enriching its investor relations webpage on the Bank's official website and providing timely and comprehensive responses to enquiries from investors via the investor hotline, email, and e-interaction online platform run by SSE, as well as other channels. In 2016, the Bank answered over 400 calls on its investor relations hotline, and replied nearly 300 enquiries from its investor relations inbox as well as the e-interaction online platform run by SSE.

Faced with the severe economic and financial environment, the Bank continued to strengthen communications with its external rating agencies, making continuous efforts to conduct multilevel and targeted communications on market concerns such as its risk management, liquidity management, capital sufficiency, operating performance and development strategies. During the reporting period, the Bank's credit ratings were reaffirmed by the major rating agencies like Moody's Investors Service and Fitch Ratings. In December 2016, Standard & Poor's Ratings Services upgraded the Bank's Stand-alone credit profile to "bbb+", and preference shares rating to "BB". The Bank continued to maintain the highest level among domestic peers for all aspects of its external credit ratings. The Bank's efforts in maintaining the stability and making improvement of its credit ratings helped boost investors' confidence, lower financing cost and enhance the Bank's market influence.

In 2016, the Bank prepared and disclosed its regular and provisional reports in strict adherence to the principles of truthfulness, accuracy, completeness, timeliness and fairness. It continuously enhanced the pertinence, effectiveness and transparency of information disclosure in order to guarantee investors' access to relevant information. The Bank earnestly organised compliance analysis and information disclosure regarding major projects, thus providing timely, sufficient and useful information to investors. It pioneered numerous market-leading best practices, ensuring that the investors in the Chinese mainland and Hong Kong are provided with equal opportunity to access relevant information. In 2016, the Bank released a total of more than 320 information disclosure documents on SSE and Hong Kong Stock Exchange.

The Bank has established a comprehensive and complete information disclosure system and put in place clear specifications regarding information disclosure standard and scope of application, responsibility and the division of work of the parties concerned, information handling and disclosing procedures and internal monitoring measures. In 2016, closely tracking changes in regulatory rules and considering its internal management requirements, the Bank timely reviewed and revised the *Information Disclosure Management Measures of Bank of China Limited* and the *Regular Report Work Management Measures of Bank of China Limited*. It also formulated the *Management Measures on Information Disclosure Suspension and Exemption of Bank of China Limited* according to regulatory requirements and disclosed it after the review and approval by the Board of Directors of the Bank. Moreover, the Bank reexamined and revised its information disclosure working procedures in a timely manner, thus further improving the completeness of its regulation system and the standardisation of its management work. The Bank completed the registration of the insiders and the filing of memoranda on the progress of significant events in strict compliance with relevant regulatory requirements and the rules of the Bank. The Bank reinforced the principal responsibility system and information correspondent mechanism at the Group level, organised information disclosure training and conducted guidance on information disclosure obligations, so as to promote the building of a strong compliance culture of information disclosure and to improve the initiative and long-term perspective of its information disclosure management work.

In 2016, the Bank continued to receive wide recognitions for its work in investor relations and its information disclosure performance. The Bank won the "China Securities Golden Bauhinia Awards — Best Investor Relations Listed Company" and the Hong Kong "Quam Excellence Investor Relations". The Bank's annual report won a Golden Award in the overall category of the annual report competition of the League of American Communications Professionals (LACP). It also won a Silver Award in interior design of the Annual Report Competition (ARC).

# Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2016.

## Principal Activities

The Bank provides a range of banking and related financial services, including commercial banking, investment banking, insurance, direct investment and investment management, fund management and aircraft leasing business.

## Major Customers

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

## Results and Profit Distribution

The Group's annual results for 2016 are set out in the Consolidated Financial Statements. The Board of Directors has recommended a final dividend on ordinary shares for 2016 of RMB0.168 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 29 June 2017. If approved, the 2016 final dividend on the Bank's ordinary shares will be denominated and declared in RMB and paid in RMB or equivalent Hong Kong dollars. The actual amount distributed in Hong Kong dollars will be calculated according to the average of the exchange rates announced by PBOC in the week before 29 June 2017 (inclusive), being the date of the Bank's Annual General Meeting. The A-Share dividend distribution date is expected to be 14 July 2017 and the H-Share dividend distribution date is expected to be 9 August 2017 in accordance with relevant regulatory requirements and business rules. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2015 Annual General Meeting held on 7 June 2016, a final dividend on ordinary shares for 2015 of RMB0.175 per share (before tax) was approved for payment. The A-Share and H-Share dividends were distributed to the shareholders separately in June and July of 2016 in accordance with relevant regulations. The distribution plan has been accomplished and the actual distributed amount was approximately RMB51.518 billion (before tax). No interim dividend on ordinary shares was paid for the period ended on 30 June 2016 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2016.

At the Board meeting held on 19 January 2016, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 14 March 2016, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

At the Board meeting held on 30 August 2016, the dividend distribution plans for the Bank's Offshore Preference Shares and Domestic Preference Shares (First Tranche) were approved. The Bank distributed dividends on the Offshore Preference Shares on 24 October 2016. According to the issuance terms of the Offshore Preference Shares, dividends on Offshore Preference Shares were denominated in RMB and paid in US dollars converted at a fixed exchange rate, with a total of approximately USD439 million (after tax) at an annual dividend rate of 6.75% (after tax). The Bank distributed a total of RMB1.920 billion (before tax) of dividends on the Domestic Preference Shares (First Tranche) on 21 November 2016, with an annual dividend rate of 6.00% (before tax). The dividend distribution plans have been accomplished.

At the Board meeting held on 23 January 2017, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2017, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

## Cash Dividend Payout for Ordinary Shares and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

| Year of dividend distribution | Dividend per share (before tax) (Unit: RMB) | Total dividend (before tax) (Unit: RMB million) | Profit attributable to equity holders of the Bank (Unit: RMB million) | Payout ratio | Capitalisation of the capital reserve to share capital |
|---|---|---|---|---|---|
| 2015 | 0.175 | 51,518 | 170,845 | 30% | Nil |
| 2014 | 0.190 | 55,934 | 169,595 | 33% | Nil |
| 2013 | 0.196 | 54,755 | 156,911 | 35% | Nil |

## Dividend Distribution for Preference Shares

| Types of preference shares | Dividend payment date | Total dividend | Dividend rate |
|---|---|---|---|
| Offshore Preference Shares | 23 October 2015 | 439 (USD million, after tax) | 6.75% (after tax) |
| Domestic Preference Shares (First Tranche) | 23 November 2015 | 1,920 (RMB million, before tax) | 6.00% (before tax) |
| Domestic Preference Shares (Second Tranche) | 14 March 2016 | 1,540 (RMB million, before tax) | 5.50% (before tax) |
| Offshore Preference Shares | 24 October 2016 | 439 (USD million, after tax) | 6.75% (after tax) |
| Domestic Preference Shares (First Tranche) | 21 November 2016 | 1,920 (RMB million, before tax) | 6.00% (before tax) |
| Domestic Preference Shares (Second Tranche) | 13 March 2017 | 1,540 (RMB million, before tax) | 5.50% (before tax) |

## Formulation and Implementation of Cash Dividend Policy

### *Ordinary Shares*

In 2009, the Bank amended the Articles of Association to state that the Bank should maintain the continuity and stability of its profit distribution policy.

In 2013, the Bank amended the Articles of Association related to the cash dividend. This amendment clarified the Bank's profit distribution principles, policy and adjustment procedures, the consideration process of the profit distribution plan and other matters. The amendment states that the Bank shall adopt cash dividend as the priority form of profit distribution. Except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the ordinary shareholders of the Bank. The amendment also states that the Bank shall offer online voting to shareholders when considering amendments to profit distribution policy and profit distribution plan.

In 2014, the Bank formulated the *Shareholder Return Plan for 2014 to 2016* to specify the basic principles, shareholder return plan and decision-making and supervisory mechanisms regarding the formulation, implementation and amendment of the shareholder return of the Bank.

The procedure to formulate the aforementioned dividend distribution policy was compliant, transparent and complete. The criterion and ratio of the dividend are explicit and clear. The independent directors fully expressed their opinions and the legitimate rights and interests of minority shareholders were fully respected and protected. The procedure was in line with the provisions of the Articles of Association and other rules and regulations.

The dividend distribution plan for ordinary shares of the Bank has been approved by the shareholders' meeting. In 2016, the Bank distributed dividends on ordinary shares for 2015 in strict compliance with the Articles of Association, its dividend distribution policy and the shareholders' meeting resolution on profit distribution.

### *Preference Shares*

The preference shareholders of the Bank receive dividend at the specified dividend rate prior to the ordinary shareholders. The Bank shall pay the dividend to the preference shareholders in cash. The Bank shall not distribute dividends on ordinary shares before all the dividends on preference shares have been paid.

Dividends on the Bank's preference shares will be distributed on an annual basis. The first dividend period begins on the date of issuance of the preference shares. Once the preference shareholders have received dividends at the specified dividend rate, they shall not be entitled to participate in the distribution of the remaining profits of the Bank together with the ordinary shareholders.

The preference share dividend is non-cumulative. If any preference share dividend for any dividend period is not paid in full, such remaining amount of dividend shall not be carried forward to the following dividend year. The Bank shall be entitled to cancel the payment of any dividend of the preference shares, and such cancellation shall not constitute a default. The Bank may at its discretion use the funds arising from the cancellation of such dividend payment to repay other indebtedness due and payable.

Dividend payments are independent from the Bank's credit rating, nor do they vary with the credit rating.

The dividend distribution plans for preference shares of the Bank have been approved by the Board of Directors. In 2016, the Bank distributed dividends on domestic and offshore preference shares in strict compliance with the Articles of Association, the terms of issuance of preference shares and the Board of Directors' resolutions on dividend distribution.

## Closure of H-Share Register of Members

The H-Share register of members of the Bank will be closed from Monday, 10 July to Thursday, 13 July 2017 (both days inclusive), for the purpose of determining the list of shareholders entitled to the proposed final dividends on ordinary shares. In order to qualify for the proposed final dividends, the H-Share Holders of the Bank who have not registered the relevant transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 7 July 2017. The ex-dividend date of the Bank's H Shares will be on Thursday, 6 July 2017.

## Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB60.9463 million.

## Share Capital

As at the latest practicable date prior to the issue of this annual report, the Bank had sufficient public float based on publicly available information, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

## Distributable Reserves

Please refer to Note V.39 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

## Fixed Assets

Please refer to Note V.21 to the Consolidated Financial Statements for details of the fixed assets of the Bank.

## Financial Summary

Please refer to the section "Financial Highlights" for the summary of the annual results, assets and liabilities of the Bank for the last five years.

## Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2016, the Bank has engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements according to the Hong Kong Listing Rules.

## Directors' Interests in Competing Businesses of the Bank

None of the directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

## Remuneration Policy of Directors, Supervisors and Senior Management Members

The Bank has made a clear regulation on the remuneration of directors, supervisors and senior management members. The remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, Secretary of Party Discipline Committee and executive vice presidents shall be paid in accordance with the rules on remuneration reform for central enterprises, which consists of basic annual remuneration, performance-based annual remuneration and incentive income linked to term appraisal. The remuneration for other senior management members and shareholder supervisors consist of basic annual remuneration and performance-based remuneration, and part of performance-based remuneration is paid in a deferred manner. Independent directors as well as external supervisors and employee supervisors are remunerated by the Bank while non-executive directors are not remunerated by the Bank. The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income.

Please refer to the section "Directors, Supervisors and Senior Management Members" for details of the remuneration of directors, supervisors and senior management members.

## Directors' and Supervisors' Service Contracts

None of the directors or supervisors of the Bank has a service contract with the Bank or its subsidiaries that is not determinable within one year or is not determinable without payment of compensation other than normal statutory compensation.

## Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts of Significance

No transaction, arrangement or contract of significance, in relation to the Bank's business to which the Bank, its holding companies, or its subsidiaries or fellow subsidiaries was a party and in which a director or a supervisor or any entity connected with them was materially interested, directly or indirectly, subsisted during the reporting period.

## Directors' and Supervisors' Rights to Acquire Shares

During the reporting period, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party to any arrangement that would enable the Bank's directors and supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

## Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

To the best knowledge of the Bank, as at 31 December 2016, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank 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 Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code* as set out in Appendix 10 of the Hong Kong Listing Rules.

## Financial, Business and Family Relations among Directors

Directors of the Bank are not related to one another with respect to finance, business and family, or other material relations.

## Substantial Shareholder Interests

Please refer to the section "Changes in Share Capital and Shareholdings of Shareholders" for the details of the Bank's substantial shareholder interests.

## Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank was entered into or existed during the reporting period.

## Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.34 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option scheme of the Group.

## Purchase, Sale or Redemption of the Bank's Securities

As at 31 December 2016, approximately 17.23 million shares of the Bank were held as treasury shares.

Please refer to the Notes to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's securities by the Bank and its subsidiaries.

## Pre-emptive Rights

There are no compulsory provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association. The Articles of Association provide that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring its capital reserve, issuing convertible bonds, or through other means as permitted by laws, administrative regulations and relevant regulatory authorities.

## Permitted Indemnity Provision

As stipulated in the Articles of Association, within the scope permitted under applicable laws, administrative regulations and the Articles of Association, the Bank may purchase and maintain any liabilities insurance for the Bank's former and incumbent directors. The Bank will indemnify every former and incumbent director out of its own assets against any liability incurred when he/she served as director of the Bank to the maximum extent permitted by law and administrative regulations or alternatively to the extent that it is not prohibited by law and administrative regulations unless it is established that the director has not acted honestly or in good faith in performing his duties.

During the reporting period, the Bank renewed its directors' liability insurance to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

## Equity-linked Agreement

The Bank has not been engaged in any equity-linked agreement during the reporting period.

## Business Review

For disclosures of the Bank in respect of business review under paragraph 28 of Appendix 16 to the Hong Kong Listing Rules, please refer to sections "Management Discussion and Analysis" and "Corporate Social Responsibilities". The relevant disclosure constitutes part of the Report of the Board of Directors.

## Use of Raised Funds

All proceeds raised from initial public offerings, issuance of subordinated bonds, the rights issue, issuances of tier 2 capital bonds and preference shares have been used to replenish the Bank's capital and increase the level of capital adequacy.

For details, please refer to the related announcements on the websites of SSE, HKEx and the Bank and the Notes to the Consolidated Financial Statements.

## Tax and Tax Relief

Shareholders of the Bank are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2016.

### *A-Share Holders*

In accordance with the provisions of the *Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2012] No. 85) and the *Notice on Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2015] No. 101) issued jointly by MOF, State Administration of Taxation of PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the transfer market, where the holding period is less than one month (inclusive), the dividends and bonuses shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends and bonuses shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, the dividends and bonuses shall not be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. The individual income tax levied on dividends and bonuses obtained by equity investment funds from listed companies is also calculated in accordance with the aforementioned rules.

In accordance with the provisions of Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

In accordance with Article 83 of the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* mean those investment proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

### *H-Share Holders*

In accordance with Chinese tax laws and regulations, the dividends and bonuses received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macau. Accordingly, the Bank generally withholds 10% of the dividends to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax laws, regulations and agreements.

In accordance with the provisions of the *Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders who are Overseas Non-resident Enterprises* (Guoshuihan [2008] No. 897) published by the State Administration of Taxation of PRC, when Chinese resident enterprises distribute annual dividends for 2008 onwards to H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends on H Shares paid by the Bank.

The tax and tax relief of Shanghai-Hong Kong Stock Connect shall comply with the *Notice on the Relevant Taxation Policy regarding the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong* issued jointly by MOF, State Administration of Taxation of PRC, and CSRC.

### *Domestic Preference Share Holders*

The individual income tax levied on dividends obtained by individuals from non-public issuance of domestic preference shares is calculated in accordance with the relevant Chinese tax laws and regulations.

In accordance with the provisions of the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income from domestic preference shares distributed between qualified resident enterprises are non-taxable, and dividend income from domestic preference shares obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

### *Offshore Preference Share Holders*

In accordance with Chinese tax laws and regulations, when distributing dividends to overseas non-resident enterprises on offshore preference shares, the Bank shall withhold enterprise income tax at a rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of the dividends on offshore preference shares paid by the Bank.

## Auditors

Please refer to the section "Corporate Governance — Appointment of External Auditors" for details of the Bank's external auditors.

## Members of the Board of Directors

Executive Directors: TIAN Guoli, CHEN Siqing, REN Deqi, GAO Yingxin

Non-executive Directors: ZHANG Xiangdong, ZHANG Qi, LIU Xianghui, LI Jucai

Independent Directors: Nout WELLINK, LU Zhengfei, LEUNG Cheuk Yan, WANG Changyun, Angela CHAO

On behalf of the Board of Directors
**TIAN Guoli**
*Chairman*
31 March 2017

# Report of the Board of Supervisors

## Meetings of the Board of Supervisors

In 2016, the Bank convened five on-site meetings of the Board of Supervisors on 30 March, 26 April, 30 August, 27 October and 18 November. At these meetings, the Board of Supervisors reviewed and approved 13 proposals on the Bank's regular reports, 2015 profit distribution plan, 2015 internal control assessment report, 2015 work report of the Board of Supervisors, 2016 work plan of the Board of Supervisors, evaluation opinions on the duty performance of directors and senior management members for 2015, the nomination of candidates for supervisors of the Bank and election of the Chairman of the Board of Supervisors, among others.

In 2016, the attendance rate of each supervisor of the meetings of the Board of Supervisors is given below:

| Supervisors | Number of meetings attended in person/Number of meetings convened during term of office |
|---|---|
| **Incumbent Supervisors** | |
| WANG Xiquan | 1/1 |
| WANG Xueqiang | 5/5 |
| LIU Wanming | 4/5 |
| DENG Zhiying | 4/5 |
| GAO Zhaogang | 3/4 |
| XIANG Xi | 5/5 |
| CHEN Yuhua | 5/5 |
| **Former Supervisors** | |
| LI Jun | 2/4 |
| LIU Xiaozhong | 1/1 |

Notes:

1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in supervisors.

2 Mr. LIU Wanming was not able to attend the meeting of the Board of Supervisors in person on 18 November 2016 due to other important business engagements. He authorised another supervisor to attend and vote at the meeting as his proxy.

3 Mr. DENG Zhiying was not able to attend the meeting of the Board of Supervisors in person on 27 October 2016 due to other important business engagements. He authorised another supervisor to attend and vote at the meeting as his proxy.

4 Mr. GAO Zhaogang was not able to attend the meeting of the Board of Supervisors in person on 27 October 2016 due to other important business engagements. He authorised another supervisor to attend and vote at the meeting as his proxy.

5 Mr. LI Jun was not able to attend the meetings of the Board of Supervisors in person on 27 October and 18 November 2016 due to other important business engagements. He authorised another supervisor to attend and vote at the meetings as his proxy.

In 2016, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one on-site meeting and one meeting by written resolution, at which it reviewed and approved the proposal on evaluation opinions on the duty performance of directors and senior management members for 2015, the nomination of candidates for supervisors of the Bank, as well as other proposals. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four on-site meetings, at which it reviewed and approved the Bank's regular reports, 2015 profit distribution plan, 2015 internal control assessment report and other proposals.

## Performance of Supervision and Inspection by the Board of Supervisors

In 2016, the Board of Supervisors made new progress in all working areas. Bearing the big picture of the Bank in mind and adhering to the issue-focused approach, it closely followed up the Bank's strategic development, operation and management, and risk management dynamics and internal control. It highlighted the key aims on supervision and strengthen the actual effects of its supervisory activity, intensified investigations into detected problems, developed reports in high quality, exercised its supervision functions constructively, and pushed forward the Bank's continued stable development, in accordance with the relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank.

**Steadily improved the internal supervision mechanism and improved supervision of the duty performance of directors and senior management members.** The Board of Supervisors arranged for supervisors to attend the shareholders' meetings and the meetings of the Board of Directors, special committees and the Senior Management. This allowed supervisors to stay informed of the major strategic decisions made in these meetings and to keep abreast of how major operational and management measures are being implemented, as well as to share their supervisory opinions and suggestions on major issues. It gathered and analysed the important speeches delivered by directors on the meetings of the Board of Directors and its special committees as well as the information on implementation of resolutions and major instructions made on the special meetings of the Senior Management, in order to gain an all-round understanding of directors' and senior management members' day-to-day duty performance and develop the monthly analysis report of senior management members' duty performance and alert relevant parties to the major issues that require special attention. The Board of Supervisors researched and formulated the Bank's annual performance assessment plan, collected and read reports on the annual duty performance of directors and senior management members and organised annual duty performance interviews with them. Based on the day-to-day supervision as well as duty performance reporting and interviews, it objectively and fairly assessed the duty performance of the Board of Directors, the Senior Management and its members and, expressed opinions regarding the Bank's annual performance assessment. These assessments were approved on the meetings of the Board of Supervisors and reverted back to the Board of Directors, the Senior Management and their members in an appropriate manner. As per regulatory requirements, such opinions were sent to the CBRC and the assessment results were reported at the Annual General Meeting. The duty performance assessment work won the emphasis and support of the Board of Directors and the Senior Management. Directors were motivated to work diligently and proactively got involved in decision-making and senior management members maintained their enthusiasm for work. Additionally, the duty performance assessment further enhanced the Bank's corporate governance and provided an important institutional guarantee for its drive to advance reform and innovation and secure continued stable development.

**Persistently supervised the Bank's finance, risk management and internal control by adhering to issue and risk-focused approaches.** First, the Board of Supervisors made concrete efforts to carry out the financial supervision, prioritising the legality and compliance of financial activities and the authenticity, accuracy and completeness of financial data. The Board of Supervisors followed up and learned about the Bank's progress in implementing Group-wide development strategies and plans, annual business plans and financial budgets, as well as its major issues concerning establishment of overseas institutions, restructuring of certain institutions, sales of major assets, bond issuance, distribution of dividends on preference shares and connected transactions. It paid adequate attention to the Bank's arrangements and executions in terms of strategy, finance and accounting management, streamlined and analysed the Bank's financial and accounting data on a monthly basis, and gained an in-depth understanding of the bank-wide dynamics in operations and management. Through monthly summary and analysis of strategy implementation and financial and accounting management, it pertinently reported on problems, explored for causes, gave suggestions, and provided guidance for the Board of Directors, the Senior Management and functional department through various forms.

Second, the Board of Supervisors strengthened the supervision of risk management and internal control. It proactively adapted itself to the changes in the operational environment. Aiming to enhance the Bank's risk prevention and mitigation abilities, it continuously tracked and comprehended the risk profiles in such fields as collateral management, anti-money laundering, asset management business, physical precious metals, reconciliation management, and liquidity management. It heard and reviewed reports on risk control across the Group, and alerted the Board of Directors, the Senior Management and functional departments to the major potential, tendentious issues as well as the weak links identified in the relevant work through a variety of means including speeches at meetings, supervision letters and face-to-face interaction. Together with the Board of Supervisors, the Board of Directors and the Senior Management fulfilled their respective responsibilities in risk prevention and control and maintained a firm grip on the risk bottom line. The Board of Supervisors received reports regarding the Bank's internal control status, internal control assessment and internal control audit, and reviewed reports on internal control assessment. Through daily prompts and duty performance interviews, among other means, it further urged the internal audit function to reinforce its responsibilities and improve the means of audit. With respect to the problems identified in internal and external audits and regulatory inspections, it improved analysis and urged the Senior Management and functional departments to keep improving the relevant policies, procedures and systems as well as the resource allocation.

Third, the Board of Supervisors reviewed the problems identified in special surveys of last year. With regard to the findings of last year's special surveys concerning anti-money laundering, internal control case prevention, small and micro credit business and other aspects, it proceeded with the daily supervision and followed up on the implementation of survey opinions and Senior Management instructions by the relevant departments, branches and subsidiaries.

Fourth, the Board of Supervisors earnestly reviewed and oversaw regular reports. It regularly communicated on special issues with the accounting and information, financial management, credit management, audit and other business departments as well as with external auditors. It received reports on the Bank's operations, financial position and, changes in risk assets and provisioning, among others. It made suggestions including enhancing risk management and control in key areas, rectifying problems identified in internal control audits through intensified efforts, managing and controlling concentration risk and risk of renewed loans, putting high-risk bonds under efficient oversight and early warning, substantially mitigating the adverse influence arising from the decrease of net interest margin, vigorously tapping new initiatives to drive profit growth, and strengthening the operation and management of non-performing assets. The Board of Directors, the Senior Management and relevant functional departments actively responded to these recommended measures, by proactively studying and improving the relevant work.

**Strictly adhered to the Bank's overall requirement for preventing risk and promoting development and arranged special surveys.** Concentrating on the key areas and links that involved the Bank's drive to deepen reform and secure stable development, the Board of Supervisors closely tracked the overarching issues and weak links related to bank-wide strategy implementation, operation and management and risk management control. It focused on carrying out three special surveys on non-performing asset disposal, personal credit risk management and asset management business. The survey team made up of supervisors and personnel from relevant departments of the Head Office communicated with the relevant Head Office departments and a number of branches and institutions through interviews and other means. It heard relevant reports from different levels, gathered and collated cases, explored countermeasures, gave multiple suggestions, and submitted report on the special surveys to the Board of Directors and the Senior Management. The Board of Directors and Senior Management attached high importance and recognition to the report, requiring the relevant functional departments to study it earnestly, propose measures for improvement and improve the implementation of the rectification. In addition, the Senior Management convened a meeting in which the relevant departments reported on their progress and develop plans for rectifying the problems raised by the survey report. The surveys carried out by the Board of Supervisors played active roles in realising the Bank's requirement for preventing risk and promoting development.

**Stuck to stringent, concrete management and pushed forward self-improvement.** In line with regulatory requirements, the Board of Supervisors amended the sections of the Bank's Articles of Association that relate to itself, in an effort to point out the direction for its duty performance. It organised and carried out inspections and surveys to communicate with and learn about its peers. It visited and held adequate discussions with the Board of Supervisors in multiple banks about the functional structure and supervisory functions of the Board of Supervisors and its special committees, its dedicated examinations and inspections, the construction of the Board of Supervisors and other aspects. The Board of Supervisors closely studied the reform and implementation plan of how it could play its role in the new environment, taking into consideration organisational, institutional, staffing and policy perspectives. In addition, improvements were made with regards to the ideology, work style and competence. The Board of Supervisors completed the procedures related to the selection, appointment and resignation of its chairman and some of its members. According to regulatory requirements and measures for the assessment of supervisors' duty performance, the Board of Supervisors continued to conduct self-assessment of its overall duty performance and annual assessment of the individual duty performance of supervisors, urging all supervisors to consciously perform their supervisory duties as defined by relevant laws, regulations and the Articles of Association. It organised the seminars and training courses on supervisory activity in 2016, and arranged supervisors to attend the duty performance trainings given by regulators as well as the trainings held by the Board of Directors on regulatory rules. Through these trainings, supervisors were expected to improve their understanding of the global banking operational dynamics and supervisory trend.

The Board of Directors and the Senior Management attached great importance to the supervision and guidance of the Board of Supervisors, checked and implemented relevant rectifications, allocated responsibility for operation and management measures, effectively mitigated potential risks and improved operation and management.

During the reporting period, the Board of Supervisors held no objection to such matters under its supervision regarding the Bank's operational and legal compliance, financial position, use of raised funds, purchase and sale of assets, connected transactions, internal control and corporate information disclosure.

# Significant Events

## Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in its regular course of business. In addition, because of the scope and scale of the Bank's international operations, the Bank is from time to time subject to a variety of claims under the laws of various jurisdictions in which the Bank operates such as anti-money laundering. After consulting legal professionals, the Senior Management holds that none of the litigation and arbitration cases will have a significant impact on the financial position or operating results of the Bank at the current stage.

## Material Purchase and Sale of Assets, and Merger and Acquisition

BOCHK (as seller) entered into a sale and purchase agreement with Cinda Financial Holdings Co., Limited (as buyer) and China Cinda (HK) Holdings Company Limited (as buyer's guarantor) in relation to the disposal of all the issued shares of Nanyang Commercial Bank, Limited on 18 December 2015. The completion of the disposal took place on 30 May 2016 in accordance with the terms and conditions of the sale and purchase agreement. Upon completion, Nanyang Commercial Bank, Limited ceased to be a subsidiary of both the Bank and BOCHK (Holdings).

As part of the Group's strategic restructuring plan in the ASAEN region, on 30 June 2016, the Bank (as seller) and BOCHK (as buyer) entered into sale and purchase agreements in relation to sale and purchase of the entire issued share capital of Bank of China (Malaysia) Berhad, and the entire issued share capital of Bank of China (Thai) Public Company Limited, respectively. All the conditions precedent set out in the sale and purchase agreements have been satisfied and completion of the both transfers have taken place in accordance with the terms and conditions of the sale and purchase agreements. On 28 February 2017, the Bank (as seller) and BOCHK (as buyer) entered into sale and purchase agreements in relation to sale and purchase of the banking businesses operated by the Bank in Indonesia through Bank of China Limited, Jakarta Branch and its eight sub-branches; and the banking businesses operated by the Bank in Cambodia through Bank of China Limited, Phnom Penh Branch, Cambodia and its two sub-branches, respectively. The completion of each transfer is subject to the satisfaction or waiver of the respective conditions precedent including the obtaining of the requisite approvals from domestic and overseas regulatory authorities.

BOCHK (as seller) entered into a sale and purchase agreement with Xiamen International Investment Limited and the Committee of Jimei Schools (as buyers) in relation to the proposed disposal of approximately 70.49% of the total issued shares of Chiyu Banking Corporation Limited for a total consideration of HKD7.685 billion on 22 December 2016. The completion of the disposal took place on 27 March 2017 in accordance with the terms and conditions of the sale and purchase agreement. Upon completion, Chiyu Banking Corporation Limited ceased to be a subsidiary of the Bank, BOCHK (Holdings) and BOCHK respectively.

For details, please refer to relevant announcements of the Bank on the websites of SSE, HKEx and the Bank.

## Implementation of Stock Incentive Plan and Employee Stock Ownership Plan

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the Board meeting and the extraordinary shareholders' meeting held in November 2005. To date, the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan have not been implemented.

## Significant Connected Transactions

The Bank had no significant connected transactions during the reporting period. For details of the related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.44 of the Consolidated Financial Statements.

## Major Contracts and the Enforcement thereof

### *Material Custody, Sub-contracts and Leases*

During the reporting period, the Bank did not take any significant custody of, sub-contract or lease any material business assets from other companies, or allow its material business assets to be subject to such arrangements that are required to be disclosed.

### *Material Guarantee Business*

As approved by PBOC and CBRC, the Bank's guarantee business is an off-balance-sheet item in the ordinary course of its business. The Bank operates its guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in accordance with the risks of the guarantee business and carries out this business accordingly. During the reporting period, save as disclosed above, the Bank did not enter into any material guarantee business that is required to be disclosed.

### *Other Major Contracts*

During the reporting period, the Bank had no other major contract that was required to be disclosed.

## Misappropriation of Funds by Controlling Shareholder and Other Related Parties

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes.

## Undertakings

Huijin made a "non-competing commitment" when the Bank launched its IPO. As at 31 December 2016, Huijin has strictly observed and has not breach such undertaking.

## Disciplinary Actions Imposed on the Bank, its Directors, Supervisors, Senior Management Members and Controlling Shareholder

During the reporting period, neither the Bank nor any of its directors, supervisors, senior management members or controlling shareholder was subject to any investigation, compulsory measures or criminal responsibilities by relevant authorities or any investigation, administrative punishment or regulatory measures by CSRC, or had material administrative punishment imposed on them by other administrative authorities, or were publicly reprimanded by any stock exchange.

## Integrity of the Bank and its Controlling Shareholder

During the reporting period, neither the Bank nor its controlling shareholder failed to perform effective judgment of the court or pay off any due debt in large amount.

## Performing Social Responsibility of Poverty Alleviation

For details of the Bank's performance of social responsibility regarding poverty alleviation during the reporting period, please refer to the section "Corporate Social Responsibilities" and the Bank's 2016 Corporate Social Responsibility Report published on the websites of SSE, HKEx and the Bank.

# Independent Auditor's Report

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

**To the shareholders of Bank of China Limited**
(Established in the People's Republic of China with limited liability)

**Opinion**

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 139 to 288, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**Key Audit Matters (Continued)**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of loans and advances to customers*** | |
| The assessment of impairment of loans and advances to customers involves significant judgement. The Group adopts an individual impairment assessment approach for individually significant loans; and a collective impairment assessment approach for loans not individually significant or not individually impaired. Under the collective approach, assessment of future cash flows for loan portfolios is based on historical loss experience of loans with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in the macro-economic environment. The future cash flows of loans without collateral or guarantees, or loans that are not adequately collateralised, are subject to higher uncertainties.<br><br>Since loan impairment assessment involves judgement and assumptions, and in view of the significance of the amount (as at 31 December 2016, gross loans and advances to customers amounted to RMB9,973,362 million, representing 55% of total assets, and impairment allowance for loans and advances to customers amounted to RMB237,716 million), impairment of loans and advances is considered a key audit matter.<br><br>Relevant disclosures are included in Note V.18 and Note VI.3 to the consolidated financial statements. | We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems.<br><br>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan classification, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.<br><br>We assessed the collective impairment model and considered management's assumptions on the loss identification period, migration rate, loss ratio and impact of macro-economic changes for various types of loan portfolio. We evaluated the Group's modification of parameters and assumptions used in the collective impairment model, and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends.<br><br>We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collateral. We compared the assumptions with available external information.<br><br>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance. |

**Key Audit Matters (Continued)**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of financial instruments*** | |
| The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, particularly those require significant unobservable inputs, usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.<br><br>As at 31 December 2016, financial assets and financial liabilities measured at fair value amounted to RMB1,864,469 million and RMB469,378 million respectively, representing 10% and 3% of total assets and total liabilities respectively. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2016, 3% of financial assets measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for unlisted equity and fund investments, illiquid asset-backed securities, and over-the-counter derivatives, valuation of financial instruments is considered a key audit matter.<br><br>Relevant disclosures are included in Note VI.6 to the consolidated financial statements. | We evaluated and tested the design and operating effectiveness of key controls related to valuation of financial instruments, independent price verification, independent model validation and approval.<br><br>We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.<br><br>For valuations which used significant unobservable inputs, such as unlisted equity investments and private equity fund investments, we involved our internal valuation specialists in assessing the models used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions.<br><br>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value. |
| ***Structured entities*** | |
| The Group has interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns.<br><br>The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter.<br><br>Relevant disclosures are included in Note V.47 to the consolidated financial statements. | We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity.<br><br>We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities.<br><br>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities. |

**Other Information included in the Annual Report**

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors for the Consolidated Financial Statements**

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of 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.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young

**Ernst & Young**
Certified Public Accountants

Hong Kong
31 March 2017

# Consolidated Financial Statements

## CONTENTS

# Consolidated Income Statement

For the year ended 31 December 2016 (Amount in millions of Renminbi, unless otherwise stated)

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| Interest income | V.1 | **566,139** | 615,056 |
| Interest expense | V.1 | **(260,091)** | (286,406) |
| **Net interest income** | | **306,048** | 328,650 |
| Fee and commission income | V.2 | **98,319** | 100,905 |
| Fee and commission expense | V.2 | **(9,655)** | (8,495) |
| **Net fee and commission income** | | **88,664** | 92,410 |
| Net trading gains | V.3 | **8,496** | 9,460 |
| Net gains on financial investments | V.4 | **12,524** | 5,765 |
| Other operating income | V.5 | **69,924** | 37,627 |
| **Operating income** | | **485,656** | 473,912 |
| Operating expenses | V.6 | **(175,069)** | (185,401) |
| Impairment losses on assets | V.9 | **(89,072)** | (59,274) |
| **Operating profit** | | **221,515** | 229,237 |
| Share of results of associates and joint ventures | V.20 | **897** | 2,334 |
| **Profit before income tax** | | **222,412** | 231,571 |
| Income tax expense | V.10 | **(38,361)** | (52,154) |
| **Profit for the year** | | **184,051** | 179,417 |
| **Attributable to:** | | | |
| Equity holders of the Bank | | **164,578** | 170,845 |
| Non-controlling interests | | **19,473** | 8,572 |
| | | **184,051** | 179,417 |
| Earnings per share | | | |
| (Expressed in RMB per ordinary share) | V.11 | | |
| — Basic | | **0.54** | 0.56 |
| — Diluted | | **0.54** | 0.56 |

For details of the dividends paid or proposed, please refer to Note V.39.3.

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016 (Amount in millions of Renminbi, unless otherwise stated)

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Profit for the year** | | **184,051** | 179,417 |
| **Other comprehensive income:** | V.12 | | |
| **Items that will not be reclassified to profit or loss** | | | |
| — Actuarial gains/(losses) on defined benefit plans | | **259** | (161) |
| — Other | | **18** | 14 |
| Subtotal | | **277** | (147) |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| — Net fair value (losses)/gains on available for sale financial assets | | **(15,128)** | 6,573 |
| — Share of other comprehensive income of associates and joint ventures accounted for using the equity method | | **(131)** | (361) |
| — Exchange differences from the translation of foreign operations | | **15,480** | 6,896 |
| — Other | | **1,898** | 336 |
| Subtotal | | **2,119** | 13,444 |
| **Other comprehensive income for the year, net of tax** | | **2,396** | 13,297 |
| **Total comprehensive income for the year** | | **186,447** | 192,714 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Bank | | **163,069** | 182,171 |
| Non-controlling interests | | **23,378** | 10,543 |
| | | **186,447** | 192,714 |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2016 (Amount in millions of Renminbi, unless otherwise stated)

| | | As at 31 December | |
|---|---|---|---|
| | Note | **2016** | 2015 |
| **ASSETS** | | | |
| Cash and due from banks and other financial institutions | V.13 | **659,982** | 654,378 |
| Balances with central banks | V.14 | **2,271,640** | 2,196,063 |
| Placements with and loans to banks and other financial institutions | V.15 | **594,048** | 426,848 |
| Government certificates of indebtedness for bank notes issued | V.27 | **117,421** | 91,191 |
| Precious metals | | **161,417** | 176,753 |
| Financial assets at fair value through profit or loss | V.16 | **124,090** | 119,062 |
| Derivative financial assets | V.17 | **130,549** | 82,236 |
| Loans and advances to customers, net | V.18 | **9,735,646** | 8,935,195 |
| Financial investments | V.19 | **3,848,794** | 3,476,033 |
| — available for sale | | **1,609,830** | 1,078,533 |
| — held to maturity | | **1,843,043** | 1,790,790 |
| — loans and receivables | | **395,921** | 606,710 |
| Investment in associates and joint ventures | V.20 | **14,059** | 10,843 |
| Property and equipment | V.21 | **194,897** | 182,031 |
| Investment properties | V.22 | **21,659** | 23,281 |
| Deferred income tax assets | V.35 | **34,341** | 22,246 |
| Assets held for sale | V.36 | **50,371** | 237,937 |
| Other assets | V.23 | **189,975** | 181,500 |
| **Total assets** | | **18,148,889** | 16,815,597 |

The accompanying notes form an integral part of these consolidated financial statements.

| | Note | As at 31 December 2016 | 2015 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Due to banks and other financial institutions | V.25 | **1,420,527** | 1,764,320 |
| Due to central banks | V.26 | **867,094** | 415,709 |
| Bank notes in circulation | V.27 | **117,656** | 91,331 |
| Placements from banks and other financial institutions | V.28 | **302,792** | 447,944 |
| Derivative financial liabilities | V.17 | **107,109** | 69,160 |
| Due to customers | V.29 | **12,939,748** | 11,729,171 |
| — at amortised cost | | **12,589,437** | 11,389,260 |
| — at fair value | | **350,311** | 339,911 |
| Bonds issued | V.30 | **362,318** | 282,929 |
| Other borrowings | V.31 | **27,152** | 30,281 |
| Current tax liabilities | V.32 | **28,055** | 37,982 |
| Retirement benefit obligations | V.33 | **3,439** | 4,255 |
| Deferred income tax liabilities | V.35 | **4,501** | 4,291 |
| Liabilities classified as held for sale | V.36 | **42,488** | 196,850 |
| Other liabilities | V.37 | **438,918** | 383,769 |
| **Total liabilities** | | **16,661,797** | 15,457,992 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Bank** | | | |
| Share capital | V.38.1 | **294,388** | 294,388 |
| Other equity instruments | V.38.4 | **99,714** | 99,714 |
| Capital reserve | V.38.2 | **141,972** | 140,098 |
| Treasury shares | V.38.3 | **(53)** | (86) |
| Other comprehensive income | V.12 | **(3,854)** | (2,345) |
| Statutory reserves | V.39.1 | **125,714** | 111,511 |
| General and regulatory reserves | V.39.2 | **193,462** | 179,485 |
| Undistributed profits | V.39 | **560,339** | 482,181 |
| | | **1,411,682** | 1,304,946 |
| **Non-controlling interests** | V.40 | **75,410** | 52,659 |
| **Total equity** | | **1,487,092** | 1,357,605 |
| **Total equity and liabilities** | | **18,148,889** | 16,815,597 |

Approved and authorised for issue by the Board of Directors on 31 March 2017.

The accompanying notes form an integral part of these consolidated financial statements.

**TIAN Guoli**
*Director*

**CHEN Siqing**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016 (Amount in millions of Renminbi, unless otherwise stated)

| | Note | Attributable to equity holders of the Bank | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Other equity instruments | Capital reserve | Other comprehensive income | Statutory reserves | General and regulatory reserves | Undistributed profits | Treasury shares | | |
| **As at 1 January 2016** | | **294,388** | **99,714** | **140,098** | **(2,345)** | **111,511** | **179,485** | **482,181** | **(86)** | **52,659** | **1,357,605** |
| Total comprehensive income | V.12 | **–** | **–** | **–** | **(1,509)** | **–** | **–** | **164,578** | **–** | **23,378** | **186,447** |
| Appropriation to statutory reserves | V.39.1 | **–** | **–** | **–** | **–** | **14,310** | **–** | **(14,310)** | **–** | **–** | **–** |
| Appropriation to general and regulatory reserves | V.39.2 | **–** | **–** | **–** | **–** | **–** | **15,245** | **(15,245)** | **–** | **–** | **–** |
| Dividends | V.39.3 | **–** | **–** | **–** | **–** | **–** | **–** | **(58,236)** | **–** | **(6,003)** | **(64,239)** |
| Net change in treasury shares | V.38.3 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **33** | **–** | **33** |
| Capital injection by non-controlling shareholders | | **–** | **–** | **1,738** | **–** | **–** | **–** | **–** | **–** | **5,995** | **7,733** |
| Disposal of subsidiaries and other | | **–** | **–** | **136** | **–** | **(107)** | **(1,268)** | **1,371** | **–** | **(619)** | **(487)** |
| As at 31 December 2016 | | **294,388** | **99,714** | **141,972** | **(3,854)** | **125,714** | **193,462** | **560,339** | **(53)** | **75,410** | **1,487,092** |

| | Note | Attributable to equity holders of the Bank | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Other equity instruments | Capital reserve | Other comprehensive income | Statutory reserves | General and regulatory reserves | Undistributed profits | Treasury shares | | |
| As at 1 January 2015 | | 288,731 | 71,745 | 130,797 | (13,671) | 96,105 | 159,341 | 407,836 | (25) | 42,569 | 1,183,428 |
| Total comprehensive income | V.12 | – | – | – | 11,326 | – | – | 170,845 | – | 10,543 | 192,714 |
| Conversion of convertible bonds and capital reserve | | 5,657 | – | 10,973 | – | – | – | – | – | – | 16,630 |
| Capital injection by other equity instruments holders | V.38.4 | – | 27,969 | – | – | – | – | – | – | – | 27,969 |
| Appropriation to statutory reserves | V.39.1 | – | – | – | – | 15,686 | – | (15,686) | – | – | – |
| Appropriation to general and regulatory reserves | V.39.2 | – | – | – | – | – | 20,144 | (20,144) | – | – | – |
| Dividends | V.39.3 | – | – | – | – | – | – | (60,946) | – | (3,497) | (64,443) |
| Net change in treasury shares | V.38.3 | – | – | – | – | – | – | – | (61) | – | (61) |
| Capital injection by non-controlling shareholders | | – | – | – | – | – | – | – | – | 3,077 | 3,077 |
| Equity component of convertible bonds | | – | – | (1,545) | – | – | – | – | – | – | (1,545) |
| Other | | – | – | (127) | – | (280) | – | 276 | – | (33) | (164) |
| As at 31 December 2015 | | 294,388 | 99,714 | 140,098 | (2,345) | 111,511 | 179,485 | 482,181 | (86) | 52,659 | 1,357,605 |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016 (Amount in millions of Renminbi, unless otherwise stated)

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **222,412** | 231,571 |
| Adjustments: | | | |
| Impairment losses on assets | | **89,072** | 59,274 |
| Depreciation of property and equipment | | **12,898** | 12,850 |
| Amortisation of intangible assets and other assets | | **2,793** | 2,758 |
| Net gains on disposal of property and equipment, intangible assets and other long-term assets | | **(576)** | (788) |
| Net gains on disposal of investment in subsidiaries, associates and joint ventures | | **(29,083)** | (2,026) |
| Share of results of associates and joint ventures | | **(897)** | (2,334) |
| Interest income arising from financial investments | | **(110,993)** | (105,279) |
| Dividends arising from investment securities | | **(775)** | (483) |
| Net gains on financial investments | | **(12,524)** | (5,765) |
| Interest expense arising from bonds issued | | **12,183** | 10,909 |
| Accreted interest on impaired loans | | **(2,480)** | (1,329) |
| Net changes in operating assets and liabilities: | | | |
| Net (increase)/decrease in balances with central banks | | **(200,508)** | 126,827 |
| Net increase in due from and placements with and loans to banks and other financial institutions | | **(25,240)** | (31,746) |
| Net decrease in precious metals | | **15,256** | 17,484 |
| Net increase in financial assets at fair value through profit or loss | | **(1,749)** | (27,772) |
| Net increase in loans and advances to customers | | **(914,251)** | (833,615) |
| Net increase in other assets | | **(134,139)** | (122,913) |
| Net decrease in due to banks and other financial institutions | | **(343,437)** | (12,809) |
| Net increase in due to central banks | | **451,386** | 67,444 |
| Net (decrease)/increase in placements from banks and other financial institutions | | **(155,290)** | 225,136 |
| Net increase in due to customers | | **1,248,709** | 1,028,905 |
| Net decrease in other borrowings | | **(3,129)** | (166) |
| Net increase in other liabilities | | **117,732** | 91,644 |
| Cash inflow from operating activities | | **237,370** | 727,777 |
| Income tax paid | | **(55,289)** | (55,683) |
| Net cash inflow from operating activities | | **182,081** | 672,094 |

The accompanying notes form an integral part of these consolidated financial statements.

For the year ended 31 December 2016 (Amount in millions of Renminbi, unless otherwise stated)

| | Note | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property and equipment, intangible assets and other long-term assets | | **11,201** | 12,580 |
| Proceeds from disposal of investment in subsidiaries, associates and joint ventures | | **27,857** | 7,416 |
| Dividends received | | **1,387** | 663 |
| Interest income received from financial investments | | **109,869** | 94,085 |
| Proceeds from disposal/maturity of financial investments | | **2,150,079** | 1,276,488 |
| Increase in investment in subsidiaries, associates and joint ventures | | **(2,860)** | (3,390) |
| Purchase of property and equipment, intangible assets and other long-term assets | | **(34,247)** | (36,942) |
| Purchase of financial investments | | **(2,509,672)** | (2,108,179) |
| Net cash outflow from investing activities | | **(246,386)** | (757,279) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of bonds | | **150,721** | 109,991 |
| Proceeds from issuance of preference shares of the Bank | | **–** | 27,969 |
| Proceeds from non-controlling shareholders investment | | **7,733** | 3,077 |
| Repayments of debts issued | | **(83,560)** | (93,643) |
| Cash payments for interest on bonds issued | | **(11,654)** | (11,445) |
| Dividend payments to equity holders of the Bank | | **(58,236)** | (60,946) |
| Dividend payments to non-controlling shareholders | | **(6,003)** | (3,497) |
| Other net cash flows from financing activities | | **(714)** | (221) |
| Net cash outflow from financing activities | | **(1,713)** | (28,715) |
| Effect of exchange rate changes on cash and cash equivalents | | **33,187** | 17,827 |
| **Net decrease in cash and cash equivalents** | | **(32,831)** | (96,073) |
| Cash and cash equivalents at beginning of year | | **1,052,078** | 1,148,151 |
| Cash and cash equivalents at end of year | V.43 | **1,019,247** | 1,052,078 |

The accompanying notes form an integral part of these consolidated financial statements.

# I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the "Bank"), formerly known as Bank of China, a State-owned joint stock commercial bank, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People's Republic of China (the "PRC") in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the "CBRC") No. B0003H111000001 and is issued the business license of legal enterprise with unified social credit code No. 911000001000013428 by the State Administration of Industry and Commerce of the PRC. The registered address is No. 1, Fuxingmen Nei Dajie, Beijing, China.

The Bank and its subsidiaries (together the "Group") provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macau, Taiwan and other major international financial centres.

The Bank's principal regulator is the CBRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 64.02% of the ordinary shares of the Bank as at 31 December 2016 (31 December 2015: 64.02%).

These consolidated financial statements have been approved by the Board of Directors on 31 March 2017.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

## 1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets available for sale, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties are measured at their fair values in the consolidated financial statement. Assets that meet the criteria to be classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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 III.

(Amount in millions of Renminbi, unless otherwise stated)

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 1 Basis of preparation (Continued)

### *1.1 Standards, amendments and interpretations effective in 2016*

On 1 January 2016, the Group adopted the following new standards, amendments and interpretations.

| | |
|---|---|
| IAS 27 Amendments | *Equity Method in Separate Financial Statements* |
| IFRS 10, IFRS 12 and IAS 28 Amendments | *Investment Entities: Applying the Consolidation Exception* |
| IAS 1 Amendments | *Disclosure Initiative* |
| IFRS 11 Amendments | *Accounting for Acquisitions of Interests in Joint Operations* |
| IAS 16 and IAS 38 Amendments | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Annual Improvements to IFRSs 2012–2014 cycle (issued in September 2014) | |

IAS 27 Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The amendments to IFRS 10, IFRS 12 and IAS 28 address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exception from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to IAS 1 include narrow-focus improvements in materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments.

The amendments to IFRS 11 require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a "business" (as defined in IFRS 3 *Business Combinations*).

The amendments to IAS 16 and IAS 38 clarify that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 1 Basis of preparation (Continued)

### *1.1 Standards, amendments and interpretations effective in 2016 (Continued)*

Annual Improvements to IFRSs 2012–2014 cycle:

*IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendments clarify that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

*IFRS 7 Financial Instruments: Disclosures*

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance in IFRS 7 for continuing involvement in order to assess whether the disclosures are required. In addition, the amendments clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

*IAS 19 Employee Benefits*

The amendments clarify that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

*IAS 34 Interim Financial Reporting*

The amendments clarify that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

The adoption of the above standards and amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

(Amount in millions of Renminbi, unless otherwise stated)

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 1 Basis of preparation (Continued)

### *1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016*

| | | Effective for annual periods beginning on or after |
|---|---|---|
| IAS 7 Amendments | *Statement of Cash Flows* | 1 January 2017 |
| IAS 12 Amendments | *Recognition of Deferred Tax Assets for Unrealised Losses* | 1 January 2017 |
| IAS 40 Amendments | *Transfers of Investment Property* | 1 January 2018 |
| IFRS 2 Amendments | *Share-based Payment* | 1 January 2018 |
| IFRS 4 Amendments | *Insurance Contracts* | 1 January 2018 |
| IFRS 9 | *Financial Instruments* | 1 January 2018 |
| IFRS 15 and Amendments | *Revenue from Contracts with Customers* | 1 January 2018 |
| IFRIC Interpretation 22 | *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 |
| IFRS 16 | *Leases* | 1 January 2019 |
| IFRS 10 and IAS 28 Amendments | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Effective date has been deferred indefinitely |
| Annual Improvements to IFRSs 2014–2016 cycle (issued in December 2016) | | |

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 1 Basis of preparation (Continued)

### *1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016 (Continued)*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IFRS 16 *Leases* requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The scope of the new standard includes leases of all assets, with certain exceptions.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2014–2016 cycle:

*IAS 28 Investments in Associates and Joint Ventures*

The amendments clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. The amendments are effective from 1 January 2018.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 1 Basis of preparation (Continued)

### *1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016 (Continued)*

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

Short-term exemptions for first-time adopters in IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

*IFRS 12 Disclosure of Interests in Other Entities*

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

## 2 Consolidation

### *2.1 Subsidiaries*

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements 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. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 2 Consolidation (Continued)

### *2.1 Subsidiaries (Continued)*

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

### *2.2 Associates and joint ventures*

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

### *2.3 Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests 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 recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded 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 subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 3 Foreign currency translation

### *3.1 Functional and presentation currency*

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

### *3.2 Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. 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 security and other changes in the carrying amount of the security. 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 all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalents is presented individually in the statement of cash flows.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments

### *4.1 Classification*

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale investments.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

*(1) Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated as at fair value through profit or loss at inception.

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or

- the financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments (Continued)

### *4.1 Classification (Continued)*

(2) *Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated as at fair value through profit or loss or as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

(3) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

- those that the Group upon initial recognition designates as available for sale; or

- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) *Available for sale investments*

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) *Other financial liabilities*

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss.

### *4.2 Initial recognition*

A financial asset or financial liability is recognised on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments (Continued)

### *4.3 Subsequent measurement*

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in "Other comprehensive income", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in "Other comprehensive income" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

### *4.4 Determination of fair value*

The 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 at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

### *4.5 De-recognition of financial instruments*

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

Financial liabilities are de-recognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments (Continued)

### *4.6 Impairment of financial assets*

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 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 assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- 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, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. An impairment is also indicated by a decline in fair value of 20% or more below initial cost for six consecutive months or longer or where fair value is below initial cost by 30% or more over a short period of time (i.e., one month); or
- other objective evidence indicating impairment of the financial asset.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments (Continued)

### *4.6 Impairment of financial assets (Continued)*

*(1) Assets carried at amortised cost*

Impairment loss for financial assets carried at amortised cost 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 original effective interest rate is computed at initial recognition. 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. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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, whether or not foreclosure is probable.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 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 currently exist.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised in the income statement.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments (Continued)

### *4.6 Impairment of financial assets (Continued)*

*(2) Assets classified as available for sale*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Other comprehensive income" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

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 previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

### *4.7 Derivative financial instruments and hedge accounting*

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group respectively. They are dependent on expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

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 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.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### *4.7 Derivative financial instruments and hedge accounting (Continued)*

*(1) Fair value hedge*

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

*(2) Cash flow hedge*

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in "Other comprehensive income". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

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

*(3) Net investment hedge*

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 4 Financial instruments (Continued)

### *4.8 Embedded derivatives*

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

### *4.9 Convertible bonds*

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in capital surplus under "Capital reserve".

### *4.10 Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metals swaps are for trading purpose, they are accounted for as derivative transactions.

## 6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

## 7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an 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. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

(Amount in millions of Renminbi, unless otherwise stated)

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 7 Property and equipment (Continued)

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

### *7.1 Buildings, equipment and motor vehicles*

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

| Type of assets | Estimated useful lives | Estimated residual value rate | Annual depreciation rate |
|---|---|---|---|
| Buildings | 15–50 years | 3% | 1.9%–6.5% |
| Equipment | 3–15 years | 3% | 6.4%–32.4% |
| Motor vehicles | 4–6 years | 3% | 16.1%–24.3% |

### *7.2 Aircraft*

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

### *7.3 Construction in progress*

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

## 8 Leases

### *8.1 Lease classification*

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Leases (Continued)

#### *8.2 Finance leases*

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

#### *8.3 Operating leases*

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

### 9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

### 10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

## 12 Employee benefits

### *12.1 Defined contribution plans and Defined benefit plans*

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in "Other comprehensive income" immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

### *12.2 Retirement benefit obligations*

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 12 Employee benefits (Continued)

### *12.2 Retirement benefit obligations (Continued)*

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in "Other comprehensive income" immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as "Operating expenses" when they occur.

### *12.3 Housing funds*

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

### *12.4 Cash-settled share-based compensation*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and de-recognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

### *12.5 Bonus plans*

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

## 13 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. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 14 Insurance contracts

### *14.1 Insurance contracts classification*

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group performs a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself 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).

### *14.2 Insurance contracts recognition and measurement*

*(1) Non-life insurance contracts*

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

*(2) Life insurance contracts*

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (investment-linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group 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.

### *14.3 Liability adequacy test*

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). 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 income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 15 Assets and liabilities held for sale

The Group classifies non-current assets or an asset group as held for sale if their carrying amounts are recovered principally through disposal rather than through continuing use. Assets and liabilities classified as held for sale are presented separately on the statement of financial position. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

### 16 Treasury shares and preference shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

Preference shares issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and preference shares issued are non-derivative instruments that will be settled in the Group's own equity instruments, but includes no contractual obligation for the Group to deliver a variable number of its own equity instruments. The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

### 17 Contingent liabilities

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.

### 18 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 debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised 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 the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date, any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 19 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

### 20 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

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 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 cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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 using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 21 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

### 22 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in Equity. In these cases, tax is also directly recognised in Equity.

#### *22.1 Current income tax*

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

# II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 22 Income taxes (Continued)

### *22.2 Deferred income tax*

Deferred income tax is recognised using the 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 financial reporting date 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 allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payables.

"Deferred income tax assets" are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

## 23 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

## 24 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

## III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported 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.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

### 1 Impairment allowances on loans and advances

The Group reviews its loans and advances to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, all other loans that are not individually significant or for which impairment has not yet been identified by including the loan in a group of loans with similar credit risk characteristics.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. 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 national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar 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 to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

## III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

### 2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

### 3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

### 4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

### 5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

# III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

## 6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

## 7 Taxes

The Group is subject to income, value-added and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

## 8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

## 9 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

# IV TAXATION

In accordance with the *Notice concerning the Nationwide Adoption of Value-added Tax in lieu of Business Tax Pilot Tax Collection Policy* (Caishui [2016] No. 36) issued by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation, the financial services provided by the Group within Chinese mainland shall be subject to value-added tax instead of business tax from 1 May 2016. The principal income and other taxes to which the Group is subject are listed below:

| Taxes | Tax basis | Statutory rates |
|---|---|---|
| **Chinese mainland** | | |
| Corporate income tax | Taxable income | 25% |
| Value-added tax | Taxable added value | 6% |
| Business tax | Business income | 5% |
| City construction and maintenance tax | Turnover tax paid | 1%–7% |
| Education surcharges | Turnover tax paid | 3% |
| Local education surcharges | Turnover tax paid | 2% |
| **Hong Kong** | | |
| Hong Kong profits tax | Assessable profits | 16.5% |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 Net interest income

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Interest income | | |
| Loans and advances to customers | **391,956** | 435,062 |
| Financial investments and financial assets at fair value through profit or loss(1) | **114,399** | 108,651 |
| Due from central banks | **29,831** | 29,543 |
| Due from and placements with and loans to banks and other financial institutions | **29,953** | 41,800 |
| Subtotal | **566,139** | 615,056 |
| Interest expense | | |
| Due to customers | **(199,915)** | (221,288) |
| Due to and placements from banks and other financial institutions | **(46,427)** | (53,050) |
| Bonds issued and other | **(13,749)** | (12,068) |
| Subtotal | **(260,091)** | (286,406) |
| Net interest income(2) | **306,048** | 328,650 |
| Interest income accrued on impaired financial assets (included within interest income) | **2,532** | 1,387 |

(1) Interest income on "Financial investments and financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within "Interest income" and "Interest expense" are RMB562,518 million (2015: RMB611,519 million) and RMB249,103 million (2015: RMB273,306 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2 Net fee and commission income

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Agency commissions | **24,178** | 24,481 |
| Bank card fees | **24,054** | 24,215 |
| Credit commitment fees | **15,426** | 16,541 |
| Settlement and clearing fees | **11,113** | 11,888 |
| Spread income from foreign exchange business | **7,149** | 7,388 |
| Consultancy and advisory fees | **5,701** | 5,757 |
| Custodian and other fiduciary service fees | **3,397** | 3,677 |
| Other | **7,301** | 6,958 |
| Fee and commission income | **98,319** | 100,905 |
| Fee and commission expense | **(9,655)** | (8,495) |
| Net fee and commission income | **88,664** | 92,410 |

## 3 Net trading gains

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Net gains from foreign exchange and foreign exchange products | **6,221** | 10,057 |
| Net gains/(losses) from interest rate products | **334** | (1,884) |
| Net gains from equity products | **254** | 841 |
| Net gains from commodity products | **1,687** | 446 |
| Total[(1)] | **8,496** | 9,460 |

(1) Included in "Net trading gains" above for the year ended 31 December 2016 are gains of RMB520 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (2015: losses of RMB3,985 million).

## 4 Net gains on financial investments

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Net gains from investment securities available for sale | **7,301** | 5,727 |
| Net gains from debt securities held to maturity | **4,674** | 23 |
| Other | **549** | 15 |
| Total | **12,524** | 5,765 |

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5 Other operating income

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Gains on disposal of subsidiaries, associates and joint ventures(1) | **29,083** | 2,026 |
| Insurance premiums(2) | **18,346** | 16,166 |
| Aircraft leasing income | **6,976** | 6,088 |
| Revenue from sale of precious metals products | **6,737** | 6,130 |
| Dividend income | **1,054** | 765 |
| Gains on disposal of property and equipment, intangible assets and other assets | **669** | 857 |
| Changes in fair value of investment properties (Note V.22) | **1,134** | 620 |
| Other | **5,925** | 4,975 |
| Total | **69,924** | 37,627 |

(1) This mainly represents the gains on disposal of Nanyang Commercial Bank, Limited ("NCB") for the year.

(2) Details of insurance premium income are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Life insurance contracts | | |
| Gross earned premiums | **20,727** | 19,204 |
| Less: gross written premiums ceded to reinsurers | **(7,495)** | (8,215) |
| Net insurance premium income | **13,232** | 10,989 |
| Non-life insurance contracts | | |
| Gross earned premiums | **5,954** | 5,884 |
| Less: gross written premiums ceded to reinsurers | **(840)** | (707) |
| Net insurance premium income | **5,114** | 5,177 |
| Total | **18,346** | 16,166 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6 Operating expenses

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Staff costs (Note V.7) | **81,080** | 80,324 |
| General operating and administrative expenses[(1)] | **41,565** | 40,671 |
| Insurance benefits and claims | | |
| — Life insurance contracts | **13,322** | 10,531 |
| — Non-life insurance contracts | **3,482** | 3,592 |
| Depreciation and amortisation | **13,175** | 13,218 |
| Taxes and surcharges | **9,810** | 26,734 |
| Cost of sales of precious metals products | **6,234** | 5,723 |
| Other | **6,401** | 4,608 |
| Total[(2)] | **175,069** | 185,401 |

(1) Included in the "General operating and administrative expenses" are principal auditors' remuneration of RMB213 million for the year ended 31 December 2016 (2015: RMB214 million), of which RMB59 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2015: RMB47 million).

(2) Included in the "Operating expenses" are operating lease expenses of RMB7,368 million and premises and equipment related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB11,977 million (2015: RMB7,104 million and RMB11,770 million, respectively).

## 7 Staff costs

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Salary, bonus and subsidy | **55,792** | 54,462 |
| Staff welfare | **2,908** | 2,919 |
| Retirement benefits | **18** | 202 |
| Social insurance | | |
| — Medical | **3,254** | 3,280 |
| — Pension | **6,585** | 6,587 |
| — Annuity | **2,060** | 2,060 |
| — Unemployment | **325** | 413 |
| — Injury at work | **102** | 163 |
| — Maternity insurance | **203** | 223 |
| Housing funds | **5,066** | 5,428 |
| Labour union fee and staff education fee | **1,918** | 1,911 |
| Reimbursement for cancellation of labour contract | **11** | 7 |
| Other | **2,838** | 2,669 |
| Total | **81,080** | 80,324 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

**For the year ended 31 December 2016**

| | Fees | Remuneration paid | Contributions to pension schemes | Benefits in kind | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Executive directors*** | | | | | |
| TIAN Guoli(4) | –(2) | 484 | 114 | 63 | 661 |
| CHEN Siqing(4) | –(2) | 484 | 112 | 63 | 659 |
| REN Deqi(4)(5) | –(2) | 436 | 76 | 63 | 575 |
| GAO Yingxin(4)(5) | –(2) | 436 | 93 | 63 | 592 |
| ZHU Hexin(4)(5)(6) | –(2) | 182 | 35 | 25 | 242 |
| ***Non-executive directors*** | | | | | |
| ZHANG Xiangdong(1) | – | – | – | – | – |
| ZHANG Qi(1) | – | – | – | – | – |
| LIU Xianghui(1) | – | – | – | – | – |
| LI Jucai(1) | – | – | – | – | – |
| WANG Yong(1)(6) | – | – | – | – | – |
| WANG Wei(1)(6) | – | – | – | – | – |
| ***Independent directors*** | | | | | |
| Nout WELLINK | 500 | – | – | – | 500 |
| LU Zhengfei | 514 | – | – | – | 514 |
| LEUNG Cheuk Yan | 400 | – | – | – | 400 |
| WANG Changyun(5) | 130 | – | – | – | 130 |
| CHOW Man Yiu, Paul(6) | 300 | – | – | – | 300 |
| Jackson TAI(6) | 267 | – | – | – | 267 |
| ***Supervisors*** | | | | | |
| WANG Xiquan(4)(5) | – | 40 | 5 | 5 | 50 |
| WANG Xueqiang(4) | – | 776 | 128 | 248 | 1,152 |
| LIU Wanming(4) | – | 726 | 123 | 237 | 1,086 |
| DENG Zhiying | 50(3) | – | – | – | 50 |
| GAO Zhaogang(5) | 38(3) | – | – | – | 38 |
| XIANG Xi | 50(3) | – | – | – | 50 |
| CHEN Yuhua | 180 | – | – | – | 180 |
| LI Jun(4)(6) | – | 444 | 122 | 58 | 624 |
| LIU Xiaozhong(6) | 17(3) | – | – | – | 17 |
| | 2,446 | 4,008 | 808 | 825 | 8,087 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8 Directors', supervisors' and senior management's emoluments (Continued)

**For the year ended 31 December 2015**

| | Fees | Remuneration paid | Contributions to pension schemes | Benefits in kind | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***Executive directors*** | | | | | |
| TIAN Guoli[4] | –[2] | 625 | 112 | 58 | 795 |
| CHEN Siqing[4] | –[2] | 625 | 107 | 58 | 790 |
| LI Zaohang[4] | –[2] | 282 | 75 | 27 | 384 |
| ***Non-executive directors*** | | | | | |
| ZHANG Xiangdong[1] | – | – | – | – | – |
| ZHANG Qi[1] | – | – | – | – | – |
| WANG Yong[1] | – | – | – | – | – |
| WANG Wei[1] | – | – | – | – | – |
| LIU Xianghui[1] | – | – | – | – | – |
| LI Jucai[1] | – | – | – | – | – |
| SUN Zhijun[1] | – | – | – | – | – |
| ***Independent directors*** | | | | | |
| CHOW Man Yiu, Paul | 450 | – | – | – | 450 |
| Jackson TAI | 400 | – | – | – | 400 |
| Nout WELLINK | 500 | – | – | – | 500 |
| LU Zhengfei | 500 | – | – | – | 500 |
| LEUNG Cheuk Yan | 400 | – | – | – | 400 |
| ***Supervisors*** | | | | | |
| LI Jun[4] | – | 625 | 129 | 58 | 812 |
| WANG Xueqiang[4] | – | 1,364 | 113 | 238 | 1,715 |
| LIU Wanming[4] | – | 1,276 | 100 | 228 | 1,604 |
| DENG Zhiying | 50[3] | – | – | – | 50 |
| LIU Xiaozhong | 50[3] | – | – | – | 50 |
| XIANG Xi | 50[3] | – | – | – | 50 |
| CHEN Yuhua | 97 | – | – | – | 97 |
| MEI Xingbao | 150 | – | – | – | 150 |
| | 2,647 | 4,797 | 636 | 667 | 8,747 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2016 and 2015, these non-executive directors of the Bank were not remunerated by the Bank.

(2) For the years ended 31 December 2016 and 2015, these executive directors of the Bank did not receive any fees.

(3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.

(4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2016 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2016 financial statements. The final compensation for the year ended 31 December 2016 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2015 were restated based on the finalised amounts as disclosed in the Bank's announcement dated 30 August 2016.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(5) ZHU Hexin began to serve as Executive Director of the Bank as of 1 February 2016. REN Deqi began to serve as Executive Director of the Bank as of 8 December 2016. GAO Yingxin began to serve as Executive Director of the Bank as of 8 December 2016. WANG Changyun began to serve as Independent Director of the Bank as of 18 August 2016. Angela CHAO began to serve as Independent Director of the Bank as of 4 January 2017. Since Angela CHAO did not hold any position at the Bank in 2016, no emoluments were disclosed in 2016. WANG Xiquan began to serve as Supervisor and Chairman of the Board of Supervisors of the Bank as of 18 November 2016. GAO Zhaogang began to serve as Supervisor of the Bank as of 14 April 2016.

(6) ZHU Hexin ceased to serve as Executive Director of the Bank as of 1 June 2016. WANG Yong ceased to serve as Non-executive Director of the Bank as of 14 September 2016. WANG Wei ceased to serve as Non-executive Director of the Bank as of 19 January 2017. CHOW Man Yiu, Paul ceased to serve as Independent Director of the Bank as of 18 August 2016. Jackson TAI ceased to serve as Independent Director of the Bank as of 1 September 2016. LI Jun ceased to serve as Supervisor and Chairman of the Board of Supervisors of the Bank as of 18 November 2016. LIU Xiaozhong ceased to serve as Supervisor of the Bank as of 14 April 2016.

***Five highest paid individuals***

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2016 and 2015 respectively are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Basic salaries and allowances | **20** | 16 |
| Discretionary bonuses | **81** | 83 |
| Contributions to pension schemes and other | **3** | 2 |
| | **104** | 101 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8 Directors', supervisors' and senior management's emoluments (Continued)

***Five highest paid individuals (Continued)***

Emoluments of the individuals were within the following bands:

| | Year ended 31 December | |
|---|---|---|
| Amounts in RMB | **2016** | 2015 |
| 13,000,001–14,000,000 | **–** | 1 |
| 14,000,001–15,000,000 | **1** | 1 |
| 16,000,001–20,000,000 | **3** | 2 |
| 30,000,001–40,000,000 | **1** | 1 |

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2016 and 2015, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

## 9 Impairment losses on assets

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Loans and advances | | |
| — Individually assessed | **30,508** | 30,064 |
| — Collectively assessed | **56,287** | 25,808 |
| Subtotal | **86,795** | 55,872 |
| Financial investments | | |
| — available for sale | **946** | (1) |
| — held to maturity | **(20)** | (35) |
| — loans and receivables | **718** | 1,690 |
| Subtotal | **1,644** | 1,654 |
| Other | **633** | 1,748 |
| Total(1) | **89,072** | 59,274 |

(1) Details of new allowances and reversal of impairment losses on loans and advances and financial investments are disclosed in Notes V.18 and V.24, respectively.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10 Income tax expense

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Current income tax | | |
| — Chinese mainland income tax | **38,097** | 44,376 |
| — Hong Kong profits tax | **4,446** | 4,210 |
| — Macau, Taiwan and other countries and regions taxation | **4,275** | 3,218 |
| Adjustments in respect of current income tax of prior years | **(1,590)** | 273 |
| Subtotal | **45,228** | 52,077 |
| Deferred income tax (Note V.35) | **(6,867)** | 77 |
| Total | **38,361** | 52,154 |

The principal tax rates applicable to the Group are set out in Note IV.

Provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit before income tax | **222,412** | 231,571 |
| Tax calculated at the applicable statutory tax rate | **55,603** | 57,893 |
| Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions | **(5,641)** | (4,010) |
| Supplementary PRC tax on overseas income | **3,689** | 3,696 |
| Income not subject to tax(1) | **(20,154)** | (10,865) |
| Items not deductible for tax purposes(2) | **6,292** | 6,569 |
| Other | **(1,428)** | (1,129) |
| Income tax expense | **38,361** | 52,154 |

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 11 Earnings per share (basic and diluted)

***Basic earnings per share***

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit attributable to equity holders of the Bank | **164,578** | 170,845 |
| Less: dividends on preference shares declared | **(6,718)** | (5,012) |
| Profit attributable to ordinary shareholders of the Bank | **157,860** | 165,833 |
| Weighted average number of ordinary shares in issue (in million shares) | **294,376** | 293,722 |
| Basic earnings per share (in RMB per share) | **0.54** | 0.56 |

Weighted average number of ordinary shares in issue (in million shares)

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Issued ordinary shares as at 1 January | **294,388** | 288,731 |
| Add: weighted average number of shares from conversion of convertible bonds | **–** | 5,018 |
| Less: weighted average number of treasury shares | **(12)** | (27) |
| Weighted average number of ordinary shares in issue | **294,376** | 293,722 |

***Diluted earnings per share***

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all potentially dilutive shares for the period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the year ended 31 December 2016.

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit attributable to ordinary shareholders of the Bank | **157,860** | 165,833 |
| Add: interest expense on convertible bonds, net of tax | **–** | 47 |
| Profit used to determine diluted earnings per share | **157,860** | 165,880 |
| Weighted average number of ordinary shares in issue (in million shares) | **294,376** | 293,722 |
| Add: weighted average number of ordinary shares assuming conversion of all convertible bonds (in million shares) | **–** | 640 |
| Weighted average number of ordinary shares in issue for diluted earnings per share (in million shares) | **294,376** | 294,362 |
| Diluted earnings per share (in RMB per share) | **0.54** | 0.56 |

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 12 Other comprehensive income

Accrual amount of other comprehensive income:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Items that will not be reclassified to profit or loss** | | |
| Actuarial gains/(losses) on defined benefit plans | **259** | (161) |
| Other | **18** | 14 |
| Subtotal | **277** | (147) |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Fair value (losses)/gains on available for sale financial assets | **(12,920)** | 14,096 |
| Less: related income tax impact | **2,823** | (3,674) |
| Amount transferred to the income statement | **(6,786)** | (4,972) |
| Less: related income tax impact | **1,755** | 1,123 |
| | **(15,128)** | 6,573 |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method | **(133)** | 1,498 |
| Less: related income tax impact | **2** | 5 |
| Amount transferred to the income statement | **–** | (1,864) |
| | **(131)** | (361) |
| Exchange differences on translation of foreign operations | **16,949** | 6,765 |
| Less: net amount transferred to the income statement from other comprehensive income | **(1,469)** | 131 |
| | **15,480** | 6,896 |
| Other | **1,898** | 336 |
| Subtotal | **2,119** | 13,444 |
| Total | **2,396** | 13,297 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 12 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

| | Fair value gains on available for sale financial assets | Exchange differences on translation of foreign operations | Other | Total |
|---|---|---|---|---|
| As at 1 January 2015 | 9,702 | (24,393) | 1,020 | (13,671) |
| Changes in amount for the previous year | 7,278 | 4,345 | (297) | 11,326 |
| As at 1 January 2016 | 16,980 | (20,048) | 723 | (2,345) |
| Changes in amount for the year | (14,850) | 11,825 | 1,516 | (1,509) |
| As at 31 December 2016 | 2,130 | (8,223) | 2,239 | (3,854) |

## 13 Cash and due from banks and other financial institutions

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Cash | **77,548** | 73,371 |
| Due from banks in Chinese mainland | **521,567** | 538,501 |
| Due from other financial institutions in Chinese mainland | **6,579** | 1,377 |
| Due from banks in Hong Kong, Macau, Taiwan and other countries and regions | **54,201** | 41,063 |
| Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions | **87** | 66 |
| Total | **659,982** | 654,378 |

## 14 Balances with central banks

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Mandatory reserves(1) | **1,723,495** | 1,580,456 |
| Surplus reserves(2) | **118,166** | 132,833 |
| Other(3) | **429,979** | 482,774 |
| Total | **2,271,640** | 2,196,063 |

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2016, mandatory reserve funds placed with the PBOC were calculated at 17.0% (31 December 2015: 17.0%) and 5.0% (31 December 2015: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15 Placements with and loans to banks and other financial institutions

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Placements with and loans to: | | |
| Banks in Chinese mainland | **206,246** | 118,664 |
| Other financial institutions in Chinese mainland | **285,122** | 214,495 |
| Banks in Hong Kong, Macau, Taiwan and other countries and regions | **100,291** | 93,881 |
| Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions | **2,589** | – |
| Subtotal[1] | **594,248** | 427,040 |
| Allowance for impairment losses | **(200)** | (192) |
| Total | **594,048** | 426,848 |
| Impaired placements | **158** | 158 |
| Percentage of impaired placements to total placements with and loans to banks and other financial institutions | **0.03%** | 0.04% |

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Debt securities | | |
| — Governments | **40,853** | 33,500 |
| — Policy banks | **56,696** | 41,452 |
| — Financial institutions | **9,408** | 151 |
| — Corporate | **3,162** | – |
| Subtotal | **110,119** | 75,103 |
| Bills | **–** | 1,527 |
| Total | **110,119** | 76,630 |

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Financial assets at fair value through profit or loss

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Trading financial assets** | | |
| Debt securities | | |
| Issuers in Chinese mainland | | |
| — Government | **3,399** | 5,151 |
| — Public sectors and quasi-governments | **49** | – |
| — Policy banks | **4,525** | 6,301 |
| — Financial institutions | **31,773** | 19,122 |
| — Corporate | **4,044** | 4,694 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | |
| — Governments | **16,371** | 12,646 |
| — Public sectors and quasi-governments | **587** | 506 |
| — Financial institutions | **4,886** | 2,138 |
| — Corporate | **2,921** | 3,446 |
| | **68,555** | 54,004 |
| Equity securities | **5,567** | 7,471 |
| Fund investments and other | **1,503** | 3,547 |
| Subtotal | **75,625** | 65,022 |
| **Financial assets designated as at fair value through profit or loss** | | |
| Debt securities | | |
| Issuers in Chinese mainland | | |
| — Government | **224** | 390 |
| — Policy banks | **136** | 102 |
| — Financial institutions | **1,815** | 2,291 |
| — Corporate | **4,213** | 4,216 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | |
| — Governments | **5,721** | 2,305 |
| — Financial institutions | **20,952** | 25,016 |
| — Corporate | **4,556** | 11,540 |
| | **37,617** | 45,860 |
| Loans(1) | **6,022** | 4,218 |
| Equity securities | **1,980** | 1,867 |
| Fund investments | **2,846** | 2,095 |
| Subtotal | **48,465** | 54,040 |
| Total(2)(3) | **124,090** | 119,062 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 16 Financial assets at fair value through profit or loss (Continued)

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Analysed as follows: | | |
| Listed in Hong Kong | **25,260** | 31,921 |
| Listed outside Hong Kong[4] | **64,555** | 53,690 |
| Unlisted | **34,275** | 33,451 |
| Total | **124,090** | 119,062 |

(1) There was no significant change during the years ended 31 December 2016 and 2015 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(2) As at 31 December 2016, the Group held bonds issued by the MOF and bills issued by the PBOC included in "Financial assets at fair value through profit or loss". The carrying value and the related coupon rate range on such bonds and bills are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Carrying value | **3,613** | 5,541 |
| Coupon rate range | **0.00%–4.67%** | 0.00%–4.26% |

(3) As at 31 December 2016, included in the Group's "Financial assets at fair value through profit or loss" were certificates of deposit held of RMB28,737 million (31 December 2015: RMB17,200 million).

(4) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

## 17 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17 Derivative financial instruments and hedge accounting (Continued)

### *17.1 Derivative financial instruments*

| | As at 31 December 2016 | | | As at 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Contractual/ notional amount | Fair value Assets | Fair value Liabilities | Contractual/ notional amount | Fair value Assets | Fair value Liabilities |
| Exchange rate derivatives | | | | | | |
| Currency forwards and swaps, and cross-currency interest rate swaps[1] | **5,364,363** | **109,007** | **(86,779)** | 4,516,512 | 67,447 | (55,366) |
| Currency options | **302,945** | **2,224** | **(3,873)** | 225,919 | 1,727 | (1,710) |
| Currency futures | **953** | **1** | **(4)** | – | – | – |
| Subtotal | **5,668,261** | **111,232** | **(90,656)** | 4,742,431 | 69,174 | (57,076) |
| Interest rate derivatives | | | | | | |
| Interest rate swaps | **1,779,761** | **10,616** | **(8,654)** | 1,051,031 | 5,235 | (5,802) |
| Interest rate options | **9,910** | **18** | **(24)** | – | – | – |
| Interest rate futures | **3,304** | **3** | **(8)** | 2,512 | 4 | (1) |
| Subtotal | **1,792,975** | **10,637** | **(8,686)** | 1,053,543 | 5,239 | (5,803) |
| Equity derivatives | **12,168** | **224** | **(225)** | 9,855 | 441 | (279) |
| Commodity derivatives and other | **405,541** | **8,456** | **(7,542)** | 189,905 | 7,382 | (6,002) |
| Total | **7,878,945** | **130,549** | **(107,109)** | 5,995,734 | 82,236 | (69,160) |

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17 Derivative financial instruments and hedge accounting (Continued)

### *17.2 Hedge accounting*

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

| | As at 31 December 2016 | | | As at 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Contractual/ notional amount | Fair value Assets | Fair value Liabilities | Contractual/ notional amount | Fair value Assets | Fair value Liabilities |
| Derivatives designated as hedging instruments in fair value hedges | | | | | | |
| Cross-currency interest rate swaps | **7,718** | **–** | **(1,369)** | 7,225 | – | (993) |
| Interest rate swaps | **123,642** | **2,502** | **(1,024)** | 73,721 | 1,461 | (1,014) |
| Subtotal[1] | **131,360** | **2,502** | **(2,393)** | 80,946 | 1,461 | (2,007) |
| Derivatives designated as hedging instruments in cash flow hedges | | | | | | |
| Cross-currency interest rate swaps | **1,087** | **66** | **(79)** | 1,017 | 42 | (80) |
| Interest rate swaps | **5,550** | **122** | **–** | – | – | – |
| Subtotal[2] | **6,637** | **188** | **(79)** | 1,017 | 42 | (80) |
| Total | **137,997** | **2,690** | **(2,472)** | 81,963 | 1,503 | (2,087) |

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign currency exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Net gains/(losses) on | | |
| — hedging instruments | **1,651** | (89) |
| — hedged items | **(1,117)** | 317 |
| Ineffectiveness recognised in net trading gains | **534** | 228 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17 Derivative financial instruments and hedge accounting (Continued)

### *17.2 Hedge accounting (Continued)*

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rate risk and interest rate risk of placement and loan transactions.

For the year ended 31 December 2016, a net gain from cash flow hedges of RMB86 million was recognised in "Other comprehensive income" (2015: net gain of RMB26 million), and there was no ineffectiveness for the years ended 31 December 2016 and 2015.

There were no transactions for which cash flow hedge accounting had to be ceased in the years ended 31 December 2016 and 2015 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations.

For the year ended 31 December 2016, a net loss from the hedging instrument of RMB1,357 million was recognised in "Other comprehensive income" on net investment hedges (2015: net loss of RMB1,023 million), and there was no ineffectiveness in the years ended 31 December 2016 and 2015.

## 18 Loans and advances to customers

### *18.1* Analysis of loans and advances to customers

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Corporate loans and advances | | |
| — Loans and advances | **6,270,728** | 6,105,959 |
| — Discounted bills | **298,241** | 263,953 |
| Subtotal | **6,568,969** | 6,369,912 |
| Personal loans | | |
| — Mortgages | **2,635,960** | 2,045,787 |
| — Credit cards | **302,302** | 268,923 |
| — Other | **466,131** | 451,238 |
| Subtotal | **3,404,393** | 2,765,948 |
| Total loans and advances | **9,973,362** | 9,135,860 |
| Less: allowance for impairment losses | | |
| — Individually assessed | **(70,093)** | (60,791) |
| — Collectively assessed | **(167,623)** | (139,874) |
| Total allowance for impairment losses | **(237,716)** | (200,665) |
| Loans and advances to customers, net | **9,735,646** | 8,935,195 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 18 Loans and advances to customers (Continued)

***18.2*** Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI.3.5.

***18.3*** Analysis of loans and advances to customers by collective and individual allowance assessments

| | Loans and advances for which allowance is collectively assessed[1] | Identified impaired loans and advances[2] | | | | Identified impaired loans and advances as % of total loans and advances |
|---|---|---|---|---|---|---|
| | | for which allowance is collectively assessed | for which allowance is individually assessed | Subtotal | Total | |
| **As at 31 December 2016** | | | | | | |
| Total loans and advances | **9,828,051** | **44,225** | **101,086** | **145,311** | **9,973,362** | **1.46%** |
| Allowance for impairment losses | **(139,957)** | **(27,666)** | **(70,093)** | **(97,759)** | **(237,716)** | |
| Loans and advances to customers, net | **9,688,094** | **16,559** | **30,993** | **47,552** | **9,735,646** | |
| **As at 31 December 2015** | | | | | | |
| Total loans and advances | 9,005,623 | 39,563 | 90,674 | 130,237 | 9,135,860 | 1.43% |
| Allowance for impairment losses | (117,530) | (22,344) | (60,791) | (83,135) | (200,665) | |
| Loans and advances to customers, net | 8,888,093 | 17,219 | 29,883 | 47,102 | 8,935,195 | |

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 18 Loans and advances to customers (Continued)

**18.4** Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Individually assessed allowance | Collectively assessed allowance | Total | Individually assessed allowance | Collectively assessed allowance | Total |
| As at 1 January | **60,791** | **139,874** | **200,665** | 49,239 | 139,292 | 188,531 |
| Impairment losses for the year | **40,589** | **86,847** | **127,436** | 36,419 | 67,358 | 103,777 |
| Reversal | **(10,081)** | **(30,560)** | **(40,641)** | (6,355) | (41,550) | (47,905) |
| Write-off and transfer out | **(23,611)** | **(28,865)** | **(52,476)** | (19,551) | (25,646) | (45,197) |
| Transfer in | | | | | | |
| — Recovery of loans and advances written off | **3,106** | **237** | **3,343** | 1,186 | 136 | 1,322 |
| — Unwind of discount on allowance | **(1,261)** | **(1,219)** | **(2,480)** | (529) | (800) | (1,329) |
| — Exchange differences | **560** | **1,309** | **1,869** | 382 | 1,084 | 1,466 |
| As at 31 December | **70,093** | **167,623** | **237,716** | 60,791 | 139,874 | 200,665 |

**18.5** Reconciliation of allowance for impairment losses on loans and advances to customers by customer type

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Corporate | Personal | Total | Corporate | Personal | Total |
| As at 1 January | **160,380** | **40,285** | **200,665** | 152,682 | 35,849 | 188,531 |
| Impairment losses for the year | **105,936** | **21,500** | **127,436** | 89,871 | 13,906 | 103,777 |
| Reversal | **(40,551)** | **(90)** | **(40,641)** | (47,704) | (201) | (47,905) |
| Write-off and transfer out | **(42,962)** | **(9,514)** | **(52,476)** | (36,210) | (8,987) | (45,197) |
| Transfer in | | | | | | |
| — Recovery of loans and advances written off | **3,279** | **64** | **3,343** | 1,279 | 43 | 1,322 |
| — Unwind of discount on allowance | **(2,027)** | **(453)** | **(2,480)** | (961) | (368) | (1,329) |
| — Exchange differences | **1,773** | **96** | **1,869** | 1,423 | 43 | 1,466 |
| As at 31 December | **185,828** | **51,888** | **237,716** | 160,380 | 40,285 | 200,665 |

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19 Financial investments

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Investment securities available for sale** | | |
| Debt securities | | |
| Issuers in Chinese mainland | | |
| — Government | **505,537** | 198,333 |
| — Public sectors and quasi-governments | **21,919** | 22,245 |
| — Policy banks | **152,188** | 153,831 |
| — Financial institutions | **174,998** | 153,622 |
| — Corporate | **133,362** | 129,027 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | |
| — Governments | **272,531** | 189,310 |
| — Public sectors and quasi-governments | **33,682** | 18,020 |
| — Financial institutions | **160,399** | 106,867 |
| — Corporate | **81,347** | 58,587 |
| | **1,535,963** | 1,029,842 |
| Equity securities | **33,936** | 30,209 |
| Fund investments and other | **39,931** | 18,482 |
| Total investment securities available for sale(1) | **1,609,830** | 1,078,533 |
| **Debt securities held to maturity** | | |
| Issuers in Chinese mainland | | |
| — Government | **1,336,609** | 1,117,213 |
| — Public sectors and quasi-governments | **30,047** | 37,548 |
| — Policy banks | **231,425** | 276,054 |
| — Financial institutions | **51,696** | 70,272 |
| — Corporate | **42,111** | 128,292 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | |
| — Governments | **47,728** | 84,913 |
| — Public sectors and quasi-governments | **41,878** | 20,092 |
| — Financial institutions | **31,185** | 23,361 |
| — Corporate | **30,408** | 33,239 |
| | **1,843,087** | 1,790,984 |
| Allowance for impairment losses | **(44)** | (194) |
| Total debt securities held to maturity(2) | **1,843,043** | 1,790,790 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 19 Financial investments (Continued)

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Financial investments classified as loans and receivables** | | |
| Debt securities | | |
| Issuers in Chinese mainland | | |
| — Government[3][4] | **158,958** | 90,388 |
| — Public sectors and quasi-governments | **–** | 2,500 |
| — Policy banks | **1,500** | 5,000 |
| — Financial institutions | **32,579** | 47,671 |
| — Corporate | **6,548** | 12,546 |
| — China Orient[5] | **160,000** | 160,000 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | |
| — Governments | **347** | 324 |
| — Public sectors and quasi-governments | **13,995** | 11,957 |
| — Financial institutions | **135** | 2 |
| — Corporate | **1,394** | 8 |
| | **375,456** | 330,396 |
| Investment trusts, asset management plans and other[6] | **22,938** | 278,068 |
| Allowance for impairment losses | **(2,473)** | (1,754) |
| Total financial investments classified as loans and receivables | **395,921** | 606,710 |
| **Total financial investments[7][8]** | **3,848,794** | 3,476,033 |
| Analysed as follows: | | |
| **Investment securities available for sale** | | |
| Debt securities | | |
| — Listed in Hong Kong | **81,136** | 47,203 |
| — Listed outside Hong Kong | **1,070,542** | 639,331 |
| — Unlisted | **384,285** | 343,308 |
| Equity, fund and other | | |
| — Listed in Hong Kong | **7,102** | 5,775 |
| — Listed outside Hong Kong | **1,188** | 162 |
| — Unlisted | **65,577** | 42,754 |
| **Debt securities held to maturity** | | |
| — Listed in Hong Kong | **36,990** | 26,561 |
| — Listed outside Hong Kong | **1,701,213** | 1,552,348 |
| — Unlisted | **104,840** | 211,881 |
| **Financial investments classified as loans and receivables** | | |
| — Unlisted | **395,921** | 606,710 |
| Total | **3,848,794** | 3,476,033 |
| Listed in Hong Kong | **125,228** | 79,539 |
| Listed outside Hong Kong | **2,772,943** | 2,191,841 |
| Unlisted | **950,623** | 1,204,653 |
| Total | **3,848,794** | 3,476,033 |

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19 Financial investments (Continued)

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Carrying value | Market value | Carrying value | Market value |
| Debt securities held to maturity | | | | |
| — Listed in Hong Kong | **36,990** | **37,196** | 26,561 | 26,791 |
| — Listed outside Hong Kong | **1,701,213** | **1,711,302** | 1,552,348 | 1,593,092 |

(1) The Group's accumulated impairment charge on the above available for sale debt securities, equity instruments and other as at 31 December 2016 amounted to RMB1,295 million and RMB5,808 million, respectively (31 December 2015: RMB1,410 million and RMB4,864 million, respectively).

(2) In 2016, the Group reclassified certain debt securities with a total carrying value of RMB1,635 million from "Investment securities available for sale" to "Investment securities held to maturity" (2015: RMB7,513 million). The Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification. In 2016, the Group reclassified certain debt securities with amortised cost of RMB4,243 million from "Investment securities held to maturity" to "Investment securities available for sale" due to the implementation of value-added tax reform and management's change of investment intention (2015: Nil).

(3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(4) The Bank underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Bank as at 31 December 2016 amounted to RMB1,891 million (31 December 2015: RMB2,507 million).

(5) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 *Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank*.

(6) This represents the Group's investments in investment trusts and asset management plans which were managed by trust companies or securities companies. The underlying assets of these investment trusts and asset management plans mainly consist of beneficial rights in financial assets, of which other banks bear the payment obligations in the future.

(7) As at 31 December 2016, the Group held bonds issued by the MOF and bills issued by the PBOC included in financial investments. The carrying value and the related coupon rate range on such bonds and bills are as follows:

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Carrying value | **900,817** | 955,457 |
| Coupon rate range | **0.00%–5.41%** | 0.00%–5.41% |

(8) Included in the Group's financial investments were certificates of deposit held amounting to RMB76,152 million as at 31 December 2016 (31 December 2015: RMB118,251 million).

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 20 Investment in associates and joint ventures

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **10,843** | 14,379 |
| Additions | **3,277** | 3,390 |
| Disposals | **(666)** | (9,762) |
| Share of results, net of tax | **897** | 2,334 |
| Dividends received | **(612)** | (180) |
| Exchange differences and other | **320** | 682 |
| As at 31 December | **14,059** | 10,843 |

Investment in associates and joint ventures of the Group comprise of ordinary shares of unlisted companies. The carrying amount by principal investees was as follows. Further details are disclosed in Note V.44.4.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| BOC International (China) Limited | **3,983** | 3,759 |
| BOC & Cinda (Wuhu) Investment Limited Partnership | **2,734** | – |
| Graceful Field Worldwide Limited | **1,409** | 1,306 |
| CGN Phase I Private Equity Fund Company Limited | **1,186** | 1,120 |
| Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited | **759** | 753 |
| Cinda & BOC (Anhui) Investment Limited Partnership | **502** | 614 |
| Hong Kong Bora Holdings Limited | **501** | 472 |
| Zhejiang Zheshang Investment Fund Limited Partnership | **488** | 360 |
| Other | **2,497** | 2,459 |
| Total | **14,059** | 10,843 |

As at 31 December 2016, the ability of associates and joint ventures to transfer funds to the Group is not restricted.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 21 Property and equipment

| | Year ended 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Buildings | Equipment and motor vehicles | Construction in progress | Aircraft | Total |
| **Cost** | | | | | |
| As at 1 January | 102,447 | 66,288 | 29,100 | 71,303 | 269,138 |
| Additions | 404 | 5,152 | 5,349 | 18,476 | 29,381 |
| Transfer from investment properties (Note V.22) | 1,495 | – | – | – | 1,495 |
| Construction in progress transfer in/(out) | 7,279 | 639 | (9,184) | 1,266 | – |
| Deductions | (1,341) | (2,903) | (133) | (13,047) | (17,424) |
| Exchange differences | 1,039 | 445 | 1,028 | 4,878 | 7,390 |
| As at 31 December | 111,323 | 69,621 | 26,160 | 82,876 | 289,980 |
| **Accumulated depreciation** | | | | | |
| As at 1 January | (28,658) | (49,468) | – | (7,555) | (85,681) |
| Additions | (3,504) | (6,878) | – | (2,516) | (12,898) |
| Deductions | 462 | 2,773 | – | 2,337 | 5,572 |
| Transfer to investment properties (Note V.22) | 174 | – | – | – | 174 |
| Exchange differences | (245) | (316) | – | (624) | (1,185) |
| As at 31 December | (31,771) | (53,889) | – | (8,358) | (94,018) |
| **Allowance for impairment losses** | | | | | |
| As at 1 January | (768) | – | (221) | (437) | (1,426) |
| Additions | – | – | – | (32) | (32) |
| Deductions | – | – | – | 424 | 424 |
| Exchange differences | – | – | – | (31) | (31) |
| As at 31 December | (768) | – | (221) | (76) | (1,065) |
| **Net book value** | | | | | |
| As at 1 January | 73,021 | 16,820 | 28,879 | 63,311 | 182,031 |
| As at 31 December | 78,784 | 15,732 | 25,939 | 74,442 | 194,897 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 21 Property and equipment (Continued)

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Buildings | Equipment and motor vehicles | Construction in progress | Aircraft | Total |
| **Cost** | | | | | |
| As at 1 January | 94,323 | 62,216 | 26,061 | 68,398 | 250,998 |
| Additions | 446 | 5,736 | 13,607 | 10,848 | 30,637 |
| Transfer from/(to) investment properties (Note V.22) | 557 | – | (3) | – | 554 |
| Construction in progress transfer in/(out) | 8,194 | 816 | (10,875) | 1,865 | – |
| Deductions | (1,943) | (2,775) | (125) | (14,031) | (18,874) |
| Exchange differences | 870 | 295 | 435 | 4,223 | 5,823 |
| As at 31 December | 102,447 | 66,288 | 29,100 | 71,303 | 269,138 |
| **Accumulated depreciation** | | | | | |
| As at 1 January | (26,189) | (44,373) | – | (7,043) | (77,605) |
| Additions | (3,015) | (7,456) | – | (2,390) | (12,861) |
| Deductions | 713 | 2,567 | – | 2,313 | 5,593 |
| Transfer to investment properties (Note V.22) | 27 | – | – | – | 27 |
| Exchange differences | (194) | (206) | – | (435) | (835) |
| As at 31 December | (28,658) | (49,468) | – | (7,555) | (85,681) |
| **Allowance for impairment losses** | | | | | |
| As at 1 January | (749) | – | (245) | (202) | (1,196) |
| Additions | (24) | – | – | (285) | (309) |
| Deductions | 5 | – | 24 | 62 | 91 |
| Exchange differences | – | – | – | (12) | (12) |
| As at 31 December | (768) | – | (221) | (437) | (1,426) |
| **Net book value** | | | | | |
| As at 1 January | 67,385 | 17,843 | 25,816 | 61,153 | 172,197 |
| As at 31 December | 73,021 | 16,820 | 28,879 | 63,311 | 182,031 |

As at 31 December 2016, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, acquired under finance lease arrangements was RMB673 million (31 December 2015: RMB655 million).

As at 31 December 2016, the net book amount of aircraft leased out by BOC Aviation Limited, a subsidiary of the Group, under operating leases was RMB74,140 million (31 December 2015: RMB62,974 million).

As at 31 December 2016, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, that has been pledged for loan facilities was RMB31,904 million (31 December 2015: RMB41,622 million) (Note V.31).

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 21 Property and equipment (Continued)

According to the relevant the PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2016, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Held in Hong Kong | | |
| on long-term lease (over 50 years) | **3,030** | 2,916 |
| on medium-term lease (10–50 years) | **7,914** | 8,505 |
| on short-term lease (less than 10 years) | **13** | 14 |
| Subtotal | **10,957** | 11,435 |
| Held outside Hong Kong | | |
| on long-term lease (over 50 years) | **4,323** | 1,934 |
| on medium-term lease (10–50 years) | **59,365** | 56,269 |
| on short-term lease (less than 10 years) | **4,139** | 3,383 |
| Subtotal | **67,827** | 61,586 |
| Total | **78,784** | 73,021 |

## 22 Investment properties

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **23,281** | 18,653 |
| Additions | **2,932** | 4,263 |
| Transfer to property and equipment, net (Note V.21) | **(1,669)** | (581) |
| Deductions | **(5,292)** | (334) |
| Fair value changes (Note V.5) | **1,134** | 620 |
| Exchange differences | **1,273** | 660 |
| As at 31 December | **21,659** | 23,281 |

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market.

Investment properties are mainly held by Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and Bank of China Group Investment Limited ("BOCG Investment"), subsidiaries of the Group. The carrying value of investment properties held by BOCHK (Holdings) and BOCG Investment as at 31 December 2016 amounted to RMB12,597 million and RMB6,883 million, respectively (31 December 2015: RMB9,334 million and RMB11,965 million). The valuation of these investment properties as at 31 December 2016 were principally performed by Knight Frank Petty Limited based on open market price and other related information.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 22 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Held in Hong Kong | | |
| on long-term lease (over 50 years) | 3,774 | 3,566 |
| on medium-term lease (10–50 years) | 9,514 | 6,504 |
| on short-term lease (less than 10 years) | – | – |
| Subtotal | 13,288 | 10,070 |
| Held outside Hong Kong | | |
| on long-term lease (over 50 years) | 3,337 | 4,790 |
| on medium-term lease (10–50 years) | 3,965 | 7,523 |
| on short-term lease (less than 10 years) | 1,069 | 898 |
| Subtotal | 8,371 | 13,211 |
| Total | 21,659 | 23,281 |

## 23 Other assets

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Interest receivable(1) | 79,836 | 77,354 |
| Accounts receivable and prepayments(2) | 81,489 | 76,706 |
| Land use rights(3) | 7,679 | 8,104 |
| Intangible assets(4) | 6,863 | 5,750 |
| Long-term deferred expense | 3,235 | 2,949 |
| Repossessed assets(5) | 2,775 | 2,070 |
| Goodwill(6) | 2,473 | 2,449 |
| Other | 5,625 | 6,118 |
| Total | 189,975 | 181,500 |

(1) Interest receivable

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Financial investments and financial assets at fair value through profit or loss | 47,121 | 46,202 |
| Loans and advances to customers | 25,531 | 24,309 |
| Due from and placements with and loans to banks, other financial institutions and central banks | 7,184 | 6,843 |
| Total | 79,836 | 77,354 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23 Other assets (Continued)

(1) Interest receivable (Continued)

The movements of interest receivable are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **77,354** | 76,814 |
| Accrued during the year | **561,670** | 613,255 |
| Received during the year | **(559,188)** | (612,715) |
| As at 31 December | **79,836** | 77,354 |

(2) Accounts receivable and prepayments

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Accounts receivable and prepayments | **85,886** | 80,560 |
| Impairment allowance | **(4,397)** | (3,854) |
| Net value | **81,489** | 76,706 |

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Balance** | **Impairment allowance** | Balance | Impairment allowance |
| Within 1 year | **77,782** | **(379)** | 73,523 | (943) |
| From 1 year to 3 years | **3,048** | **(2,062)** | 2,436 | (1,077) |
| Over 3 years | **5,056** | **(1,956)** | 4,601 | (1,834) |
| Total | **85,886** | **(4,397)** | 80,560 | (3,854) |

(3) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Held outside Hong Kong | | |
| on long-term lease (over 50 years) | **123** | 140 |
| on medium-term lease (10–50 years) | **6,657** | 6,992 |
| on short-term lease (less than 10 years) | **899** | 972 |
| Total | **7,679** | 8,104 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23 Other assets (Continued)

(4) Intangible assets

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Cost** | | |
| As at 1 January | **11,629** | 9,479 |
| Additions | **2,291** | 2,128 |
| Deductions | **(117)** | (15) |
| Exchange differences | **58** | 37 |
| As at 31 December | **13,861** | 11,629 |
| **Accumulated amortisation** | | |
| As at 1 January | **(5,879)** | (4,825) |
| Additions | **(1,130)** | (1,032) |
| Deductions | **55** | 8 |
| Exchange differences | **(44)** | (30) |
| As at 31 December | **(6,998)** | (5,879) |
| **Net book value** | | |
| As at 1 January | **5,750** | 4,654 |
| As at 31 December | **6,863** | 5,750 |

(5) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Commercial properties | **1,913** | 1,352 |
| Residential properties | **691** | 533 |
| Other | **821** | 832 |
| Subtotal | **3,425** | 2,717 |
| Allowance for impairment | **(650)** | (647) |
| Repossessed assets, net | **2,775** | 2,070 |

The total book value of repossessed assets disposed of during the year ended 31 December 2016 amounted to RMB257 million (2015: RMB580 million). The Group plans to dispose of the repossessed assets held at 31 December 2016 by auction, bidding or transfer.

(6) Goodwill

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **2,449** | 1,953 |
| Addition through acquisition of subsidiaries | **147** | 386 |
| Deductions | **(262)** | – |
| Exchange differences | **139** | 110 |
| As at 31 December | **2,473** | 2,449 |

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,671 million).

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 24 Impairment allowance

| | As at 1 January 2016 | Additions | Decrease | | Exchange differences | As at 31 December 2016 |
|---|---|---|---|---|---|---|
| | | | Reversal | Write-off and transfer out | | |
| Impairment allowance | | | | | | |
| Placements with and loans to banks and other financial institutions | 192 | 13 | (7) | – | 2 | 200 |
| Loans and advances to customers[1] | 200,665 | 127,436 | (40,641) | (51,613) | 1,869 | 237,716 |
| Financial investments | | | | | | |
| — available for sale (Note V.19) | 6,274 | 1,012 | (66) | (508) | 391 | 7,103 |
| — held to maturity | 194 | – | (20) | (140) | 10 | 44 |
| — loans and receivables | 1,754 | 1,114 | (396) | – | 1 | 2,473 |
| Property and equipment | 1,426 | 32 | – | (424) | 31 | 1,065 |
| Repossessed assets | 647 | 54 | (10) | (58) | 17 | 650 |
| Land use rights | 15 | – | – | – | – | 15 |
| Accounts receivable and prepayments | 3,854 | 1,137 | (609) | (80) | 95 | 4,397 |
| Other | 1,449 | 94 | (71) | (57) | 51 | 1,466 |
| Total | 216,470 | 130,892 | (41,820) | (52,880) | 2,467 | 255,129 |

| | As at 1 January 2015 | Additions | Decrease | | Exchange differences | As at 31 December 2015 |
|---|---|---|---|---|---|---|
| | | | Reversal | Write-off and transfer out | | |
| Impairment allowance | | | | | | |
| Placements with and loans to banks and other financial institutions | 207 | 3 | (18) | – | – | 192 |
| Loans and advances to customers[1] | 188,531 | 103,777 | (47,905) | (45,204) | 1,466 | 200,665 |
| Financial investments | | | | | | |
| — available for sale (Note V.19) | 7,127 | 125 | (126) | (1,299) | 447 | 6,274 |
| — held to maturity | 218 | – | (35) | – | 11 | 194 |
| — loans and receivables | 64 | 2,161 | (471) | – | – | 1,754 |
| Property and equipment | 1,196 | 285 | – | (67) | 12 | 1,426 |
| Repossessed assets | 1,010 | – | (200) | (174) | 11 | 647 |
| Land use rights | 15 | – | – | – | – | 15 |
| Accounts receivable and prepayments | 2,421 | 2,414 | (988) | (43) | 50 | 3,854 |
| Other | 1,206 | 253 | (1) | (55) | 46 | 1,449 |
| Total | 201,995 | 109,018 | (49,744) | (46,842) | 2,043 | 216,470 |

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances write-off, transfer out, recovery of loans and advances written off and unwind of discount on allowance.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 25 Due to banks and other financial institutions

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Due to: | | |
| Banks in Chinese mainland | **377,882** | 535,209 |
| Other financial institutions in Chinese mainland | **847,818** | 1,022,792 |
| Banks in Hong Kong, Macau, Taiwan and other countries and regions | **144,915** | 183,973 |
| Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions | **49,912** | 22,346 |
| Total | **1,420,527** | 1,764,320 |

## 26 Due to central banks

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Foreign exchange deposits | **206,210** | 160,533 |
| Other | **660,884** | 255,176 |
| Total | **867,094** | 415,709 |

## 27 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited ("BOCHK") and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macau Branch.

## 28 Placements from banks and other financial institutions

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Placements from: | | |
| Banks in Chinese mainland | **134,754** | 271,387 |
| Other financial institutions in Chinese mainland | **43,353** | 107,482 |
| Banks in Hong Kong, Macau, Taiwan and other countries and regions | **116,723** | 53,721 |
| Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions | **7,962** | 15,354 |
| Total(1) | **302,792** | 447,944 |

(1) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Repurchase debt securities(i) | **116,375** | 183,498 |

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.42.2.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 29 Due to customers

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **At amortised cost** | | |
| Demand deposits | | |
| — Corporate deposits | **3,620,945** | 3,130,624 |
| — Personal deposits | **2,490,309** | 2,092,841 |
| Subtotal | **6,111,254** | 5,223,465 |
| Time deposits | | |
| — Corporate deposits | **3,100,383** | 3,037,783 |
| — Personal deposits | **2,992,051** | 2,841,372 |
| Subtotal | **6,092,434** | 5,879,155 |
| Certificates of deposit | **327,908** | 230,793 |
| Other deposits(1) | **57,841** | 55,847 |
| Total due to customers at amortised cost | **12,589,437** | 11,389,260 |
| **At fair value** | | |
| Structured deposits | | |
| — Corporate deposits | **271,885** | 274,799 |
| — Personal deposits | **78,426** | 65,112 |
| Total due to customers at fair value(2) | **350,311** | 339,911 |
| Total due to customers(3) | **12,939,748** | 11,729,171 |

(1) Included in other deposits are special purpose fundings, which represent long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Group is obliged to repay these fundings when they fall due.

As at 31 December 2016, the remaining maturity of special purpose fundings ranges from 31 days to 37 years. The interest-bearing special purpose fundings bear floating and fixed interest rates ranging from 0.03% to 7.92% (31 December 2015: 0.15% to 7.92%). These terms are consistent with those related development loans granted to customers.

(2) Due to customers measured at fair value are structured deposits designated as at fair value through profit or loss at inception.

There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for the above-mentioned structured deposits during the years ended 31 December 2016 and 2015.

(3) Due to customers included margin deposits for security received by the Group as at 31 December 2016 of RMB339,216 million (31 December 2015: RMB338,385 million).

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 30 Bonds issued

| | Issue date | Maturity date | Annual interest rate | As at 31 December 2016 | 2015 |
|---|---|---|---|---|---|
| **Subordinated bonds issued** | | | | | |
| 2009 RMB Debt Securities First Tranche(1) | 6 July 2009 | 8 July 2024 | 4.00% | **24,000** | 24,000 |
| 2010 RMB Debt Securities(2) | 9 March 2010 | 11 March 2025 | 4.68% | **24,930** | 24,930 |
| 2010 US Dollar Subordinated notes issued by BOCHK | 11 February 2010 | 11 February 2020 | 5.55% | **16,634** | 15,921 |
| 2011 RMB Debt Securities(3) | 17 May 2011 | 19 May 2026 | 5.30% | **32,000** | 32,000 |
| 2012 RMB Debt Securities First Tranche(4) | 27 November 2012 | 29 November 2022 | 4.70% | **5,000** | 5,000 |
| 2012 RMB Debt Securities Second Tranche(4) | 27 November 2012 | 29 November 2027 | 4.99% | **18,000** | 18,000 |
| Subtotal(7) | | | | **120,564** | 119,851 |
| **Tier 2 capital bonds issued** | | | | | |
| 2014 RMB Debt Securities(5) | 8 August 2014 | 11 August 2024 | 5.80% | **29,972** | 29,971 |
| 2014 US Dollar Debt Securities(6) | 13 November 2014 | 13 November 2024 | 5.00% | **20,700** | 19,365 |
| Subtotal(7) | | | | **50,672** | 49,336 |
| **Other bonds issued** | | | | | |
| US Dollar Debt Securities(8) | | | | **100,021** | 67,670 |
| RMB Debt Securities(9) | | | | **17,754** | 20,104 |
| Other(10) | | | | **22,219** | 12,673 |
| Subtotal | | | | **139,994** | 100,447 |
| **Interbank negotiable certificates of deposit(11)** | | | | **51,088** | 13,295 |
| Total bonds issued(12) | | | | **362,318** | 282,929 |

(1) The fixed rate portion of the first tranche of the subordinated bonds issued on 6 July 2009 has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Group has the option to early redeem all of the bonds at face value on 8 July 2019. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 9 March 2010, have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Group has the option to redeem all of the bonds at face value on 11 March 2020. If the Group does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 30 Bonds issued (Continued)

(3) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Group is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(4) Two subordinated bonds issued on 27 November 2012 in the domestic interbank bond market. The first subordinated bond has a maturity of 10 years, with a fixed coupon rate of 4.70%, paid annually. The Group is entitled to redeem these bonds on the fifth anniversary. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.70%. The second subordinated bond has a maturity of 15 years, with a fixed coupon rate of 4.99%, paid annually. The Group is entitled to redeem all these bonds on the tenth anniversary. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(5) Pursuant to the approval by the CBRC and the PBOC, the Group issued tier 2 capital bonds in an amount of RMB30 billion in the domestic interbank bond market on 8 August 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.80%. The Group is entitled to redeem the bonds at the end of the fifth year.

(6) Pursuant to the approval by the CBRC, the PBOC and the National Development and Reform Commission, the Group issued tier 2 capital bonds in an amount of USD3 billion in offshore markets on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.

(7) Subordinated bonds and tier 2 capital bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders.

(8) US Dollar Debt Securities are issued in Hong Kong and Europe between 2012 and 2016 by the Group, which due dates ranges from 2017 to 2026.

(9) RMB Debt Securities are issued in Mainland China, Hong Kong, Europe, North America and other Asia-Pacific regions between 2013 and 2016 by the Group, which due dates ranges from 2017 to 2030.

(10) Other Debt Securities excluding RMB and US dollar are issued in Hong Kong, Europe, Africa and other Asia-Pacific regions between 2013 and 2016 by the Group. The due dates ranges from 2017 to 2025.

(11) The RMB interbank negotiable certificates of deposit issued by the Group in 2015 matured in 2016. For the year ended 31 December 2016, the Group issued 27 tranches of RMB interbank negotiable certificates of deposit at discount in the domestic interbank bond market, with face value of RMB100 per certificate of deposit. The outstanding balance as at 31 December 2016 was RMB51,088 million, which matures in 2017.

(12) During the years ended 31 December 2016 and 2015, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

## 31 Other borrowings

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Limited, a subsidiary of the Group. These other borrowings are secured by its aircraft (Note V.21).

As at 31 December 2016, these other borrowings had a maturity ranging from 75 days to 10 years and bore floating and fixed interest rates ranging from 0.90% to 2.95% (31 December 2015: 0.36% to 2.45%).

During the years ended 31 December 2016 and 2015, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 32 Current tax liabilities

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Corporate Income Tax | **22,023** | 31,563 |
| Value-added Tax | **4,832** | (525) |
| Business Tax | **225** | 5,996 |
| City Construction and Maintenance Tax | **355** | 395 |
| Education Surcharges | **252** | 292 |
| Other | **368** | 261 |
| Total | **28,055** | 37,982 |

## 33 Retirement benefit obligations

As at 31 December 2016, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,261 million (31 December 2015: RMB2,635 million) and RMB1,178 million (31 December 2015: RMB1,620 million) respectively, using the projected unit credit method.

The movements of the net liabilities recognised are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **4,255** | 4,566 |
| Interest cost | **109** | 150 |
| Net actuarial (gain)/loss recognised | **(350)** | 213 |
| Benefits paid | **(575)** | (674) |
| As at 31 December | **3,439** | 4,255 |

Primary assumptions used:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Discount rate | | |
| — Normal retiree | **3.00%** | 2.83% |
| — Early retiree | **2.80%** | 2.60% |
| Pension benefit inflation rate | | |
| — Normal retiree | **5.0%–3.0%** | 6.0%–4.0% |
| — Early retiree | **7.0%–3.0%** | 8.0%–4.0% |
| Medical benefit inflation rate | **8.0%** | 8.0% |
| Retiring age | | |
| — Male | **60** | 60 |
| — Female | **50/55** | 50/55 |

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2016 and 2015, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 34 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

## 35 Deferred income taxes

***35.1*** Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and related temporary differences.

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Temporary difference** | **Deferred tax assets/ (liabilities)** | Temporary difference | Deferred tax assets/ (liabilities) |
| Deferred income tax assets | **129,323** | **34,341** | 81,700 | 22,246 |
| Deferred income tax liabilities | **(25,998)** | **(4,501)** | (22,035) | (4,291) |
| Net | **103,325** | **29,840** | 59,665 | 17,955 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 35 Deferred income taxes (Continued)

***35.2*** Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Temporary difference** | **Deferred tax assets/ (liabilities)** | Temporary difference | Deferred tax assets/ (liabilities) |
| **Deferred income tax assets** | | | | |
| Asset impairment allowances | **150,865** | **37,952** | 121,017 | 30,437 |
| Pension, retirement benefits and salary payables | **19,504** | **4,871** | 19,125 | 4,781 |
| Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments | **89,688** | **22,339** | 27,946 | 6,922 |
| Fair value changes of available for sale investment securities credited to other comprehensive income | **7,318** | **1,617** | 1,629 | 290 |
| Other temporary differences | **14,004** | **2,924** | 12,493 | 2,329 |
| Subtotal | **281,379** | **69,703** | 182,210 | 44,759 |
| **Deferred income tax liabilities** | | | | |
| Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments | **(100,862)** | **(25,216)** | (37,615) | (9,404) |
| Fair value changes of available for sale investment securities charged to other comprehensive income | **(7,690)** | **(1,792)** | (20,402) | (5,045) |
| Depreciation of property and equipment | **(18,671)** | **(3,207)** | (14,917) | (2,575) |
| Revaluation of property and investment properties | **(8,351)** | **(1,555)** | (10,447) | (2,048) |
| Other temporary differences | **(42,480)** | **(8,093)** | (39,164) | (7,732) |
| Subtotal | **(178,054)** | **(39,863)** | (122,545) | (26,804) |
| Net | **103,325** | **29,840** | 59,665 | 17,955 |

As at 31 December 2016, deferred tax liabilities relating to temporary differences of RMB100,428 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2015: RMB70,336 million). Refer to Note II.22.2.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 35 Deferred income taxes (Continued)

***35.3*** The movements of the deferred income tax account are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **17,955** | 20,756 |
| Credited/(charged) to the income statement (Note V.10) | **6,867** | (77) |
| Credited/(charged) to other comprehensive income | **4,580** | (2,546) |
| Other | **438** | (178) |
| As at 31 December | **29,840** | 17,955 |

***35.4*** The deferred income tax credit/charge in the income statement comprises the following temporary differences:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Asset impairment allowances | **7,515** | 1,195 |
| Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments | **(395)** | (1,550) |
| Pension, retirement benefits and salary payables | **90** | (295) |
| Other temporary differences | **(343)** | 573 |
| Total | **6,867** | (77) |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 36 Assets and liabilities held for sale

The major classes of assets held for sale and liabilities classified as held for sale are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Assets held for sale** | | |
| Cash and due from banks and other financial institutions | **657** | 13,679 |
| Balances with central banks | **289** | 13,433 |
| Placements with and loans to banks and other financial institutions | **3,347** | 18,214 |
| Loans and advances to customers, net | **27,555** | 138,292 |
| Financial investments | **11,108** | 44,267 |
| Investment properties | **5,299** | 347 |
| Other assets | **2,116** | 9,705 |
| Total | **50,371** | 237,937 |
| **Liabilities classified as held for sale** | | |
| Due to banks and other financial institutions | **356** | 3,118 |
| Placements from banks and other financial institutions | **375** | 2,522 |
| Due to customers | **40,669** | 184,957 |
| Deferred income tax liabilities | **728** | – |
| Other liabilities | **360** | 6,253 |
| Total | **42,488** | 196,850 |
| **Cumulative income recognised in other comprehensive income relating to assets held for sale** | **(29)** | 228 |

As at 31 December 2016, the Group's disposal group classified as assets and liabilities held for sale mainly included the assets and liabilities held by BOCHK's subsidiary Chiyu Banking Corporation Limited ("Chiyu Bank") and by the subsidiaries of BOCG Investment of which the Group planned to dispose.

In December 2016, BOCHK, a direct wholly-owned subsidiary of BOCHK (Holdings), entered into a Sale and Purchase Agreement with Xiamen International Investment Limited and the Committee of Jimei Schools in relation to the proposed sale and purchase of approximately 70.49% of the total issued shares of Chiyu Bank (the "Proposed Disposal"). The completion of the Proposed Disposal is conditional upon the satisfaction of all the conditions precedent set out in the Sale and Purchase Agreement.

As at 31 December 2015, the Group classified the disposal group of the assets and liabilities of NCB as assets and liabilities held for sale. The sale of NCB was completed on 30 May 2016, refer to Note V.41.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 37 Other liabilities

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Interest payable(1) | **183,516** | 174,256 |
| Insurance liabilities | | |
| — Life insurance contracts | **82,166** | 72,867 |
| — Non-life insurance contracts | **8,725** | 8,242 |
| Items in the process of clearance and settlement | **51,838** | 37,193 |
| Salary and welfare payables(2) | **27,817** | 26,711 |
| Short position in debt securities | **9,990** | 7,012 |
| Deferred income | **8,000** | 7,099 |
| Provision(3) | **6,065** | 3,362 |
| Placements from banks and other financial institutions at fair value(4) | **1,968** | 1,617 |
| Other(5) | **58,833** | 45,410 |
| Total | **438,918** | 383,769 |

(1) Interest payable

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Due to customers | **163,878** | 155,652 |
| Due to and placements from banks and other financial institutions | **9,476** | 11,099 |
| Bonds issued and other | **10,162** | 7,505 |
| Total | **183,516** | 174,256 |

The movements of interest payable are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **174,256** | 163,228 |
| Accrued during the year | **260,091** | 286,406 |
| Paid during the year | **(250,831)** | (275,378) |
| As at 31 December | **183,516** | 174,256 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 37 Other liabilities (Continued)

(2) Salary and welfare payables

| | As at 1 January 2016 | Accrual | Payment | As at 31 December 2016 |
|---|---|---|---|---|
| Salary, bonus and subsidy | **21,916** | **55,792** | **(55,386)** | **22,322** |
| Staff welfare | **–** | **2,908** | **(2,908)** | **–** |
| Social insurance | | | | |
| — Medical | **888** | **3,254** | **(3,157)** | **985** |
| — Pension | **158** | **6,585** | **(6,573)** | **170** |
| — Annuity | **22** | **2,060** | **(2,059)** | **23** |
| — Unemployment | **7** | **325** | **(325)** | **7** |
| — Injury at work | **1** | **102** | **(101)** | **2** |
| — Maternity insurance | **2** | **203** | **(202)** | **3** |
| Housing funds | **50** | **5,066** | **(5,084)** | **32** |
| Labour union fee and staff education fee | **3,369** | **1,918** | **(1,402)** | **3,885** |
| Reimbursement for cancellation of labour contract | **13** | **11** | **(9)** | **15** |
| Other | **285** | **2,838** | **(2,750)** | **373** |
| Total(i) | **26,711** | **81,062** | **(79,956)** | **27,817** |

| | As at 1 January 2015 | Accrual | Payment | As at 31 December 2015 |
|---|---|---|---|---|
| Salary, bonus and subsidy | 22,147 | 54,462 | (54,693) | 21,916 |
| Staff welfare | – | 2,919 | (2,919) | – |
| Social insurance | | | | |
| — Medical | 697 | 3,280 | (3,089) | 888 |
| — Pension | 134 | 6,587 | (6,563) | 158 |
| — Annuity | 24 | 2,060 | (2,062) | 22 |
| — Unemployment | 7 | 413 | (413) | 7 |
| — Injury at work | 1 | 163 | (163) | 1 |
| — Maternity insurance | 2 | 223 | (223) | 2 |
| Housing funds | 30 | 5,428 | (5,408) | 50 |
| Labour union fee and staff education fee | 2,865 | 1,911 | (1,407) | 3,369 |
| Reimbursement for cancellation of labour contract | 12 | 7 | (6) | 13 |
| Other | 239 | 2,669 | (2,623) | 285 |
| Total(i) | 26,158 | 80,122 | (79,569) | 26,711 |

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2016 and 2015.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 37 Other liabilities (Continued)

(3) Provision

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Allowance for litigation losses (Note V.42.1) | **727** | 860 |
| Other | **5,338** | 2,502 |
| Total | **6,065** | 3,362 |

The movement of the provision was as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **3,362** | 2,616 |
| Provision for the year, net | **2,992** | 807 |
| Utilised during the year | **(289)** | (61) |
| As at 31 December | **6,065** | 3,362 |

(4) Placements from banks and other financial institutions at fair value

Certain financial liabilities related to placements from banks and other financial institutions have been matched with derivatives as part of a documented risk management strategy to mitigate market risk. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the income statement. As at 31 December 2016, the fair value of the financial liabilities related to placements from banks and other financial institutions was approximately the same as the amount that the Group would be contractually required to pay to the holders. There were no significant changes in the Group's credit risk and therefore the amounts of changes in fair value of the abovementioned placements from banks and other financial institutions that were attributable to changes in credit risk were considered not significant during the years ended 31 December 2016 and 2015.

(5) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Limited under finance lease.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Within 1 year (inclusive) | **82** | 75 |
| 1 year to 2 years (inclusive) | **243** | 75 |
| 2 years to 3 years (inclusive) | **23** | 226 |
| Over 3 years | **169** | 178 |
| Total minimum rental payments | **517** | 554 |
| Unrecognised finance charge | **(43)** | (53) |
| Finance lease payments, net | **474** | 501 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 38 Share capital, capital reserve, treasury shares and other equity instruments

### *38.1 Share capital*

The Bank's share capital are as follows:

Unit: Share

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Domestic listed A shares, par value RMB1.00 per share | **210,765,514,846** | 210,765,514,846 |
| Overseas listed H shares, par value RMB1.00 per share | **83,622,276,395** | 83,622,276,395 |
| Total | **294,387,791,241** | 294,387,791,241 |

All A and H shares rank pari passu with the same rights and benefits.

### *38.2 Capital reserve*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Share premium | **139,921** | 139,921 |
| Other capital reserve | **2,051** | 177 |
| Total | **141,972** | 140,098 |

### *38.3 Treasury shares*

A wholly-owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2016 was approximately 17.23 million (31 December 2015: approximately 29.69 million).

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 38 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

### *38.4 Other equity instruments*

For the year ended 31 December 2016, the movements of the Bank's other equity instruments were as follows:

| | As at 1 January 2016 | | Increase/(Decrease) | | As at 31 December 2016 | |
|---|---|---|---|---|---|---|
| | Quantity (million shares) | Carrying amount | Quantity (million shares) | Carrying amount | Quantity (million shares) | Carrying amount |
| **Preference Shares** | | | | | | |
| 2014 Offshore Preference Shares(1) | **399.4** | **39,782** | – | – | **399.4** | **39,782** |
| 2014 Domestic Preference Shares(2) | **320.0** | **31,963** | – | – | **320.0** | **31,963** |
| 2015 Domestic Preference Shares(3) | **280.0** | **27,969** | – | – | **280.0** | **27,969** |
| Total | **999.4** | **99,714** | – | – | **999.4** | **99,714** |

(1) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares in the aggregate par value of RMB39.94 billion on 23 October 2014. Each Offshore Preference Share has a par value of RMB100 and 399.4 million Offshore Preference Shares were issued in total. The initial annual dividend rate is 6.75% and is subsequently subject to reset per agreement, but in no case shall exceed 18.07%. Dividends are calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

The Offshore Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, all or part of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 23 October 2019 or on any dividend payment date thereafter at the redemption price which is the sum of the par value of the Offshore Preference Shares and the dividends declared but not yet distributed, as calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

(2) Pursuant to the approvals by relevant authorities in China, the Bank issued 6.0% non-cumulative Domestic Preference Shares on 21 November 2014, in the aggregate par value of RMB32 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 320 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, the Bank may redeem all or part of the Domestic Preference Shares on 21 November 2019 or any dividend payment date thereafter of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

(3) Pursuant to the approvals by relevant authorities in China, the Bank issued 5.5% non-cumulative Domestic Preference Shares on 13 March 2015, in the aggregate par value of RMB28 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 280 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, the Bank may redeem all or part of the Domestic Preference Shares on 13 March 2020 or any dividend payment date thereafter of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 38 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

### *38.4 Other equity instruments (Continued)*

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not be deemed a default. However, the Bank shall not distribute profits to the holders of ordinary shares until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall report to the CBRC for review and determination and the Bank will convert the preference shares into ordinary shares in whole or in part.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

## 39 Statutory reserves, general and regulatory reserves and undistributed profits

### *39.1 Statutory reserves*

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 31 March 2017, the Bank appropriated 10% of the net profit for the year ended 31 December 2016 to the statutory surplus reserves, amounting to RMB13,688 million (2015: RMB15,220 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 39 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

### *39.2 General and regulatory reserves*

Pursuant to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* ("Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve as a distribution of profits, being part of the owner's rights and interests, should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 31 March 2017 and on the basis of the Bank's profit for the year ended 31 December 2016, the Board of Directors of the Bank approved the appropriation of RMB14,505 million (2015: RMB19,005 million) to the general reserve for the year ended 31 December 2016.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2016 and 2015, the reserve amounts set aside by BOCHK Group were RMB5,712 million and RMB6,651 million, respectively.

### *39.3 Dividends*

*Dividends for Ordinary Shares*

An ordinary share dividend of RMB51,518 million in respect of the profit for the year ended 31 December 2015 was approved by the equity holders of the Bank at the Annual General Meeting held on 7 June 2016 and was distributed during the year.

An ordinary share dividend of RMB0.168 per share in respect of the profit for the year ended 31 December 2016 (2015: RMB0.175 per share), amounting to a total dividend of RMB49,457 million based on the number of shares issued as at 31 December 2016 will be proposed for approval at the Annual General Meeting to be held on 29 June 2017. The dividend payable is not reflected in liabilities of the financial statements.

*Dividends for Preference Shares*

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million was approved by the Board of Directors of the Bank at the Board Meeting held on 19 January 2016 and the dividend was distributed on 14 March 2016.

The dividend distribution of Offshore Preference Shares and Domestic Preference Shares (First Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 30 August 2016. The dividend of Offshore Preference Shares amounting to USD487 million before tax (equivalent to RMB3,258 million) was distributed on 24 October 2016. The dividend of Domestic Preference Shares (First Tranche) amounting to RMB1,920 million was distributed on 21 November 2016.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 40 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| BOC Hong Kong (Group) Limited | **60,476** | 45,539 |
| Bank of China Group Investment Limited | **6,335** | 87 |
| Tai Fung Bank Limited | **5,640** | 4,658 |
| Other | **2,959** | 2,375 |
| Total | **75,410** | 52,659 |

## 41 Changes in the consolidation

***Disposal of investment in subsidiaries***

BOCHK, a subsidiary directly wholly owned by BOCHK (Holdings), entered into a Sale and Purchase Agreement with Cinda Financial Holdings Co., Limited (as the buyer) and China Cinda (HK) Holdings Company Limited (as the buyer's guarantor) in relation to the sale and purchase of all the issued shares of NCB on 18 December 2015. The sale was completed in accordance with the terms and conditions of the Sale and Purchase Agreement on 30 May 2016. Upon completion, NCB ceased to be a subsidiary of the Bank and BOCHK (Holdings).

Gain on disposal of NCB:

| | Year ended 31 December 2016 |
|---|---|
| Total consideration | **57,236** |
| Net assets disposed | **(28,203)** |
| Transaction costs | **(308)** |
| Cumulative other comprehensive income reclassified to the income statement | **325** |
| Gain on disposal | **29,050** |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 41 Changes in the consolidation (Continued)

***Disposal of investment in subsidiaries (Continued)***

Net assets of NCB at the date of disposal:

| | At the date of disposal |
|---|---|
| Cash and due from banks and other financial institutions | 16,637 |
| Balances with central banks | 10,279 |
| Placements with and loans to banks and other financial institutions | 18,484 |
| Loans and advances to customers, net | 138,803 |
| Financial investments | 47,585 |
| Other assets | 10,242 |
| Due to banks and other financial institutions | (7,560) |
| Placements from banks and other financial institutions | (8,996) |
| Due to customers | (189,271) |
| Other liabilities | (8,000) |
| Net assets disposed | 28,203 |

Net cash inflow from disposal of NCB:

| | Year ended 31 December 2016 |
|---|---|
| Cash received from disposal of NCB | 57,236 |
| Transaction costs | (308) |
| Cash and cash equivalents held by NCB at the date of disposal | (34,273) |
| Net cash inflow from disposal of NCB | 22,655 |

## 42 Contingent liabilities and commitments

***42.1 Legal proceedings and arbitrations***

As at 31 December 2016, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions, including issues related to anti-money laundering. As at 31 December 2016, provisions of RMB727 million (31 December 2015: RMB860 million) were made based on court judgements or the advice of counsel (Note V.37). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 42 Contingent liabilities and commitments (Continued)

### *42.2 Assets pledged*

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Debt securities | **804,425** | 325,025 |
| Bills | **656** | 2,052 |
| Total | **805,081** | 327,077 |

### *42.3 Collateral accepted*

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 31 December 2016, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB11,468 million (31 December 2015: RMB24,094 million). As at 31 December 2016, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB1,098 million (31 December 2015: Nil). These transactions are conducted under standard terms in the normal course of business.

### *42.4 Capital commitments*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Property and equipment | | |
| — Contracted but not provided for | **61,237** | 64,492 |
| — Authorised but not contracted for | **1,967** | 2,652 |
| Intangible assets | | |
| — Contracted but not provided for | **860** | 721 |
| — Authorised but not contracted for | **15** | 23 |
| Investment properties | | |
| — Contracted but not provided for | **13** | 148 |
| — Authorised but not contracted for | **1** | – |
| Total | **64,093** | 68,036 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 42 Contingent liabilities and commitments (Continued)

### *42.5 Operating leases*

*(1) Operating lease commitments — As lessee*

Under irrevocable operating lease contracts, the future minimum lease payments that should be paid by the Group are summarised as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Within 1 year | **6,446** | 6,313 |
| Between 1 and 2 years | **5,049** | 4,864 |
| Between 2 and 3 years | **3,711** | 3,675 |
| Over 3 years | **7,157** | 7,498 |
| Total | **22,363** | 22,350 |

*(2) Operating lease commitments — As lessor*

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Limited. Under irrevocable operating lease contracts, as at 31 December 2016, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB9,212 million not later than one year (31 December 2015: RMB7,001 million), RMB37,767 million later than one year and not later than five years (31 December 2015: RMB30,115 million) and RMB38,589 million later than five years (31 December 2015: RMB30,220 million).

### *42.6 Treasury bonds redemption commitments*

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2016, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB46,737 million (31 December 2015: RMB44,698 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 42 Contingent liabilities and commitments (Continued)

### *42.7 Credit commitments*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Loan commitments[1] | | |
| — with an original maturity of less than 1 year | **179,110** | 88,629 |
| — with an original maturity of 1 year or over | **992,264** | 744,650 |
| Undrawn credit card limits | **673,669** | 558,141 |
| Letters of guarantee issued[2] | **1,097,448** | 1,077,070 |
| Bank bill acceptance | **331,138** | 386,725 |
| Letters of credit issued | **151,155** | 121,720 |
| Accepted bills of exchange under letters of credit | **119,490** | 169,876 |
| Other | **45,334** | 63,222 |
| Total[3] | **3,589,608** | 3,210,033 |

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 31 December 2016, the unconditionally revocable loan commitments of the Group amounted to RMB255,527 million (31 December 2015: RMB313,131 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC under the advanced capital measurement approaches. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors.

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Credit commitments | **1,057,647** | 1,045,835 |

### *42.8 Underwriting obligations*

As at 31 December 2016, there was no firm commitment in underwriting securities of the Group (31 December 2015: Nil).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Cash and due from banks and other financial institutions | **293,410** | 217,599 |
| Balances with central banks | **456,304** | 586,733 |
| Placements with and loans to banks and other financial institutions | **236,846** | 185,606 |
| Short-term bills and notes | **32,687** | 62,140 |
| Total | **1,019,247** | 1,052,078 |

### 44 Related party transactions

***44.1*** CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business at commercial terms.

***44.2 Transactions with Huijin and companies under Huijin***

*(1) General information of Huijin*

Central Huijin Investment Ltd.

| | |
|---|---|
| Legal representative | DING Xuedong |
| Registered capital | RMB828,209 million |
| Location of registration | Beijing |
| Capital shares in the Bank | 64.02% |
| Voting rights in the Bank | 64.02% |
| Nature | Wholly State-owned company |
| Principal activities | Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council |
| Unified social credit code | 911000007109329615 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 44 Related party transactions (Continued)

### *44.2 Transactions with Huijin and companies under Huijin (Continued)*

*(2) Transactions with Huijin*

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

**Due to Huijin**

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| As at 1 January | **17,944** | 26,442 |
| Received during the year | **52,762** | 75,811 |
| Repaid during the year | **(57,357)** | (84,309) |
| As at 31 December | **13,349** | 17,944 |

**Bonds issued by Huijin**

As at 31 December 2016, the Group held government backed bonds issued by Huijin in the carrying value of RMB6,430 million (31 December 2015: RMB6,471 million) which were classified as held to maturity and available for sale. These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

*(3) Transactions with companies under Huijin*

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 44 Related party transactions (Continued)

### *44.2 Transactions with Huijin and companies under Huijin (Continued)*

*(3) Transactions with companies under Huijin (Continued)*

The Group's outstanding balances and related interest rate ranges with these companies were as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Due from banks and other financial institutions | **117,584** | 35,668 |
| Placements with and loans to banks and other financial institutions | **106,948** | 122,169 |
| Financial assets at fair value through profit or loss and financial investments | **229,305** | 389,968 |
| Derivative financial assets | **7,606** | 2,542 |
| Loans and advances to customers | **12,868** | 10,533 |
| Due to customers, banks and other financial institutions | **(184,894)** | (313,280) |
| Placements from banks and other financial institutions | **(71,632)** | (205,400) |
| Derivative financial liabilities | **(4,022)** | (2,631) |
| Credit commitments | **4,599** | 2,553 |

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Interest rate ranges | | |
| Due from banks and other financial institutions | **0.00%–5.50%** | 0.00%–5.70% |
| Placements with and loans to banks and other financial institutions | **0.00%–8.30%** | 0.00%–6.20% |
| Financial assets at fair value through profit or loss and financial investments | **0.00%–6.74%** | 0.00%–6.38% |
| Loans and advances to customers | **1.23%–4.75%** | 0.66%–6.40% |
| Due to customers, banks and other financial institutions | **0.00%–6.10%** | 0.00%–6.25% |
| Placements from banks and other financial institutions | **0.00%–9.50%** | 0.00%–9.50% |

### *44.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities*

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 44 Related party transactions (Continued)

### *44.4 Transactions with associates and joint ventures*

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The main outstanding balances with associates and joint ventures are stated below:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Loans and advances to customers | **2,464** | 593 |
| Due to customers, banks and other financial institutions | **(8,270)** | (8,975) |
| Credit commitments | **16,845** | 2,261 |

The general information of principal associates and joint ventures is as follows:

| Name | Place of incorporation/ establishment | Unified social credit code | Effective equity held (%) | Voting right (%) | Paid-in capital (in millions) | Principal business |
|---|---|---|---|---|---|---|
| BOC International (China) Limited | PRC | 91310000736650364G | 37.14 | 37.14 | RMB2,500 | Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products; management of publicly raised securities investment funds |
| BOC & Cinda (Wuhu) Investment Limited Partnership | PRC | 91340202MA2MU5438W | 49.00 | 49.00 | NA | Asset management; investment consulting |
| Graceful Field Worldwide Limited | BVI | NA | 80.00 | Note (1) | USD0.0025 | Investment |
| CGN Phase I Private Equity Fund Company Limited | PRC | 91110000717827478Q | 20.00 | 20.00 | RMB100 | Investment in nuclear power projects and related industries; asset management; investment consulting |
| Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited | PRC | 91440000564568961E | 40.00 | 40.00 | RMB1,940 | Investment |
| Cinda & BOC (Anhui) Investment Limited Partnership | PRC | 91340202MA2MRFTW53 | 46.83 | 46.83 | NA | Asset management; investment consulting |
| Hong Kong Bora Holdings Limited | Hong Kong | NA | 19.50 | Note (1) | HKD0.01 | Investment holding |
| Zhejiang Zheshang Investment Fund Limited Partnership | PRC | 91330000559679480L | 38.96 | 38.96 | NA | Investment |

(1) In accordance with the respective articles of association, the Group has significant influence or joint control over these companies.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 44 Related party transactions (Continued)

### *44.5 Transactions with the Annuity Plan*

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2016 and 2015.

### *44.6 Transactions with 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 and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2016 and 2015, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2016 and 2015 comprises:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Compensation for short-term employment benefits[1] | **8** | 13 |
| Compensation for post-employment benefits | **1** | 1 |
| Total | **9** | 14 |

(1) The total compensation package for these key management personnel for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's 2016 financial statements. The final compensation will be disclosed in a separate announcement when determined.

### *44.7 Transactions with Connected Natural Persons*

As at 31 December 2016, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* of the CBRC and the *Administrative Measures for the Disclosure of Information of Listed Companies* of the China Security Regulatory Commission totalled RMB109 million (31 December 2015: RMB61 million) and RMB11 million (31 December 2015: RMB18 million) respectively.

### *44.8 Balances with subsidiaries*

Mainly included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Due from banks and other financial institutions | **47,406** | 32,415 |
| Placements with and loans to banks and other financial institutions | **71,543** | 64,707 |
| Due to banks and other financial institutions | **(27,300)** | (58,889) |
| Placements from banks and other financial institutions | **(98,073)** | (52,888) |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 44 Related party transactions (Continued)

### 44.8 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

| Name | Place of incorporation and operation | Date of incorporation/ establishment | Paid-in capital (in millions) | Effective equity held (%) | Voting right (%) | Principal business |
|---|---|---|---|---|---|---|
| **Directly held**[1] | | | | | | |
| BOC Hong Kong (Group) Limited | Hong Kong | 12 September 2001 | HKD34,806 | 100.00 | 100.00 | Holding company |
| BOC International Holdings Limited[4] | Hong Kong | 10 July 1998 | HKD3,539 | 100.00 | 100.00 | Investment banking |
| Bank of China Group Insurance Company Limited | Hong Kong | 23 July 1992 | HKD3,749 | 100.00 | 100.00 | Insurance services |
| Bank of China Group Investment Limited | Hong Kong | 18 May 1993 | HKD34,052 | 100.00 | 100.00 | Investment holding |
| Tai Fung Bank Limited | Macau | 1942 | MOP1,000 | 50.31 | 50.31 | Commercial banking |
| Bank of China (UK) Limited | United Kingdom | 24 September 2007 | GBP250 | 100.00 | 100.00 | Commercial banking |
| BOC Insurance Company Limited | Beijing | 5 January 2005 | RMB4,535 | 100.00 | 100.00 | Insurance services |
| **Indirectly held** | | | | | | |
| BOC Hong Kong (Holdings) Limited[2] | Hong Kong | 12 September 2001 | HKD52,864 | 66.06 | 66.06 | Holding company |
| Bank of China (Hong Kong) Limited[3][4] | Hong Kong | 16 October 1964 | HKD43,043 | 66.06 | 100.00 | Commercial banking |
| Chiyu Banking Corporation Limited[3] | Hong Kong | 24 April 1947 | HKD300 | 46.57 | 70.49 | Commercial banking |
| BOC Credit Card (International) Limited | Hong Kong | 9 September 1980 | HKD480 | 66.06 | 100.00 | Credit card services |
| BOC Group Trustee Company Limited[4] | Hong Kong | 1 December 1997 | HKD200 | 77.60 | 100.00 | Provision of trustee services |
| BOC Aviation Limited | Singapore | 25 November 1993 | USD1,158 | 70.00 | 70.00 | Aircraft leasing |

(1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.

(2) BOCHK (Holdings) is listed on the Stock Exchange of Hong Kong Limited.

(3) BOCHK, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Bank.

(4) BOCHK and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06% and 100% of their equity interests, respectively, hold 66% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 45 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macau and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect current situation.

***Geographical segments***

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

***Business segments***

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign exchange, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 45 Segment reporting (Continued)

**As at and for the year ended 31 December 2016**

| | | Hong Kong, Macau and Taiwan | | | Other | | |
|---|---|---|---|---|---|---|---|
| | Chinese mainland | BOCHK Group | Other | Subtotal | countries and regions | Elimination | Total |
| Interest income | 494,913 | 35,293 | 21,393 | 56,686 | 30,231 | (15,691) | 566,139 |
| Interest expense | (231,271) | (10,663) | (16,681) | (27,344) | (17,167) | 15,691 | (260,091) |
| **Net interest income** | 263,642 | 24,630 | 4,712 | 29,342 | 13,064 | – | 306,048 |
| Fee and commission income | 75,253 | 12,783 | 6,529 | 19,312 | 5,820 | (2,066) | 98,319 |
| Fee and commission expense | (4,550) | (3,636) | (1,190) | (4,826) | (1,535) | 1,256 | (9,655) |
| **Net fee and commission income** | 70,703 | 9,147 | 5,339 | 14,486 | 4,285 | (810) | 88,664 |
| Net trading gains | 2,496 | 3,567 | 787 | 4,354 | 1,646 | – | 8,496 |
| Net gains on financial investments | 11,078 | 929 | 495 | 1,424 | 22 | – | 12,524 |
| Other operating income[1] | 20,155 | 39,585 | 12,450 | 52,035 | 198 | (2,464) | 69,924 |
| **Operating income** | 368,074 | 77,858 | 23,783 | 101,641 | 19,215 | (3,274) | 485,656 |
| Operating expenses[1] | (138,639) | (20,632) | (11,099) | (31,731) | (5,987) | 1,288 | (175,069) |
| Impairment losses on assets | (86,427) | (864) | (939) | (1,803) | (842) | – | (89,072) |
| **Operating profit** | 143,008 | 56,362 | 11,745 | 68,107 | 12,386 | (1,986) | 221,515 |
| Share of results of associates and joint ventures | – | (1) | 898 | 897 | – | – | 897 |
| **Profit before income tax** | 143,008 | 56,361 | 12,643 | 69,004 | 12,386 | (1,986) | 222,412 |
| Income tax expense | | | | | | | (38,361) |
| **Profit for the year** | | | | | | | 184,051 |
| Segment assets | 14,341,792 | 2,048,841 | 1,193,626 | 3,242,467 | 1,812,521 | (1,261,950) | 18,134,830 |
| Investment in associates and joint ventures | – | 170 | 13,889 | 14,059 | – | – | 14,059 |
| Total assets | 14,341,792 | 2,049,011 | 1,207,515 | 3,256,526 | 1,812,521 | (1,261,950) | 18,148,889 |
| Include: non-current assets[2] | 98,685 | 25,544 | 109,091 | 134,635 | 5,522 | (161) | 238,681 |
| Segment liabilities | 13,198,402 | 1,870,712 | 1,096,909 | 2,967,621 | 1,757,564 | (1,261,790) | 16,661,797 |
| Other segment items: | | | | | | | |
| Intersegment net interest (expense)/income | (3,251) | 985 | 6,363 | 7,348 | (4,097) | – | – |
| Intersegment net fee and commission income/(expense) | 349 | 26 | 1,230 | 1,256 | (795) | (810) | – |
| Capital expenditure | 10,909 | 1,325 | 21,058 | 22,383 | 815 | – | 34,107 |
| Depreciation and amortisation | 11,346 | 864 | 3,245 | 4,109 | 236 | – | 15,691 |
| Credit commitments | 3,062,802 | 267,190 | 128,792 | 395,982 | 481,663 | (350,839) | 3,589,608 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 45 Segment reporting (Continued)

**As at and for the year ended 31 December 2015**

| | Chinese mainland | Hong Kong, Macau and Taiwan | | | Other countries and regions | Elimination | Total |
|---|---|---|---|---|---|---|---|
| | | BOCHK Group | Other | Subtotal | | | |
| Interest income | 544,487 | 38,541 | 24,710 | 63,251 | 32,059 | (24,741) | 615,056 |
| Interest expense | (262,336) | (13,441) | (18,072) | (31,513) | (17,298) | 24,741 | (286,406) |
| **Net interest income** | 282,151 | 25,100 | 6,638 | 31,738 | 14,761 | – | 328,650 |
| Fee and commission income | 78,445 | 12,984 | 6,782 | 19,766 | 4,978 | (2,284) | 100,905 |
| Fee and commission expense | (3,225) | (3,470) | (1,567) | (5,037) | (1,676) | 1,443 | (8,495) |
| **Net fee and commission income** | 75,220 | 9,514 | 5,215 | 14,729 | 3,302 | (841) | 92,410 |
| Net trading gains/(losses) | 8,942 | 887 | (80) | 807 | (289) | – | 9,460 |
| Net gains on financial investments | 3,487 | 1,193 | 1,077 | 2,270 | 8 | – | 5,765 |
| Other operating income(1) | 13,819 | 12,246 | 11,717 | 23,963 | 129 | (284) | 37,627 |
| **Operating income** | 383,619 | 48,940 | 24,567 | 73,507 | 17,911 | (1,125) | 473,912 |
| Operating expenses(1) | (150,393) | (20,857) | (10,513) | (31,370) | (4,763) | 1,125 | (185,401) |
| Impairment losses on assets | (56,409) | (1,252) | (843) | (2,095) | (770) | – | (59,274) |
| **Operating profit** | 176,817 | 26,831 | 13,211 | 40,042 | 12,378 | – | 229,237 |
| Share of results of associates and joint ventures | – | 1 | 2,333 | 2,334 | – | – | 2,334 |
| **Profit before income tax** | 176,817 | 26,832 | 15,544 | 42,376 | 12,378 | – | 231,571 |
| Income tax expense | | | | | | | (52,154) |
| **Profit for the year** | | | | | | | 179,417 |
| Segment assets | 13,053,114 | 1,946,338 | 1,053,777 | 3,000,115 | 1,819,844 | (1,068,319) | 16,804,754 |
| Investment in associates and joint ventures | – | 51 | 10,792 | 10,843 | – | – | 10,843 |
| Total assets | 13,053,114 | 1,946,389 | 1,064,569 | 3,010,958 | 1,819,844 | (1,068,319) | 16,815,597 |
| Include: non-current assets(2) | 99,138 | 22,463 | 101,458 | 123,921 | 4,702 | (161) | 227,600 |
| Segment liabilities | 11,970,984 | 1,811,943 | 972,123 | 2,784,066 | 1,770,859 | (1,067,917) | 15,457,992 |
| Other segment items: | | | | | | | |
| Intersegment net interest (expense)/income | (13,701) | 2,287 | 10,328 | 12,615 | 1,086 | – | – |
| Intersegment net fee and commission income/(expense) | 446 | 38 | 982 | 1,020 | (625) | (841) | – |
| Capital expenditure | 11,030 | 1,040 | 24,619 | 25,659 | 209 | – | 36,898 |
| Depreciation and amortisation | 11,540 | 837 | 2,991 | 3,828 | 240 | – | 15,608 |
| Credit commitments | 2,909,919 | 238,142 | 136,096 | 374,238 | 356,650 | (430,774) | 3,210,033 |

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 45 Segment reporting (Continued)

**As at and for the year ended 31 December 2016**

| | Corporate banking | Personal banking | Treasury operations | Investment banking | Insurance | Other | Elimination | Total |
|---|---|---|---|---|---|---|---|---|
| Interest income | 301,759 | 194,421 | 152,986 | 942 | 2,714 | 833 | (87,516) | 566,139 |
| Interest expense | (130,312) | (89,877) | (124,623) | (174) | (28) | (2,593) | 87,516 | (260,091) |
| **Net interest income/(expense)** | 171,447 | 104,544 | 28,363 | 768 | 2,686 | (1,760) | – | 306,048 |
| Fee and commission income | 39,751 | 41,435 | 13,680 | 4,351 | – | 953 | (1,851) | 98,319 |
| Fee and commission expense | (3,180) | (3,507) | (1,022) | (901) | (2,484) | (59) | 1,498 | (9,655) |
| **Net fee and commission income/(expense)** | 36,571 | 37,928 | 12,658 | 3,450 | (2,484) | 894 | (353) | 88,664 |
| Net trading gains/(losses) | 1,610 | 867 | 5,102 | 136 | (255) | 1,007 | 29 | 8,496 |
| Net gains on financial investments | 31 | 6 | 11,677 | 33 | 366 | 411 | – | 12,524 |
| Other operating income | 1,586 | 7,264 | 844 | 238 | 19,696 | 41,784 | (1,488) | 69,924 |
| **Operating income** | 211,245 | 150,609 | 58,644 | 4,625 | 20,009 | 42,336 | (1,812) | 485,656 |
| Operating expenses | (65,248) | (68,278) | (16,502) | (2,181) | (18,887) | (5,785) | 1,812 | (175,069) |
| Impairment losses on assets | (65,651) | (21,308) | (828) | 10 | (25) | (1,270) | – | (89,072) |
| **Operating profit** | 80,346 | 61,023 | 41,314 | 2,454 | 1,097 | 35,281 | – | 221,515 |
| Share of results of associates and joint ventures | – | – | – | 413 | (13) | 538 | (41) | 897 |
| **Profit before income tax** | 80,346 | 61,023 | 41,314 | 2,867 | 1,084 | 35,819 | (41) | 222,412 |
| Income tax expense | | | | | | | | (38,361) |
| **Profit for the year** | | | | | | | | 184,051 |
| Segment assets | 7,039,052 | 3,475,983 | 7,219,165 | 61,634 | 126,461 | 297,078 | (84,543) | 18,134,830 |
| Investment in associates and joint ventures | – | – | – | 4,114 | – | 10,013 | (68) | 14,059 |
| Total assets | 7,039,052 | 3,475,983 | 7,219,165 | 65,748 | 126,461 | 307,091 | (84,611) | 18,148,889 |
| Segment liabilities | 8,378,306 | 5,675,800 | 2,366,627 | 49,998 | 112,474 | 162,974 | (84,382) | 16,661,797 |
| Other segment items: | | | | | | | | |
| Intersegment net interest income/(expense) | 21,591 | 65,132 | (86,117) | 88 | 53 | (747) | – | – |
| Intersegment net fee and commission income/(expense) | 102 | 1,411 | 17 | (162) | (1,324) | 309 | (353) | – |
| Capital expenditure | 3,442 | 3,812 | 182 | 131 | 116 | 26,424 | – | 34,107 |
| Depreciation and amortisation | 4,891 | 6,000 | 1,274 | 73 | 160 | 3,293 | – | 15,691 |
| Credit commitments | 2,803,340 | 786,268 | – | – | – | – | – | 3,589,608 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 45 Segment reporting (Continued)

**As at and for the year ended 31 December 2015**

| | Corporate banking | Personal banking | Treasury operations | Investment banking | Insurance | Other | Elimination | Total |
|---|---|---|---|---|---|---|---|---|
| Interest income | 338,078 | 186,931 | 141,272 | 1,228 | 2,166 | 942 | (55,561) | 615,056 |
| Interest expense | (171,106) | (97,287) | (70,820) | (315) | (11) | (2,428) | 55,561 | (286,406) |
| **Net interest income/(expense)** | 166,972 | 89,644 | 70,452 | 913 | 2,155 | (1,486) | – | 328,650 |
| Fee and commission income | 41,428 | 41,356 | 14,738 | 4,326 | – | 658 | (1,601) | 100,905 |
| Fee and commission expense | (2,943) | (2,948) | (753) | (1,205) | (1,834) | (32) | 1,220 | (8,495) |
| **Net fee and commission income/(expense)** | 38,485 | 38,408 | 13,985 | 3,121 | (1,834) | 626 | (381) | 92,410 |
| Net trading gains/(losses) | 76 | 573 | 9,493 | 306 | (582) | (419) | 13 | 9,460 |
| Net gains on financial investments | 10 | 519 | 3,771 | 295 | 413 | 757 | – | 5,765 |
| Other operating income | 688 | 6,508 | 1,263 | 307 | 16,968 | 13,878 | (1,985) | 37,627 |
| **Operating income** | 206,231 | 135,652 | 98,964 | 4,942 | 17,120 | 13,356 | (2,353) | 473,912 |
| Operating expenses | (73,563) | (70,594) | (18,850) | (2,758) | (15,914) | (6,075) | 2,353 | (185,401) |
| Impairment losses on assets | (42,153) | (14,362) | (1,793) | 60 | (67) | (959) | – | (59,274) |
| **Operating profit** | 90,515 | 50,696 | 78,321 | 2,244 | 1,139 | 6,322 | – | 229,237 |
| Share of results of associates and joint ventures | – | – | – | 844 | (4) | 1,533 | (39) | 2,334 |
| **Profit before income tax** | 90,515 | 50,696 | 78,321 | 3,088 | 1,135 | 7,855 | (39) | 231,571 |
| Income tax expense | | | | | | | | (52,154) |
| **Profit for the year** | | | | | | | | 179,417 |
| Segment assets | 7,185,768 | 2,960,341 | 6,300,439 | 74,058 | 106,706 | 279,010 | (101,568) | 16,804,754 |
| Investment in associates and joint ventures | – | – | – | 3,888 | – | 7,015 | (60) | 10,843 |
| Total assets | 7,185,768 | 2,960,341 | 6,300,439 | 77,946 | 106,706 | 286,025 | (101,628) | 16,815,597 |
| Segment liabilities | 7,907,454 | 5,232,341 | 2,078,706 | 64,366 | 93,485 | 183,047 | (101,407) | 15,457,992 |
| Other segment items: | | | | | | | | |
| Intersegment net interest (expense)/income | (18,528) | 54,247 | (35,228) | 166 | 116 | (773) | – | – |
| Intersegment net fee and commission income/(expense) | 495 | 781 | (1) | – | (1,207) | 313 | (381) | – |
| Capital expenditure | 3,371 | 3,738 | 178 | 125 | 104 | 29,382 | – | 36,898 |
| Depreciation and amortisation | 5,046 | 6,178 | 1,168 | 68 | 92 | 3,056 | – | 15,608 |
| Credit commitments | 2,559,433 | 650,600 | – | – | – | – | – | 3,210,033 |

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 46 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

***Repurchase agreements***

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

| | As at 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| | Carrying amount of transferred assets | Carrying amount of associated liabilities | Carrying amount of transferred assets | Carrying amount of associated liabilities |
| Repurchase agreements | **45,558** | **44,695** | 5,170 | 4,942 |

***Credit assets transfers***

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB1,719 million as at 31 December 2016 (31 December 2015: RMB858 million), which also approximates the Group’s maximum exposure to loss.

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 46 Transfers of financial assets (Continued)

***Credit assets transfers (Continued)***

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB22,721 million for this year (2015: RMB3,385 million) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB3,370 million as at 31 December 2016 (31 December 2015: RMB614 million).

## 47 Interests in the unconsolidated structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out as below:

***Structured entities sponsored by the Group***

In conducting wealth management business in Chinese mainland, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2016, the balance of the above unconsolidated bank wealth management products sponsored by the Group amounted to RMB1,176,824 million (31 December 2015: RMB1,107,079 million). For the year ended 31 December 2016, fee and commission income from wealth management business, which includes commission, custodian fee and management fee amounted to RMB9,354 million (2015: RMB8,597 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the year ended 31 December 2016, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB26,000 million (2015: RMB19,300 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 31 December 2016, the balance of above trading was nil (31 December 2015: Nil). The maximum exposure to loss of those placements approximated to the carrying amount.

In addition, the total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB31,866 million for the year ended 31 December 2016 (2015: RMB12,892 million). For description of the portion of asset-backed securities issued by above structured entities and held by the Group, refer to Note V.46.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 47 Interests in the unconsolidated structured entities (Continued)

***Structured entities sponsored by other financial institutions***

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

| Structured entity type | Financial assets at fair value through profit or loss | Investment securities available for sale | Debt securities held to maturity | Financial investments classified as loans and receivables | Total | Maximum exposure to loss |
|---|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | | |
| Fund | **3,409** | **17,148** | **–** | **–** | **20,557** | **20,557** |
| Wealth management plans | **–** | **15,000** | **–** | **–** | **15,000** | **15,000** |
| Investment trusts and asset management plans | **–** | **–** | **–** | **15,852** | **15,852** | **15,852** |
| Asset-backed securitisations | **–** | **21,572** | **31,838** | **1,387** | **54,797** | **54,797** |
| **As at 31 December 2015** | | | | | | |
| Fund | 4,832 | 15,853 | – | – | 20,685 | 20,702 |
| Wealth management plans | – | – | – | 100 | 100 | 100 |
| Investment trusts and asset management plans | – | 243 | – | 270,886 | 271,129 | 271,129 |
| Asset-backed securitisations | – | 26,837 | 6,353 | 116 | 33,306 | 33,306 |

## 48 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

| | Gross amounts of recognised financial assets | Gross amounts offset in the statement of financial position | Amounts presented in the statement of financial position | Amounts not set off in the statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments* | Cash collateral received | |
| **As at 31 December 2016** | | | | | | |
| Derivatives | **66,258** | **–** | **66,258** | **(40,962)** | **(6,082)** | **19,214** |
| Reverse repo agreements | **6,212** | **–** | **6,212** | **(6,212)** | **–** | **–** |
| Other assets | **14,251** | **(8,090)** | **6,161** | **–** | **–** | **6,161** |
| Total | **86,721** | **(8,090)** | **78,631** | **(47,174)** | **(6,082)** | **25,375** |
| **As at 31 December 2015** | | | | | | |
| Derivatives | 32,710 | – | 32,710 | (19,513) | (834) | 12,363 |
| Reverse repo agreements | 851 | – | 851 | (851) | – | – |
| Other assets | 9,308 | (6,934) | 2,374 | – | – | 2,374 |
| Total | 42,869 | (6,934) | 35,935 | (20,364) | (834) | 14,737 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 48 Offsetting financial assets and financial liabilities (Continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

| | Gross amounts of recognised financial liabilities | Gross amounts offset in the statement of financial position | Amounts presented in the statement of financial position | Amounts not set off in the statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments* | Cash collateral pledged | |
| **As at 31 December 2016** | | | | | | |
| Derivatives | **65,167** | **–** | **65,167** | **(44,764)** | **(4,127)** | **16,276** |
| Repurchase agreements | **17,211** | **–** | **17,211** | **(17,211)** | **–** | **–** |
| Other liabilities | **8,671** | **(8,090)** | **581** | **–** | **–** | **581** |
| Total | **91,049** | **(8,090)** | **82,959** | **(61,975)** | **(4,127)** | **16,857** |
| **As at 31 December 2015** | | | | | | |
| Derivatives | 43,965 | – | 43,965 | (19,931) | (7,535) | 16,499 |
| Repurchase agreements | 4,636 | – | 4,636 | (4,636) | – | – |
| Other liabilities | 7,690 | (6,934) | 756 | – | – | 756 |
| Total | 56,291 | (6,934) | 49,357 | (24,567) | (7,535) | 17,255 |

* Including non-cash collateral.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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 ("the offset criteria").

Derivatives and reverse repo/repurchase agreements included in amounts are not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

- cash and non-cash collateral have been received/pledged in respect of the transactions described above.

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 49 The Bank's statement of financial position and changes in equity

### *49.1 The Bank's statement of financial position*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **ASSETS** | | |
| Cash and due from banks and other financial institutions | **656,003** | 649,628 |
| Balances with central banks | **2,188,722** | 2,089,759 |
| Placements with and loans to banks and other financial institutions | **553,551** | 425,192 |
| Government certificates of indebtedness for bank notes issued | **7,048** | 5,777 |
| Precious metals | **156,155** | 173,540 |
| Financial assets at fair value through profit or loss | **59,144** | 56,129 |
| Derivative financial assets | **85,604** | 58,178 |
| Loans and advances to customers, net | **8,683,440** | 8,027,160 |
| Financial investments | **3,178,695** | 2,993,194 |
| — available for sale | **1,026,700** | 688,981 |
| — held to maturity | **1,773,569** | 1,710,303 |
| — loans and receivables | **378,426** | 593,910 |
| Investment in subsidiaries | **96,892** | 94,354 |
| Investment in associates and joint ventures | **68** | 60 |
| Consolidated structured entities | **93,000** | – |
| Property and equipment | **84,962** | 85,685 |
| Investment properties | **2,144** | 1,951 |
| Deferred income tax assets | **35,892** | 24,085 |
| Other assets | **106,665** | 101,986 |
| **Total assets** | **15,987,985** | 14,786,678 |

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

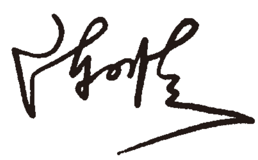
### 49 The Bank's statement of financial position and changes in equity (Continued)

#### *49.1 The Bank's statement of financial position (Continued)*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **LIABILITIES** | | |
| Due to banks and other financial institutions | **1,401,155** | 1,746,218 |
| Due to central banks | **813,197** | 364,428 |
| Bank notes in circulation | **7,284** | 5,917 |
| Placements from banks and other financial institutions | **364,149** | 479,216 |
| Derivative financial liabilities | **74,549** | 48,344 |
| Due to customers | **11,428,022** | 10,403,693 |
| — at amortised cost | **11,093,065** | 10,089,331 |
| — at fair value | **334,957** | 314,362 |
| Bonds issued | **309,616** | 233,986 |
| Current tax liabilities | **23,712** | 34,455 |
| Retirement benefit obligations | **3,439** | 4,255 |
| Deferred income tax liabilities | **109** | 101 |
| Other liabilities | **283,743** | 254,157 |
| **Total liabilities** | **14,708,975** | 13,574,770 |
| **EQUITY** | | |
| Share capital | **294,388** | 294,388 |
| Other equity instruments | **99,714** | 99,714 |
| Capital reserve | **138,832** | 138,832 |
| Other comprehensive income | **(4,441)** | 7,104 |
| Statutory reserves | **122,975** | 109,215 |
| General and regulatory reserves | **186,640** | 172,029 |
| Undistributed profits | **440,902** | 390,626 |
| **Total equity** | **1,279,010** | 1,211,908 |
| **Total equity and liabilities** | **15,987,985** | 14,786,678 |

Approved and authorised for issue by the Board of Directors on 31 March 2017.

**TIAN Guoli**
*Director*



**CHEN Siqing**
*Director*

(Amount in millions of Renminbi, unless otherwise stated)

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 49 The Bank's statement of financial position and changes in equity (Continued)

### *49.2 The Bank's statement of changes in equity*

| | Share capital | Other equity instruments | Capital reserve | Other comprehensive income | Statutory reserves | General and regulatory reserves | Undistributed profits | Total |
|---|---|---|---|---|---|---|---|---|
| As at 1 January 2016 | **294,388** | **99,714** | **138,832** | **7,104** | **109,215** | **172,029** | **390,626** | **1,211,908** |
| Total comprehensive income | **–** | **–** | **–** | **(11,545)** | **–** | **–** | **136,883** | **125,338** |
| Appropriation to statutory reserves | **–** | **–** | **–** | **–** | **13,760** | **–** | **(13,760)** | **–** |
| Appropriation to general and regulatory reserves | **–** | **–** | **–** | **–** | **–** | **14,611** | **(14,611)** | **–** |
| Dividends | **–** | **–** | **–** | **–** | **–** | **–** | **(58,236)** | **(58,236)** |
| As at 31 December 2016 | **294,388** | **99,714** | **138,832** | **(4,441)** | **122,975** | **186,640** | **440,902** | **1,279,010** |

| | Share capital | Other equity instruments | Capital reserve | Other comprehensive income | Statutory reserves | General and regulatory reserves | Undistributed profits | Total |
|---|---|---|---|---|---|---|---|---|
| As at 1 January 2015 | 288,731 | 71,745 | 129,404 | (346) | 93,868 | 152,633 | 334,116 | 1,070,151 |
| Total comprehensive income | – | – | – | 7,450 | – | – | 152,199 | 159,649 |
| Conversion of convertible bonds and capital reserve | 5,657 | – | 10,973 | – | – | – | – | 16,630 |
| Capital injection by other equity instruments holders | – | 27,969 | – | – | – | – | – | 27,969 |
| Appropriation to statutory reserves | – | – | – | – | 15,347 | – | (15,347) | – |
| Appropriation to general and regulatory reserves | – | – | – | – | – | 19,396 | (19,396) | – |
| Dividends | – | – | – | – | – | – | (60,946) | (60,946) |
| Equity component of convertible bonds | – | – | (1,545) | – | – | – | – | (1,545) |
| As at 31 December 2015 | 294,388 | 99,714 | 138,832 | 7,104 | 109,215 | 172,029 | 390,626 | 1,211,908 |

# V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 50 Events after the financial reporting date

***Dividend distribution plan of Domestic Preference Shares (Second Tranche)***

The dividend distribution of Domestic Preference Shares (Second Tranche) was approved by the Board of Directors of the Bank at the Board meeting held on 23 January 2017. The dividend of RMB1,540 million was paid at a rate of 5.5% on 13 March 2017. The dividend payable was not reflected in liabilities of the financial statements.

***Issuance of overseas bonds***

On 7 February 2017, the Bank issued USD2 billion notes, which was then listed on 15 February 2017 on the Stock Exchange of Hong Kong Limited, as part of the Bank's USD20 billion Medium Term Note Programme. The issuance details had been set out in the Bank's announcement dated 14 February 2017.

***Disposal of Chiyu Bank***

The sale of the Group's disposal of issued shares of Chiyu Bank was completed in accordance with the terms and conditions of the Sale and Purchase Agreement for a total consideration of HKD7.685 billion on 27 March 2017. Upon completion, Chiyu Bank ceased to be a subsidiary of the Bank and BOCHK (Holdings).

***Strategic restructuring plan in the ASAEN region***

As part of the Group's strategic restructuring plan in the ASAEN region, the Bank (as seller) and BOCHK (as buyer) completed the sale and purchase of Bank of China (Thai) Public Company Limited on 9 January 2017. On 28 February 2017, the Bank (as seller) and BOCHK (as buyer) entered into sale and purchase agreements in relation to sale and purchase of the banking businesses operated by the Bank in Indonesia through Bank of China Limited, Jakarta Branch and its eight sub-branches; and the banking businesses operated by the Bank in Cambodia through Bank of China Limited, Phnom Penh Branch, Cambodia and its two sub-branches, respectively. The completion of each equity transfer is subject to the satisfaction or waiver of the respective preconditions.

# VI FINANCIAL RISK MANAGEMENT

## 1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

## 2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

## 3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.1 Credit risk measurement*

*(1) Loans and advances and off-balance sheet commitments*

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Credit Management Department, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the "Guideline") issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.1 Credit risk measurement (Continued)*

*(1) Loans and advances and off-balance sheet commitments (Continued)*

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.1 Credit risk measurement (Continued)*

*(1) Loans and advances and off-balance sheet commitments (Continued)*

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

*(2) Due from, placements with and loans to banks and other financial institutions*

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

*(3) Debt securities and derivatives*

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.2 Credit risk limit control and mitigation policies*

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

*(1) Credit risk limits and controls*

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Department at Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier 1 branches level in Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and the securities, and set limits are actively monitored.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.2 Credit risk limit control and mitigation policies (Continued)*

*(2) Credit risk mitigation policies*

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Management Department. The principal collateral types for corporate loans and advances are:

| Collateral | Maximum loan-to-value ratio |
|---|---|
| Deposit receipt | 95% |
| PRC Treasury bonds | 90% |
| PRC financial institution bonds | 85% |
| Publicly traded stocks | 50% |
| Construction land use rights | 70% |
| Real estate | 70% |
| Automobiles | 40% |

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependent on the nature of the loan.

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.42.3.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.3 Impairment and provisioning policies*

Relevant policies are included in Note II.4.6.

### *3.4 Maximum exposure to credit risk before collateral held or other credit enhancements*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Credit risk exposures relating to on-balance sheet financial assets are as follows: | | |
| Due from banks and other financial institutions | **582,434** | 581,007 |
| Balances with central banks | **2,271,640** | 2,196,063 |
| Placements with and loans to banks and other financial institutions | **594,048** | 426,848 |
| Government certificates of indebtedness for bank notes issued | **117,421** | 91,191 |
| Financial assets at fair value through profit or loss | **112,194** | 104,082 |
| Derivative financial assets | **130,549** | 82,236 |
| Loans and advances to customers, net | **9,735,646** | 8,935,195 |
| Financial investments | | |
| — available for sale | **1,554,675** | 1,032,004 |
| — held to maturity | **1,843,043** | 1,790,790 |
| — loans and receivables | **395,921** | 606,710 |
| Other assets | **144,039** | 147,441 |
| Subtotal | **17,481,610** | 15,993,567 |
| Credit risk exposures relating to off-balance sheet items are as follows: | | |
| Letters of guarantee issued | **1,097,448** | 1,077,070 |
| Loan commitments and other credit commitments | **2,492,160** | 2,132,963 |
| Subtotal | **3,589,608** | 3,210,033 |
| Total | **21,071,218** | 19,203,600 |

The table above represents a worst case scenario of credit risk exposure of the Group as at 31 December 2016 and 2015, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2016, 46.20% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2015: 46.53%) and 18.42% represents investments in debt securities (31 December 2015: 18.37%).

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances*

*(1) Concentrations of risk for loans and advances to customers*

(i) Analysis of loans and advances to customers by geographical area

**Group**

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Amount | % of total | Amount | % of total |
| Chinese mainland | **7,818,508** | **78.40%** | 7,199,094 | 78.80% |
| Hong Kong, Macau and Taiwan | **1,220,962** | **12.24%** | 1,100,615 | 12.05% |
| Other countries and regions | **933,892** | **9.36%** | 836,151 | 9.15% |
| Total loans and advances to customers | **9,973,362** | **100.00%** | 9,135,860 | 100.00% |

**Chinese mainland**

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Amount | % of total | Amount | % of total |
| Northern China | **1,254,192** | **16.04%** | 1,158,592 | 16.09% |
| Northeastern China | **494,595** | **6.33%** | 484,432 | 6.73% |
| Eastern China | **3,096,019** | **39.60%** | 2,863,049 | 39.77% |
| Central and Southern China | **1,979,793** | **25.32%** | 1,768,388 | 24.57% |
| Western China | **993,909** | **12.71%** | 924,633 | 12.84% |
| Total loans and advances to customers | **7,818,508** | **100.00%** | 7,199,094 | 100.00% |

(ii) Analysis of loans and advances to customers by customer type

| | Chinese mainland | Hong Kong, Macau and Taiwan | Other countries and regions | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Corporate loans and advances | | | | |
| — Trade bills | **687,283** | **86,887** | **166,922** | **941,092** |
| — Other | **4,145,899** | **745,297** | **736,681** | **5,627,877** |
| Personal loans | **2,985,326** | **388,778** | **30,289** | **3,404,393** |
| Total loans and advances to customers | **7,818,508** | **1,220,962** | **933,892** | **9,973,362** |
| **As at 31 December 2015** | | | | |
| Corporate loans and advances | | | | |
| — Trade bills | 734,829 | 127,512 | 194,426 | 1,056,767 |
| — Other | 4,065,532 | 632,015 | 615,598 | 5,313,145 |
| Personal loans | 2,398,733 | 341,088 | 26,127 | 2,765,948 |
| Total loans and advances to customers | 7,199,094 | 1,100,615 | 836,151 | 9,135,860 |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(1) Concentrations of risk for loans and advances to customers (Continued)*

(iii) Analysis of loans and advances to customers by industry

**Group**

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Amount | % of total | Amount | % of total |
| Corporate loans and advances | | | | |
| Manufacturing | **1,632,912** | **16.37%** | 1,684,276 | 18.43% |
| Commerce and services | **1,313,693** | **13.17%** | 1,318,028 | 14.43% |
| Transportation, storage and postal services | **988,773** | **9.91%** | 892,207 | 9.77% |
| Real estate | **751,035** | **7.53%** | 760,511 | 8.32% |
| Production and supply of electricity, heating, gas and water | **519,161** | **5.21%** | 442,536 | 4.84% |
| Financial services | **426,023** | **4.27%** | 332,835 | 3.64% |
| Mining | **352,706** | **3.54%** | 371,581 | 4.07% |
| Construction | **193,318** | **1.94%** | 184,112 | 2.01% |
| Water, environment and public utility management | **159,660** | **1.60%** | 168,631 | 1.85% |
| Public utilities | **107,372** | **1.08%** | 110,242 | 1.21% |
| Other | **124,316** | **1.25%** | 104,953 | 1.15% |
| Subtotal | **6,568,969** | **65.87%** | 6,369,912 | 69.72% |
| Personal loans | | | | |
| Mortgages | **2,635,960** | **26.43%** | 2,045,787 | 22.39% |
| Credit cards | **302,302** | **3.03%** | 268,923 | 2.95% |
| Other | **466,131** | **4.67%** | 451,238 | 4.94% |
| Subtotal | **3,404,393** | **34.13%** | 2,765,948 | 30.28% |
| Total loans and advances to customers | **9,973,362** | **100.00%** | 9,135,860 | 100.00% |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### 3.5 Loans and advances (Continued)

*(1) Concentrations of risk for loans and advances to customers (Continued)*

(iii) Analysis of loans and advances to customers by industry (Continued)

**Chinese mainland**

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Amount | % of total | Amount | % of total |
| Corporate loans and advances | | | | |
| Manufacturing | **1,361,631** | **17.42%** | 1,401,271 | 19.47% |
| Commerce and services | **890,841** | **11.40%** | 859,541 | 11.94% |
| Transportation, storage and postal services | **846,349** | **10.83%** | 779,443 | 10.83% |
| Real estate | **394,156** | **5.04%** | 462,914 | 6.43% |
| Production and supply of electricity, heating, gas and water | **414,180** | **5.30%** | 397,511 | 5.52% |
| Financial services | **291,587** | **3.73%** | 209,285 | 2.91% |
| Mining | **201,186** | **2.57%** | 227,805 | 3.16% |
| Construction | **157,465** | **2.01%** | 161,428 | 2.24% |
| Water, environment and public utility management | **147,995** | **1.89%** | 168,608 | 2.34% |
| Public utilities | **98,654** | **1.26%** | 104,719 | 1.45% |
| Other | **29,138** | **0.37%** | 27,836 | 0.39% |
| Subtotal | **4,833,182** | **61.82%** | 4,800,361 | 66.68% |
| Personal loans | | | | |
| Mortgages | **2,335,210** | **29.87%** | 1,779,310 | 24.72% |
| Credit cards | **288,788** | **3.69%** | 256,204 | 3.56% |
| Other | **361,328** | **4.62%** | 363,219 | 5.04% |
| Subtotal | **2,985,326** | **38.18%** | 2,398,733 | 33.32% |
| Total loans and advances to customers | **7,818,508** | **100.00%** | 7,199,094 | 100.00% |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(1) Concentrations of risk for loans and advances to customers (Continued)*

(iv) Analysis of loans and advances to customers by collateral type

**Group**

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Amount | % of total | Amount | % of total |
| Unsecured loans | **2,913,913** | **29.22%** | 2,727,927 | 29.86% |
| Guaranteed loans | **2,025,819** | **20.31%** | 1,867,312 | 20.44% |
| Collateralised and other secured loans | | | | |
| — Loans secured by property and other immovable assets | **3,991,922** | **40.03%** | 3,548,200 | 38.84% |
| — Other pledged loans | **1,041,708** | **10.44%** | 992,421 | 10.86% |
| Total loans and advances to customers | **9,973,362** | **100.00%** | 9,135,860 | 100.00% |

**Chinese mainland**

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Amount | % of total | Amount | % of total |
| Unsecured loans | **2,005,701** | **25.65%** | 1,925,265 | 26.74% |
| Guaranteed loans | **1,667,546** | **21.33%** | 1,583,108 | 21.99% |
| Collateralised and other secured loans | | | | |
| — Loans secured by property and other immovable assets | **3,363,869** | **43.03%** | 2,992,839 | 41.57% |
| — Other pledged loans | **781,392** | **9.99%** | 697,882 | 9.70% |
| Total loans and advances to customers | **7,818,508** | **100.00%** | 7,199,094 | 100.00% |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### 3.5 Loans and advances (Continued)

(2) *Analysis of loans and advances to customers by overdue and impaired status*

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Chinese mainland | |
| | **2016** | 2015 | **2016** | 2015 |
| Corporate loans and advances | | | | |
| — Neither past due nor impaired | **6,401,135** | 6,229,020 | **4,670,792** | 4,665,423 |
| — Past due but not impaired | **51,520** | 35,316 | **49,627** | 31,746 |
| — Impaired | **116,314** | 105,576 | **112,763** | 103,192 |
| Subtotal | **6,568,969** | 6,369,912 | **4,833,182** | 4,800,361 |
| Personal loans | | | | |
| — Neither past due nor impaired | **3,350,369** | 2,713,972 | **2,935,352** | 2,351,401 |
| — Past due but not impaired | **25,027** | 27,315 | **21,279** | 22,889 |
| — Impaired | **28,997** | 24,661 | **28,695** | 24,443 |
| Subtotal | **3,404,393** | 2,765,948 | **2,985,326** | 2,398,733 |
| Total | **9,973,362** | 9,135,860 | **7,818,508** | 7,199,094 |

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the Guideline issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

**Group**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | **Pass** | **Special-mention** | **Total** | Pass | Special-mention | Total |
| Corporate loans and advances | **6,164,951** | **236,184** | **6,401,135** | 6,052,761 | 176,259 | 6,229,020 |
| Personal loans | **3,349,132** | **1,237** | **3,350,369** | 2,712,922 | 1,050 | 2,713,972 |
| Total | **9,514,083** | **237,421** | **9,751,504** | 8,765,683 | 177,309 | 8,942,992 |

**Chinese mainland**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | **Pass** | **Special-mention** | **Total** | Pass | Special-mention | Total |
| Corporate loans and advances | **4,449,893** | **220,899** | **4,670,792** | 4,497,469 | 167,954 | 4,665,423 |
| Personal loans | **2,935,191** | **161** | **2,935,352** | 2,351,299 | 102 | 2,351,401 |
| Total | **7,385,084** | **221,060** | **7,606,144** | 6,848,768 | 168,056 | 7,016,824 |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(i) Loans and advances neither past due nor impaired (Continued)

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(ii) Loans and advances past due but not impaired

The total amount of loans and advances that were past due but not impaired is as follows:

**Group**

| | Within 1 month | 1–3 months | More than 3 months | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Corporate loans and advances | **28,912** | **22,607** | **1** | **51,520** |
| Personal loans | **14,330** | **10,657** | **40** | **25,027** |
| Total | **43,242** | **33,264** | **41** | **76,547** |
| **As at 31 December 2015** | | | | |
| Corporate loans and advances | 27,271 | 7,727 | 318 | 35,316 |
| Personal loans | 14,925 | 12,361 | 29 | 27,315 |
| Total | 42,196 | 20,088 | 347 | 62,631 |

**Chinese mainland**

| | Within 1 month | 1–3 months | More than 3 months | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Corporate loans and advances | **27,471** | **22,156** | **–** | **49,627** |
| Personal loans | **11,132** | **10,147** | **–** | **21,279** |
| Total | **38,603** | **32,303** | **–** | **70,906** |
| **As at 31 December 2015** | | | | |
| Corporate loans and advances | 23,924 | 7,589 | 233 | 31,746 |
| Personal loans | 10,953 | 11,936 | – | 22,889 |
| Total | 34,877 | 19,525 | 233 | 54,635 |

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipment and cash deposits.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

**Group**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| Chinese mainland | **141,458** | **97.35%** | **1.81%** | 127,635 | 98.00% | 1.77% |
| Hong Kong, Macau and Taiwan | **1,630** | **1.12%** | **0.13%** | 1,482 | 1.14% | 0.13% |
| Other countries and regions | **2,223** | **1.53%** | **0.24%** | 1,120 | 0.86% | 0.13% |
| Total | **145,311** | **100.00%** | **1.46%** | 130,237 | 100.00% | 1.43% |

**Chinese mainland**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| Northern China | **15,863** | **11.22%** | **1.26%** | 20,363 | 15.95% | 1.76% |
| Northeastern China | **26,342** | **18.62%** | **5.33%** | 8,081 | 6.33% | 1.67% |
| Eastern China | **54,521** | **38.54%** | **1.76%** | 54,508 | 42.71% | 1.90% |
| Central and Southern China | **28,774** | **20.34%** | **1.45%** | 29,970 | 23.48% | 1.69% |
| Western China | **15,958** | **11.28%** | **1.61%** | 14,713 | 11.53% | 1.59% |
| Total | **141,458** | **100.00%** | **1.81%** | 127,635 | 100.00% | 1.77% |

(b) Impaired loans and advances by customer type

**Group**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| Corporate loans and advances | **116,314** | **80.04%** | **1.77%** | 105,576 | 81.06% | 1.66% |
| Personal loans | **28,997** | **19.96%** | **0.85%** | 24,661 | 18.94% | 0.89% |
| Total | **145,311** | **100.00%** | **1.46%** | 130,237 | 100.00% | 1.43% |

**Chinese mainland**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| Corporate loans and advances | **112,763** | **79.71%** | **2.33%** | 103,192 | 80.85% | 2.15% |
| Personal loans | **28,695** | **20.29%** | **0.96%** | 24,443 | 19.15% | 1.02% |
| Total | **141,458** | **100.00%** | **1.81%** | 127,635 | 100.00% | 1.77% |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geographical area and industry

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Amount | % of total | Impaired loan ratio | Amount | % of total | Impaired loan ratio |
| **Chinese mainland** | | | | | | |
| Corporate loans and advances | | | | | | |
| Manufacturing | **58,433** | **40.22%** | **4.29%** | 44,385 | 34.08% | 3.17% |
| Commerce and services | **33,918** | **23.34%** | **3.81%** | 35,561 | 27.30% | 4.14% |
| Transportation, storage and postal services | **5,395** | **3.71%** | **0.64%** | 7,878 | 6.05% | 1.01% |
| Real estate | **3,411** | **2.35%** | **0.87%** | 4,205 | 3.23% | 0.91% |
| Production and supply of electricity, heating, gas and water | **3,018** | **2.08%** | **0.73%** | 3,427 | 2.63% | 0.86% |
| Financial services | **2** | **–** | **–** | 136 | 0.10% | 0.06% |
| Mining | **4,232** | **2.91%** | **2.10%** | 3,337 | 2.56% | 1.46% |
| Construction | **2,832** | **1.95%** | **1.80%** | 3,150 | 2.42% | 1.95% |
| Water, environment and public utility management | **295** | **0.20%** | **0.20%** | 282 | 0.22% | 0.17% |
| Public utilities | **221** | **0.15%** | **0.22%** | 299 | 0.23% | 0.29% |
| Other | **1,006** | **0.69%** | **3.45%** | 532 | 0.41% | 1.91% |
| Subtotal | **112,763** | **77.60%** | **2.33%** | 103,192 | 79.23% | 2.15% |
| Personal loans | | | | | | |
| Mortgages | **9,675** | **6.66%** | **0.41%** | 7,118 | 5.47% | 0.40% |
| Credit cards | **9,954** | **6.85%** | **3.45%** | 8,636 | 6.63% | 3.37% |
| Other | **9,066** | **6.24%** | **2.51%** | 8,689 | 6.67% | 2.39% |
| Subtotal | **28,695** | **19.75%** | **0.96%** | 24,443 | 18.77% | 1.02% |
| Total for Chinese mainland | **141,458** | **97.35%** | **1.81%** | 127,635 | 98.00% | 1.77% |
| **Hong Kong, Macau, Taiwan and other countries and regions** | **3,853** | **2.65%** | **0.18%** | 2,602 | 2.00% | 0.13% |
| Total | **145,311** | **100.00%** | **1.46%** | 130,237 | 100.00% | 1.43% |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

| | Impaired loans | Individually assessed allowance | Collectively assessed allowance | Net |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Chinese mainland | **141,458** | **(67,915)** | **(27,472)** | **46,071** |
| Hong Kong, Macau and Taiwan | **1,630** | **(773)** | **(82)** | **775** |
| Other countries and regions | **2,223** | **(1,405)** | **(112)** | **706** |
| Total | **145,311** | **(70,093)** | **(27,666)** | **47,552** |
| **As at 31 December 2015** | | | | |
| Chinese mainland | 127,635 | (59,279) | (22,227) | 46,129 |
| Hong Kong, Macau and Taiwan | 1,482 | (752) | (78) | 652 |
| Other countries and regions | 1,120 | (760) | (39) | 321 |
| Total | 130,237 | (60,791) | (22,344) | 47,102 |

For description of allowances on identified impaired loans and advances, refer to Note V.18.3.

(e) Within impaired corporate loans and advances, the portions covered and not covered by collateral held are as follows:

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Chinese mainland | |
| | **2016** | 2015 | **2016** | 2015 |
| Portion covered | **73,121** | 73,143 | **71,794** | 72,103 |
| Portion not covered | **43,193** | 32,433 | **40,969** | 31,089 |
| Total | **116,314** | 105,576 | **112,763** | 103,192 |
| Fair value of collateral held | **29,304** | 24,894 | **28,471** | 24,041 |

Collateral of corporate loans and advances includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(3) Loans and advances rescheduled*

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are generally subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans within surveillance period are determined to be impaired as at 31 December 2016 and 2015.

As at 31 December 2016 and 2015, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### 3.5 Loans and advances (Continued)

(4) *Overdue loans and advances to customers*

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

**Group**

| | Past due up to 90 days | Past due 91–360 days | Past due 361 days–3 years | Past due over 3 years | Total |
|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | |
| Unsecured loans | **11,036** | **15,530** | **5,197** | **788** | **32,551** |
| Guaranteed loans | **48,645** | **19,293** | **21,585** | **4,595** | **94,118** |
| Collateralised and other secured loans | | | | | |
| — Loans secured by property and other immovable assets | **34,906** | **21,952** | **15,217** | **5,406** | **77,481** |
| — Other pledged loans | **7,694** | **1,292** | **1,105** | **350** | **10,441** |
| Total | **102,281** | **58,067** | **43,104** | **11,139** | **214,591** |
| **As at 31 December 2015** | | | | | |
| Unsecured loans | 17,438 | 13,626 | 6,740 | 2,713 | 40,517 |
| Guaranteed loans | 19,002 | 27,470 | 9,287 | 4,328 | 60,087 |
| Collateralised and other secured loans | | | | | |
| — Loans secured by property and other immovable assets | 34,465 | 19,904 | 10,135 | 5,347 | 69,851 |
| — Other pledged loans | 1,513 | 4,380 | 2,260 | 419 | 8,572 |
| Total | 72,418 | 65,380 | 28,422 | 12,807 | 179,027 |

**Chinese mainland**

| | Past due up to 90 days | Past due 91–360 days | Past due 361 days–3 years | Past due over 3 years | Total |
|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | |
| Unsecured loans | **9,815** | **15,351** | **5,096** | **659** | **30,921** |
| Guaranteed loans | **48,492** | **18,691** | **21,306** | **4,144** | **92,633** |
| Collateralised and other secured loans | | | | | |
| — Loans secured by property and other immovable assets | **30,431** | **21,685** | **15,019** | **5,357** | **72,492** |
| — Other pledged loans | **7,405** | **1,082** | **1,060** | **350** | **9,897** |
| Total | **96,143** | **56,809** | **42,481** | **10,510** | **205,943** |
| **As at 31 December 2015** | | | | | |
| Unsecured loans | 16,410 | 13,479 | 6,586 | 2,664 | 39,139 |
| Guaranteed loans | 16,501 | 27,455 | 9,268 | 3,900 | 57,124 |
| Collateralised and other secured loans | | | | | |
| — Loans secured by property and other immovable assets | 30,140 | 19,691 | 10,040 | 5,337 | 65,208 |
| — Other pledged loans | 1,045 | 4,236 | 2,175 | 413 | 7,869 |
| Total | 64,096 | 64,861 | 28,069 | 12,314 | 169,340 |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.5 Loans and advances (Continued)*

*(4) Overdue loans and advances to customers (Continued)*

(ii) Analysis of overdue loans and advances by geographical area

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Chinese mainland | **205,943** | 169,340 |
| Hong Kong, Macau and Taiwan | **6,032** | 5,882 |
| Other countries and regions | **2,616** | 3,805 |
| Subtotal | **214,591** | 179,027 |
| Percentage | **2.15%** | 1.96% |
| Less: total loans and advances to customers which have been overdue for less than 3 months | **(102,281)** | (72,418) |
| Total loans and advances to customers which have been overdue for more than 3 months | **112,310** | 106,609 |
| Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months | **(51,834)** | (49,286) |

### *3.6 Due from and placements with and loans to banks and other financial institutions*

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2016, the majority of the balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large-sized and medium-sized commercial banks (Note V.13 and Note V.15). As at 31 December 2016, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### 3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic.

| | Unrated | AAA | AA | A | Lower than A | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | | |
| Issuers in Chinese mainland | | | | | | |
| — Government | – | – | 1,998,068 | 6,659 | – | 2,004,727 |
| — Public sectors and quasi-governments | 52,015 | – | – | – | – | 52,015 |
| — Policy banks | – | – | 128,754 | 261,020 | – | 389,774 |
| — Financial institutions | 86,434 | – | 4,419 | 125,664 | 76,344 | 292,861 |
| — Corporate | 72,278 | – | 10,938 | 92,341 | 14,665 | 190,222 |
| — China Orient | 160,000 | – | – | – | – | 160,000 |
| Subtotal | 370,727 | – | 2,142,179 | 485,684 | 91,009 | 3,089,599 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | | | | | |
| — Governments | – | 221,516 | 85,990 | 30,351 | 4,841 | 342,698 |
| — Public sectors and quasi-governments | 31,785 | 32,917 | 21,319 | 4,080 | – | 90,101 |
| — Financial institutions | 6,396 | 2,734 | 58,288 | 107,053 | 43,083 | 217,554 |
| — Corporate | 13,769 | 27,432 | 9,563 | 53,039 | 16,817 | 120,620 |
| Subtotal | 51,950 | 284,599 | 175,160 | 194,523 | 64,741 | 770,973 |
| Total[(1)] | 422,677 | 284,599 | 2,317,339 | 680,207 | 155,750 | 3,860,572 |
| **As at 31 December 2015** | | | | | | |
| Issuers in Chinese mainland | | | | | | |
| — Government | – | – | 1,409,744 | 1,731 | – | 1,411,475 |
| — Public sectors and quasi-governments | 62,293 | – | – | – | – | 62,293 |
| — Policy banks | – | – | 41,654 | 399,634 | – | 441,288 |
| — Financial institutions | 62,090 | 100 | 735 | 137,062 | 92,991 | 292,978 |
| — Corporate | 144,391 | – | 12,142 | 112,319 | 9,867 | 278,719 |
| — China Orient | 160,000 | – | – | – | – | 160,000 |
| Subtotal | 428,774 | 100 | 1,464,275 | 650,746 | 102,858 | 2,646,753 |
| Issuers in Hong Kong, Macau, Taiwan and other countries and regions | | | | | | |
| — Governments | – | 193,524 | 24,256 | 68,372 | 3,346 | 289,498 |
| — Public sectors and quasi-governments | 849 | 22,734 | 21,779 | 5,172 | – | 50,534 |
| — Financial institutions | 7,042 | 4,614 | 45,818 | 73,998 | 25,795 | 157,267 |
| — Corporate | 10,974 | 27,423 | 15,888 | 35,616 | 16,875 | 106,776 |
| Subtotal | 18,865 | 248,295 | 107,741 | 183,158 | 46,016 | 604,075 |
| Total[(1)] | 447,639 | 248,395 | 1,572,016 | 833,904 | 148,874 | 3,250,828 |

(1) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities as at 31 December 2016 amounted to RMB1,295 million and RMB44 million, respectively (31 December 2015: RMB1,410 million and RMB194 million). The carrying values of the available for sale and held to maturity debt securities considered impaired as at 31 December 2016 were RMB507 million and RMB4 million, respectively (31 December 2015: RMB1,314 million and RMB296 million).

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

### *3.8 Derivatives*

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for the CCR of derivatives are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Risk-weighted assets for default risk | | |
| Currency derivatives | **81,344** | 74,872 |
| Interest rate derivatives | **3,431** | 2,506 |
| Equity derivatives | **298** | 365 |
| Commodity derivatives and other | **3,674** | 3,547 |
| | **88,747** | 81,290 |
| Risk-weighted assets for CVA | **75,387** | 45,389 |
| Risk-weighted assets for CCPs | **594** | 1,208 |
| Total | **164,728** | 127,887 |

### *3.9 Repossessed assets*

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.23.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk

### *4.1 Overview*

The Group is exposed to market risks from on-balance and off-balance businesses, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

### *4.2 Market risk measurement techniques and limits*

*(1) Trading book*

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

Accuracy and reliability of the VaR model is verified by daily back-testing of the VaR result on trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.2 Market risk measurement techniques and limits (Continued)*

*(1) Trading book (Continued)*

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2016 and 2015:

Unit: USD million

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Average | High | Low | Average | High | Low |
| **The Bank's trading VaR** | | | | | | |
| Interest rate risk | **10.24** | **16.45** | **6.59** | 6.98 | 13.32 | 3.44 |
| Foreign exchange risk | **5.24** | **9.75** | **2.62** | 3.86 | 8.41 | 1.81 |
| Volatility risk | **0.69** | **1.55** | **0.29** | 0.30 | 0.81 | 0.09 |
| Commodity risk | **0.93** | **1.56** | **0.01** | 0.71 | 1.32 | 0.06 |
| Total of the Bank's trading VaR | **10.31** | **17.45** | **6.75** | 7.91 | 14.41 | 4.09 |

The Bank's VaR for the years ended 31 December 2016 and 2015 were calculated on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI.

The reporting of risk in relation to bullion is included in foreign exchange risk above.

Unit: USD million

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Average | High | Low | Average | High | Low |
| **BOCHK (Holdings)'s trading VaR**[(i)] | | | | | | |
| Interest rate risk | **3.71** | **7.37** | **1.97** | 2.67 | 4.85 | 1.65 |
| Foreign exchange risk | **4.62** | **8.05** | **3.13** | 1.70 | 2.62 | 1.13 |
| Equity risk | **0.27** | **0.74** | **0.00** | 0.02 | 0.05 | 0.00 |
| Commodity risk | **0.03** | **0.18** | **0.00** | 0.00 | 0.02 | 0.00 |
| Total BOCHK (Holdings)'s trading VaR | **5.92** | **9.09** | **3.79** | 3.27 | 4.95 | 2.30 |
| **BOCI's trading VaR**[(ii)] | | | | | | |
| Equity derivatives unit | **1.33** | **2.68** | **0.71** | 1.35 | 2.29 | 0.50 |
| Fixed income unit | **0.84** | **1.57** | **0.42** | 0.95 | 1.76 | 0.66 |
| Global commodity unit | **0.11** | **0.33** | **0.04** | 0.08 | 0.32 | 0.04 |
| Total BOCI's trading VaR | **2.28** | **3.44** | **1.63** | 2.33 | 3.74 | 1.31 |

(i) BOCHK (Holdings)'s trading VaR for the years ended 31 December 2016 and 2015 was calculated including the subsidiaries of NCB, BOC Credit Card (International) Limited and Chiyu Bank. Since NCB was disposed of on 30 May 2016, BOCHK (Holdings)'s VaR of the trading book for the year ended 31 December 2016 only included NCB's VaR for the five-month period ended 30 May 2016.

(ii) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.2 Market risk measurement techniques and limits (Continued)*

*(1) Trading book (Continued)*

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

*(2) Banking book*

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position.

The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes impact of the off-balance sheet business into consideration when calculating the indications of sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The Group makes timely adjustment to the structure of assets and liabilities based on changes in the market situation, and controls the fluctuation of net interest income within an acceptable level.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

| | (Decrease)/increase in net interest income | |
|---|---|---|
| | As at 31 December | |
| | **2016** | 2015 |
| + 25 basis points parallel move in all yield curves | **(3,001)** | (2,566) |
| – 25 basis points parallel move in all yield curves | **3,001** | 2,566 |

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB12,367 million (2015: RMB10,716 million) for every 25 basis points upwards or downwards parallel shift, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### 4.3 GAP analysis

The tables below summarise the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| | As at 31 December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | Over 5 years | Non-interest bearing | Total |
| **Assets** | | | | | | | |
| Cash and due from banks and other financial institutions | 176,032 | 223,847 | 178,222 | 2,020 | – | 79,861 | 659,982 |
| Balances with central banks | 2,064,238 | 1,431 | 1,364 | 781 | – | 203,826 | 2,271,640 |
| Placements with and loans to banks and other financial institutions | 231,961 | 110,994 | 224,351 | 26,742 | – | – | 594,048 |
| Financial assets at fair value through profit or loss | 9,184 | 19,636 | 29,709 | 23,198 | 30,467 | 11,896 | 124,090 |
| Derivative financial assets | – | – | – | – | – | 130,549 | 130,549 |
| Loans and advances to customers, net | 2,641,864 | 2,056,767 | 4,581,188 | 104,586 | 54,745 | 296,496 | 9,735,646 |
| Financial investments | | | | | | | |
| — available for sale | 73,205 | 175,806 | 245,619 | 662,649 | 394,030 | 58,521 | 1,609,830 |
| — held to maturity | 17,739 | 63,545 | 216,412 | 966,564 | 578,783 | – | 1,843,043 |
| — loans and receivables | 4,341 | 15,611 | 16,767 | 234,036 | 123,788 | 1,378 | 395,921 |
| Assets held for sale | 27,428 | 5,973 | 5,630 | 4,285 | 3 | 7,052 | 50,371 |
| Other | 3,536 | 578 | 3,413 | – | – | 726,242 | 733,769 |
| **Total assets** | 5,249,528 | 2,674,188 | 5,502,675 | 2,024,861 | 1,181,816 | 1,515,821 | 18,148,889 |
| **Liabilities** | | | | | | | |
| Due to banks and other financial institutions | 921,705 | 97,435 | 180,102 | 73,590 | – | 147,695 | 1,420,527 |
| Due to central banks | 343,246 | 131,312 | 380,647 | 11,862 | – | 27 | 867,094 |
| Placements from banks and other financial institutions | 178,931 | 62,562 | 61,150 | 149 | – | – | 302,792 |
| Derivative financial liabilities | – | – | – | – | – | 107,109 | 107,109 |
| Due to customers | 7,405,926 | 1,341,350 | 2,391,472 | 1,611,515 | 13,319 | 176,166 | 12,939,748 |
| Bonds issued | 27,287 | 27,661 | 56,063 | 198,432 | 52,875 | – | 362,318 |
| Liabilities classified as held for sale | 25,716 | 6,645 | 6,392 | 60 | – | 3,675 | 42,488 |
| Other | 15,558 | 20,804 | 4,522 | 2,144 | 605 | 576,088 | 619,721 |
| **Total liabilities** | 8,918,369 | 1,687,769 | 3,080,348 | 1,897,752 | 66,799 | 1,010,760 | 16,661,797 |
| **Total interest repricing gap** | (3,668,841) | 986,419 | 2,422,327 | 127,109 | 1,115,017 | 505,061 | 1,487,092 |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.3 GAP analysis (Continued)*

| | As at 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | Over 5 years | Non-interest bearing | Total |
| **Assets** | | | | | | | |
| Cash and due from banks and other financial institutions | 124,019 | 91,767 | 361,286 | 1,827 | – | 75,479 | 654,378 |
| Balances with central banks | 2,064,120 | – | – | – | – | 131,943 | 2,196,063 |
| Placements with and loans to banks and other financial institutions | 158,286 | 71,528 | 173,974 | 23,060 | – | – | 426,848 |
| Financial assets at fair value through profit or loss | 8,972 | 13,959 | 20,211 | 30,615 | 30,325 | 14,980 | 119,062 |
| Derivative financial assets | – | – | – | – | – | 82,236 | 82,236 |
| Loans and advances to customers, net | 2,271,591 | 1,900,358 | 4,337,626 | 93,349 | 59,740 | 272,531 | 8,935,195 |
| Financial investments | | | | | | | |
| — available for sale | 64,132 | 151,607 | 167,734 | 455,700 | 192,482 | 46,878 | 1,078,533 |
| — held to maturity | 46,486 | 91,150 | 301,202 | 819,218 | 532,734 | – | 1,790,790 |
| — loans and receivables | 39,338 | 53,237 | 204,940 | 206,918 | 102,277 | – | 606,710 |
| Assets held for sale | 135,688 | 35,564 | 39,997 | 21,372 | 443 | 4,873 | 237,937 |
| Other | 6,006 | 1,907 | 588 | – | – | 679,344 | 687,845 |
| **Total assets** | 4,918,638 | 2,411,077 | 5,607,558 | 1,652,059 | 918,001 | 1,308,264 | 16,815,597 |
| **Liabilities** | | | | | | | |
| Due to banks and other financial institutions | 1,170,766 | 60,558 | 221,521 | 129,352 | – | 182,123 | 1,764,320 |
| Due to central banks | 230,608 | 80,054 | 83,282 | 19,335 | – | 2,430 | 415,709 |
| Placements from banks and other financial institutions | 237,435 | 181,274 | 27,917 | 1,318 | – | – | 447,944 |
| Derivative financial liabilities | – | – | – | – | – | 69,160 | 69,160 |
| Due to customers | 6,529,728 | 1,221,139 | 2,225,183 | 1,581,239 | 3,628 | 168,254 | 11,729,171 |
| Bonds issued | 5,828 | 9,235 | 32,987 | 126,217 | 108,662 | – | 282,929 |
| Liabilities classified as held for sale | 115,324 | 31,314 | 33,242 | 4,999 | 16 | 11,955 | 196,850 |
| Other | 9,250 | 3,689 | 2,960 | 12,116 | 17,017 | 506,877 | 551,909 |
| **Total liabilities** | 8,298,939 | 1,587,263 | 2,627,092 | 1,874,576 | 129,323 | 940,799 | 15,457,992 |
| **Total interest repricing gap** | (3,380,301) | 823,814 | 2,980,466 | (222,517) | 788,678 | 367,465 | 1,357,605 |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.4 Foreign currency risk*

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

| | | Effect on profit before tax | | Effect on equity* | |
|---|---|---|---|---|---|
| Currency | Change in currency rate | **As at 31 December 2016** | As at 31 December 2015 | **As at 31 December 2016** | As at 31 December 2015 |
| USD | +1% | **631** | 654 | **325** | 280 |
| HKD | +1% | **(247)** | (472) | **2,012** | 1,471 |

* Effect on other comprehensive income (irrespective of income tax effect).

While the table above indicates the effect on profit before tax and equity of 1% appreciation of USD and HKD, there will be an opposite effect with the same amounts if the currencies depreciate by the same percentage.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.4 Foreign currency risk (Continued)*

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2016 and 2015. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

| | As at 31 December 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | RMB | USD | HKD | EURO | JPY | GBP | Other | Total |
| **Assets** | | | | | | | | |
| Cash and due from banks and other financial institutions | 498,095 | 107,735 | 14,324 | 6,477 | 15,944 | 1,700 | 15,707 | 659,982 |
| Balances with central banks | 1,807,526 | 340,513 | 4,510 | 32,245 | 21,640 | 33,772 | 31,434 | 2,271,640 |
| Placements with and loans to banks and other financial institutions | 379,735 | 123,994 | 36,454 | 2,286 | 3,886 | 255 | 47,438 | 594,048 |
| Financial assets at fair value through profit or loss | 50,702 | 47,475 | 23,527 | 1,540 | 360 | 475 | 11 | 124,090 |
| Derivative financial assets | 56,291 | 4,507 | 52,945 | 695 | 286 | 12,085 | 3,740 | 130,549 |
| Loans and advances to customers, net | 7,399,294 | 1,167,127 | 722,240 | 190,822 | 11,866 | 31,372 | 212,925 | 9,735,646 |
| Financial investments | | | | | | | | |
| — available for sale | 894,034 | 416,315 | 125,060 | 22,604 | 87,159 | 7,609 | 57,049 | 1,609,830 |
| — held to maturity | 1,676,845 | 153,896 | 4,035 | 1,941 | 720 | 516 | 5,090 | 1,843,043 |
| — loans and receivables | 379,354 | 1,734 | 838 | – | – | – | 13,995 | 395,921 |
| Assets held for sale | 10,556 | 8,860 | 29,185 | 229 | 78 | 224 | 1,239 | 50,371 |
| Other | 263,114 | 125,563 | 160,709 | 2,472 | 1,213 | 1,415 | 179,283 | 733,769 |
| **Total assets** | 13,415,546 | 2,497,719 | 1,173,827 | 261,311 | 143,152 | 89,423 | 567,911 | 18,148,889 |
| **Liabilities** | | | | | | | | |
| Due to banks and other financial institutions | 785,818 | 394,408 | 31,258 | 41,011 | 15,053 | 6,685 | 146,294 | 1,420,527 |
| Due to central banks | 610,339 | 242,546 | 9,931 | 2,448 | – | 1,830 | – | 867,094 |
| Placements from banks and other financial institutions | 115,806 | 146,285 | 3,816 | 21,877 | 4,815 | 7,215 | 2,978 | 302,792 |
| Derivative financial liabilities | 33,338 | 3,299 | 50,653 | 771 | 204 | 12,118 | 6,726 | 107,109 |
| Due to customers | 9,744,207 | 1,538,408 | 1,000,075 | 178,965 | 56,706 | 60,916 | 360,471 | 12,939,748 |
| Bonds issued | 202,744 | 137,355 | 1,287 | 14,709 | – | 2,034 | 4,189 | 362,318 |
| Liabilities classified as held for sale | 5,044 | 7,278 | 28,398 | 253 | 76 | 215 | 1,224 | 42,488 |
| Other | 341,041 | 71,241 | 186,466 | 2,482 | 1,398 | 1,415 | 15,678 | 619,721 |
| **Total liabilities** | 11,838,337 | 2,540,820 | 1,311,884 | 262,516 | 78,252 | 92,428 | 537,560 | 16,661,797 |
| Net on-balance sheet position | 1,577,209 | (43,101) | (138,057) | (1,205) | 64,900 | (3,005) | 30,351 | 1,487,092 |
| Net off-balance sheet position | (313,211) | 84,443 | 298,500 | 10,334 | (64,129) | 4,699 | 2,668 | 23,304 |
| Credit commitments | 2,249,059 | 861,382 | 255,971 | 94,639 | 7,432 | 39,121 | 82,004 | 3,589,608 |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.4 Foreign currency risk (Continued)*

| | As at 31 December 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | RMB | USD | HKD | EURO | JPY | GBP | Other | Total |
| **Assets** | | | | | | | | |
| Cash and due from banks and other financial institutions | 547,998 | 64,079 | 17,314 | 6,457 | 7,234 | 2,374 | 8,922 | 654,378 |
| Balances with central banks | 1,719,641 | 344,446 | 13,189 | 20,454 | 28,358 | 44,901 | 25,074 | 2,196,063 |
| Placements with and loans to banks and other financial institutions | 273,947 | 82,142 | 30,764 | 2,908 | 32 | 2,655 | 34,400 | 426,848 |
| Financial assets at fair value through profit or loss | 46,844 | 52,709 | 18,831 | 580 | 17 | 81 | – | 119,062 |
| Derivative financial assets | 29,044 | 2,213 | 35,320 | 438 | 312 | 11,200 | 3,709 | 82,236 |
| Loans and advances to customers, net | 6,840,062 | 1,147,024 | 631,308 | 140,075 | 9,256 | 24,824 | 142,646 | 8,935,195 |
| Financial investments | | | | | | | | |
| — available for sale | 576,382 | 261,381 | 114,358 | 12,222 | 65,685 | 2,647 | 45,858 | 1,078,533 |
| — held to maturity | 1,618,055 | 160,191 | 5,702 | 117 | 647 | 584 | 5,494 | 1,790,790 |
| — loans and receivables | 591,781 | 2,978 | 2 | – | – | – | 11,949 | 606,710 |
| Assets held for sale | 82,994 | 44,845 | 102,090 | 3,614 | 235 | 694 | 3,465 | 237,937 |
| Other | 269,996 | 114,845 | 109,632 | 2,057 | 2,809 | 1,793 | 186,713 | 687,845 |
| **Total assets** | 12,596,744 | 2,276,853 | 1,078,510 | 188,922 | 114,585 | 91,753 | 468,230 | 16,815,597 |
| **Liabilities** | | | | | | | | |
| Due to banks and other financial institutions | 1,002,165 | 510,671 | 21,686 | 32,645 | 16,113 | 6,443 | 174,597 | 1,764,320 |
| Due to central banks | 232,832 | 170,901 | 9,909 | – | – | 2,067 | – | 415,709 |
| Placements from banks and other financial institutions | 289,664 | 112,002 | 13,527 | 22,310 | 1,940 | 4,522 | 3,979 | 447,944 |
| Derivative financial liabilities | 6,718 | 14,438 | 32,383 | 498 | 144 | 10,993 | 3,986 | 69,160 |
| Due to customers | 9,114,667 | 1,201,162 | 881,340 | 148,277 | 45,044 | 44,191 | 294,490 | 11,729,171 |
| Bonds issued | 167,300 | 102,956 | 788 | 8,321 | – | – | 3,564 | 282,929 |
| Liabilities classified as held for sale | 74,740 | 39,000 | 75,136 | 3,909 | 227 | 535 | 3,303 | 196,850 |
| Other | 327,837 | 62,504 | 144,082 | 2,463 | 426 | 2,263 | 12,334 | 551,909 |
| **Total liabilities** | 11,215,923 | 2,213,634 | 1,178,851 | 218,423 | 63,894 | 71,014 | 496,253 | 15,457,992 |
| Net on-balance sheet position | 1,380,821 | 63,219 | (100,341) | (29,501) | 50,691 | 20,739 | (28,023) | 1,357,605 |
| Net off-balance sheet position | (208,637) | 22,587 | 181,262 | 36,718 | (48,410) | (18,568) | 49,757 | 14,709 |
| Credit commitments | 2,055,776 | 725,409 | 250,301 | 81,590 | 6,348 | 22,980 | 67,629 | 3,210,033 |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

### *4.5 Price risk*

The Group is exposed to equity price risk on its available for sale listed equity securities. As at 31 December 2016, a 5 percentage variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB415 million (31 December 2015: RMB297 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

## 5 Liquidity risk

The liquidity risk means the risk that a commercial bank fails to timely acquire adequate funds at a reasonable cost to deal with repayment of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

### *5.1 Liquidity risk management policy and process*

The Bank continued to develop and improve its liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration of various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowing and improve the diversity and stability of financing sources.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net", etc. In the normal course of business, a proportion of short-term loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 5 Liquidity risk (Continued)

### 5.2 Maturity analysis

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

| | As at 31 December 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdue/ Undated | On demand | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | Over 5 years | Total |
| **Assets** | | | | | | | | |
| Cash and due from banks and other financial institutions | 22 | 171,837 | 84,034 | 223,847 | 178,222 | 2,020 | – | 659,982 |
| Balances with central banks | 1,743,459 | 448,607 | 16,841 | 15,383 | 46,569 | 781 | – | 2,271,640 |
| Placements with and loans to banks and other financial institutions | – | – | 229,651 | 106,802 | 229,002 | 28,593 | – | 594,048 |
| Financial assets at fair value through profit or loss | 11,896 | – | 8,783 | 18,065 | 28,217 | 25,495 | 31,634 | 124,090 |
| Derivative financial assets | – | 13,239 | 15,745 | 23,369 | 62,855 | 12,310 | 3,031 | 130,549 |
| Loans and advances to customers, net | 52,413 | 82,783 | 410,546 | 1,002,740 | 2,208,527 | 2,555,287 | 3,423,350 | 9,735,646 |
| Financial investments | | | | | | | | |
| — available for sale | 56,897 | – | 45,239 | 131,697 | 256,484 | 718,220 | 401,293 | 1,609,830 |
| — held to maturity | – | – | 10,623 | 45,020 | 212,939 | 983,275 | 591,186 | 1,843,043 |
| — loans and receivables | 1,378 | – | 4,291 | 14,221 | 14,073 | 234,830 | 127,128 | 395,921 |
| Assets held for sale | 6,652 | 4,144 | 5,432 | 4,143 | 8,722 | 16,193 | 5,085 | 50,371 |
| Other | 259,332 | 301,848 | 36,294 | 30,690 | 45,714 | 42,247 | 17,644 | 733,769 |
| **Total assets** | 2,132,049 | 1,022,458 | 867,479 | 1,615,977 | 3,291,324 | 4,619,251 | 4,600,351 | 18,148,889 |
| **Liabilities** | | | | | | | | |
| Due to banks and other financial institutions | – | 891,046 | 166,691 | 96,552 | 180,941 | 85,297 | – | 1,420,527 |
| Due to central banks | – | 170,646 | 172,626 | 131,312 | 380,647 | 11,863 | – | 867,094 |
| Placements from banks and other financial institutions | – | – | 178,624 | 62,562 | 61,150 | 149 | 307 | 302,792 |
| Derivative financial liabilities | – | 9,443 | 11,081 | 21,432 | 49,358 | 12,953 | 2,842 | 107,109 |
| Due to customers | – | 6,208,198 | 1,355,804 | 1,319,746 | 2,380,204 | 1,652,646 | 23,150 | 12,939,748 |
| Bonds issued | – | – | 19,669 | 16,851 | 57,014 | 214,169 | 54,615 | 362,318 |
| Liabilities classified as held for sale | – | 21,680 | 6,882 | 6,679 | 6,428 | 819 | – | 42,488 |
| Other | – | 223,724 | 87,018 | 34,244 | 136,457 | 80,010 | 58,268 | 619,721 |
| **Total liabilities** | – | 7,524,737 | 1,998,395 | 1,689,378 | 3,252,199 | 2,057,906 | 139,182 | 16,661,797 |
| **Net liquidity gap** | 2,132,049 | (6,502,279) | (1,130,916) | (73,401) | 39,125 | 2,561,345 | 4,461,169 | 1,487,092 |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 5 Liquidity risk (Continued)

### 5.2 Maturity analysis (Continued)

| | As at 31 December 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdue/ Undated | On demand | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | Over 5 years | Total |
| **Assets** | | | | | | | | |
| Cash and due from banks and other financial institutions | 22 | 130,446 | 69,030 | 91,767 | 361,286 | 1,827 | – | 654,378 |
| Balances with central banks | 1,580,456 | 576,307 | 26,582 | 136 | 12,582 | – | – | 2,196,063 |
| Placements with and loans to banks and other financial institutions | – | – | 158,256 | 69,729 | 174,865 | 23,998 | – | 426,848 |
| Financial assets at fair value through profit or loss | 14,460 | – | 8,729 | 12,997 | 18,787 | 32,407 | 31,682 | 119,062 |
| Derivative financial assets | – | 13,629 | 7,091 | 6,845 | 44,929 | 8,834 | 908 | 82,236 |
| Loans and advances to customers, net | 49,971 | 110,598 | 406,547 | 918,256 | 2,173,435 | 2,250,542 | 3,025,846 | 8,935,195 |
| Financial investments | | | | | | | | |
| — available for sale | 46,529 | – | 28,557 | 116,306 | 181,096 | 510,301 | 195,744 | 1,078,533 |
| — held to maturity | – | – | 29,719 | 68,270 | 287,726 | 869,988 | 535,087 | 1,790,790 |
| — loans and receivables | – | – | 39,338 | 53,237 | 204,616 | 207,242 | 102,277 | 606,710 |
| Assets held for sale | 10,061 | 13,924 | 39,762 | 24,869 | 53,170 | 71,440 | 24,711 | 237,937 |
| Other | 239,203 | 293,031 | 34,025 | 26,729 | 47,425 | 29,215 | 18,217 | 687,845 |
| **Total assets** | 1,940,702 | 1,137,935 | 847,636 | 1,389,141 | 3,559,917 | 4,005,794 | 3,934,472 | 16,815,597 |
| **Liabilities** | | | | | | | | |
| Due to banks and other financial institutions | – | 1,121,330 | 182,428 | 68,261 | 236,929 | 155,372 | – | 1,764,320 |
| Due to central banks | – | 123,381 | 109,657 | 80,054 | 83,282 | 19,335 | – | 415,709 |
| Placements from banks and other financial institutions | – | – | 237,435 | 181,274 | 27,917 | 1,318 | – | 447,944 |
| Derivative financial liabilities | – | 8,874 | 7,279 | 7,721 | 33,636 | 9,422 | 2,228 | 69,160 |
| Due to customers | – | 5,310,840 | 1,349,408 | 1,211,480 | 2,236,700 | 1,606,338 | 14,405 | 11,729,171 |
| Bonds issued | – | – | 5,828 | 9,235 | 32,987 | 124,591 | 110,288 | 282,929 |
| Liabilities classified as held for sale | – | 77,062 | 48,191 | 31,001 | 35,309 | 5,265 | 22 | 196,850 |
| Other | – | 169,964 | 71,263 | 36,826 | 139,009 | 74,795 | 60,052 | 551,909 |
| **Total liabilities** | – | 6,811,451 | 2,011,489 | 1,625,852 | 2,825,769 | 1,996,436 | 186,995 | 15,457,992 |
| **Net liquidity gap** | 1,940,702 | (5,673,516) | (1,163,853) | (236,711) | 734,148 | 2,009,358 | 3,747,477 | 1,357,605 |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 5 Liquidity risk (Continued)

### 5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

| | As at 31 December 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdue/ Undated | On demand | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | Over 5 years | Total |
| **Non-derivative cash flow** | | | | | | | | |
| Cash and due from banks and other financial institutions | 22 | 172,950 | 84,820 | 226,525 | 182,202 | 2,188 | – | 668,707 |
| Balances with central banks | 1,743,459 | 448,631 | 16,847 | 15,383 | 46,574 | 781 | – | 2,271,675 |
| Placements with and loans to banks and other financial institutions | – | – | 230,363 | 109,093 | 233,774 | 29,622 | – | 602,852 |
| Financial assets at fair value through profit or loss | 11,896 | – | 9,113 | 18,601 | 30,266 | 31,095 | 41,800 | 142,771 |
| Loans and advances to customers, net | 54,286 | 82,785 | 433,586 | 1,070,564 | 2,428,493 | 3,255,189 | 4,470,367 | 11,795,270 |
| Financial investments | | | | | | | | |
| — available for sale | 56,903 | – | 49,509 | 147,292 | 302,474 | 830,459 | 447,665 | 1,834,302 |
| — held to maturity | – | – | 13,889 | 52,801 | 267,465 | 1,144,917 | 685,195 | 2,164,267 |
| — loans and receivables | 1,455 | – | 4,330 | 16,266 | 24,228 | 268,263 | 144,179 | 458,721 |
| Assets held for sale | 340 | 4,006 | 5,465 | 4,234 | 9,104 | 17,095 | 5,750 | 45,994 |
| Other financial assets | 3,800 | 124,632 | 17,565 | 2,946 | 7,676 | 549 | 1,145 | 158,313 |
| Total financial assets | 1,872,161 | 833,004 | 865,487 | 1,663,705 | 3,532,256 | 5,580,158 | 5,796,101 | 20,142,872 |
| Due to banks and other financial institutions | – | 891,758 | 171,650 | 97,787 | 183,745 | 90,885 | – | 1,435,825 |
| Due to central banks | – | 170,717 | 173,318 | 132,379 | 388,036 | 12,777 | – | 877,227 |
| Placements from banks and other financial institutions | – | – | 179,072 | 62,893 | 62,544 | 236 | 352 | 305,097 |
| Due to customers | – | 6,215,933 | 1,407,034 | 1,348,339 | 2,458,734 | 1,808,556 | 23,900 | 13,262,496 |
| Bonds issued | – | – | 20,088 | 18,543 | 67,294 | 247,772 | 60,864 | 414,561 |
| Liabilities classified as held for sale | – | 21,670 | 6,881 | 6,660 | 6,477 | 62 | – | 41,750 |
| Other financial liabilities | – | 171,126 | 23,466 | 6,629 | 9,970 | 25,523 | 14,098 | 250,812 |
| Total financial liabilities | – | 7,471,204 | 1,981,509 | 1,673,230 | 3,176,800 | 2,185,811 | 99,214 | 16,587,768 |
| **Derivative cash flow** | | | | | | | | |
| Derivative financial instruments settled on a net basis | – | 3,675 | (30) | 872 | 15,639 | 409 | 399 | 20,964 |
| Derivative financial instruments settled on a gross basis | | | | | | | | |
| Total inflow | – | 73,950 | 1,540,606 | 1,258,275 | 2,420,131 | 258,759 | 5,649 | 5,557,370 |
| Total outflow | – | (72,307) | (1,534,915) | (1,256,284) | (2,421,057) | (257,888) | (5,664) | (5,548,115) |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 5 Liquidity risk (Continued)

### 5.3 Undiscounted cash flows by contractual maturities (Continued)

| | As at 31 December 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdue/ Undated | On demand | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | Over 5 years | Total |
| **Non-derivative cash flow** | | | | | | | | |
| Cash and due from banks and other financial institutions | 22 | 130,775 | 70,082 | 93,589 | 369,511 | 2,035 | – | 666,014 |
| Balances with central banks | 1,580,456 | 577,123 | 26,583 | 136 | 12,582 | – | – | 2,196,880 |
| Placements with and loans to banks and other financial institutions | – | – | 158,573 | 70,307 | 178,895 | 26,064 | – | 433,839 |
| Financial assets at fair value through profit or loss | 14,460 | – | 8,938 | 13,328 | 20,900 | 38,744 | 41,881 | 138,251 |
| Loans and advances to customers, net | 50,893 | 111,302 | 429,958 | 990,650 | 2,406,538 | 2,958,049 | 3,994,428 | 10,941,818 |
| Financial investments | | | | | | | | |
| — available for sale | 46,529 | – | 31,559 | 125,094 | 217,720 | 573,281 | 212,372 | 1,206,555 |
| — held to maturity | – | – | 33,406 | 77,370 | 339,288 | 1,022,008 | 616,860 | 2,088,932 |
| — loans and receivables | – | – | 40,185 | 55,679 | 215,572 | 240,346 | 120,271 | 672,053 |
| Assets held for sale | 8,308 | 13,634 | 39,790 | 25,417 | 55,129 | 77,388 | 30,924 | 250,590 |
| Other financial assets | 364 | 102,252 | 15,254 | 2,090 | 8,704 | 84 | 1,013 | 129,761 |
| Total financial assets | 1,701,032 | 935,086 | 854,328 | 1,453,660 | 3,824,839 | 4,937,999 | 5,017,749 | 18,724,693 |
| Due to banks and other financial institutions | – | 1,122,036 | 185,851 | 70,309 | 242,674 | 165,323 | – | 1,786,193 |
| Due to central banks | – | 123,387 | 110,100 | 80,652 | 84,367 | 20,826 | – | 419,332 |
| Placements from banks and other financial institutions | – | – | 238,145 | 182,799 | 28,512 | 1,462 | – | 450,918 |
| Due to customers | – | 5,318,884 | 1,390,053 | 1,240,530 | 2,319,899 | 1,781,907 | 14,918 | 12,066,191 |
| Bonds issued | – | – | 6,081 | 10,827 | 42,509 | 162,305 | 126,208 | 347,930 |
| Liabilities classified as held for sale | – | 76,972 | 48,112 | 30,883 | 35,495 | 5,468 | 22 | 196,952 |
| Other financial liabilities | – | 131,021 | 20,277 | 6,996 | 5,491 | 18,092 | 17,214 | 199,091 |
| Total financial liabilities | – | 6,772,300 | 1,998,619 | 1,622,996 | 2,758,947 | 2,155,383 | 158,362 | 15,466,607 |
| **Derivative cash flow** | | | | | | | | |
| Derivative financial instruments settled on a net basis | – | 3,265 | 26 | – | (3,602) | (975) | (361) | (1,647) |
| Derivative financial instruments settled on a gross basis | | | | | | | | |
| Total inflow | – | 118,046 | 1,059,809 | 734,110 | 2,652,194 | 340,921 | 4,237 | 4,909,317 |
| Total outflow | – | (118,004) | (1,058,948) | (731,960) | (2,646,928) | (339,347) | (4,223) | (4,899,410) |

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 5 Liquidity risk (Continued)

### *5.4 Off-balance sheet items*

The Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group is the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.42.5, are summarised in the table below.

| | Less than 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Loan commitments[(1)] | **1,357,703** | **387,117** | **100,223** | **1,845,043** |
| Guarantees, acceptances and other financial facilities | **1,088,797** | **384,629** | **271,139** | **1,744,565** |
| Subtotal | **2,446,500** | **771,746** | **371,362** | **3,589,608** |
| Operating lease commitments | **6,446** | **13,165** | **2,752** | **22,363** |
| Capital commitments | **23,554** | **40,537** | **2** | **64,093** |
| Total | **2,476,500** | **825,448** | **374,116** | **3,676,064** |
| **As at 31 December 2015** | | | | |
| Loan commitments[(1)] | 1,072,470 | 255,368 | 63,582 | 1,391,420 |
| Guarantees, acceptances and other financial facilities | 1,241,276 | 347,950 | 229,387 | 1,818,613 |
| Subtotal | 2,313,746 | 603,318 | 292,969 | 3,210,033 |
| Operating lease commitments | 6,313 | 13,040 | 2,997 | 22,350 |
| Capital commitments | 17,160 | 47,596 | 3,280 | 68,036 |
| Total | 2,337,219 | 663,954 | 299,246 | 3,300,419 |

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits, refer to Note V.42.7.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value

### *6.1 Assets and liabilities measured at fair value*

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchange or debt instrument issued by certain governments and certain exchange-traded derivative contracts.

- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), over-the-counter structured derivatives transactions, unlisted funds and part of investment properties held by the Group, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, rental growth, etc. As at 31 December 2016, fair value changes resulting from changes in the unobservable inputs were not significant. Management determines whether to make necessary adjustments to the fair value for the Group's level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value (Continued)

### *6.1 Assets and liabilities measured at fair value (Continued)*

| | As at 31 December 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets measured at fair value** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| — Debt securities | **5,257** | **98,206** | **2,709** | **106,172** |
| — Loans | **–** | **6,022** | **–** | **6,022** |
| — Equity securities | **7,547** | **–** | **–** | **7,547** |
| — Fund investments and other | **4,349** | **–** | **–** | **4,349** |
| Derivative financial assets | **14,914** | **115,635** | **–** | **130,549** |
| Investment securities available for sale | | | | |
| — Debt securities | **196,730** | **1,337,577** | **1,656** | **1,535,963** |
| — Equity securities | **7,744** | **2,830** | **23,362** | **33,936** |
| — Fund investments and other | **4,883** | **15,895** | **19,153** | **39,931** |
| Investment properties | **–** | **2,592** | **19,067** | **21,659** |
| **Liabilities measured at fair value** | | | | |
| Placements from banks and other financial institutions at fair value | **–** | **(1,968)** | **–** | **(1,968)** |
| Due to customers at fair value | **–** | **(350,311)** | **–** | **(350,311)** |
| Short position in debt securities | **(840)** | **(9,150)** | **–** | **(9,990)** |
| Derivative financial liabilities | **(11,235)** | **(95,874)** | **–** | **(107,109)** |

| | As at 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets measured at fair value** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| — Debt securities | 1,342 | 96,991 | 1,531 | 99,864 |
| — Loans | – | 4,218 | – | 4,218 |
| — Equity securities | 9,338 | – | – | 9,338 |
| — Fund investments and other | 5,642 | – | – | 5,642 |
| Derivative financial assets | 13,621 | 68,615 | – | 82,236 |
| Investment securities available for sale | | | | |
| — Debt securities | 117,498 | 911,390 | 954 | 1,029,842 |
| — Equity securities | 5,588 | 2,352 | 22,269 | 30,209 |
| — Fund investments and other | 3,812 | 715 | 13,955 | 18,482 |
| Investment properties | – | 2,170 | 21,111 | 23,281 |
| **Liabilities measured at fair value** | | | | |
| Placements from banks and other financial institutions at fair value | – | (1,617) | – | (1,617) |
| Due to customers at fair value | – | (339,911) | – | (339,911) |
| Short position in debt securities | – | (7,012) | – | (7,012) |
| Derivative financial liabilities | (9,115) | (60,045) | – | (69,160) |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value (Continued)

### 6.1 Assets and liabilities measured at fair value (Continued)

Reconciliation of Level 3 items

| | Financial assets at fair value through profit or loss — Debt securities | Investment securities available for sale | | | Investment properties |
|---|---|---|---|---|---|
| | | Debt securities | Equity securities | Fund investments and other | |
| As at 1 January 2016 | **1,531** | **954** | **22,269** | **13,955** | **21,111** |
| Total gains and losses | | | | | |
| — profit/(loss) | **12** | **2** | **(177)** | **(448)** | **1,054** |
| — other comprehensive income | **–** | **(35)** | **1,069** | **1,974** | **–** |
| Sales | **–** | **(10)** | **(195)** | **(1,613)** | **–** |
| Purchases | **1,166** | **1,184** | **401** | **5,285** | **1,530** |
| Settlements | **–** | **–** | **–** | **–** | **–** |
| Transfers into/(out of) Level 3, net | **–** | **77** | **–** | **–** | **(175)** |
| Other changes | **–** | **(516)** | **(5)** | **–** | **(4,453)** |
| As at 31 December 2016 | **2,709** | **1,656** | **23,362** | **19,153** | **19,067** |
| Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2016 | **12** | **2** | **(181)** | **(848)** | **1,054** |
| As at 1 January 2015 | 850 | 979 | 19,269 | 9,329 | 16,379 |
| Total gains and losses | | | | | |
| — profit | – | 7 | 581 | 16 | 474 |
| — other comprehensive income | – | 3 | (148) | 2,852 | – |
| Sales | (73) | (251) | (1,063) | (1,852) | – |
| Purchases | 754 | 675 | 697 | 3,610 | 3,893 |
| Settlements | – | (1) | – | – | – |
| Transfers (out of)/into Level 3, net | – | (458) | – | – | 83 |
| Other changes | – | – | 2,933 | – | 282 |
| As at 31 December 2015 | 1,531 | 954 | 22,269 | 13,955 | 21,111 |
| Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2015 | – | 2 | (36) | (38) | 474 |

Total gains or losses for the years ended 31 December 2016 and 2015 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 31 December 2016 and 2015 are presented in “Net trading gains”, “Net gains on financial investments” or “Impairment losses on assets” depending on the nature or category of the related financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value (Continued)

### 6.1 *Assets and liabilities measured at fair value (Continued)*

Gains or losses on Level 3 assets and liabilities included in the income statement for the year comprise:

| | Year ended 31 December 2016 | | | Year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Realised | Unrealised | Total | Realised | Unrealised | Total |
| Total gains for the year | **404** | **39** | **443** | 676 | 402 | 1,078 |

The assets and liabilities measured at fair value have been no significant transfers between Level 1 and Level 2 during the year ended 31 December 2016.

### 6.2 *Financial assets and liabilities not measured at fair value*

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", "Financial investments" classified as held to maturity and loans and receivables, "Due to central banks", "Due to banks and other financial institutions", "Placements from banks and other financial institutions", and "Due to customers" measured at amortised cost, and "Bonds issued".

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as held to maturity and loans and receivables, and "Bonds issued" not presented at fair value on the statement of financial position.

| | As at 31 December | | | |
|---|---|---|---|---|
| | Carrying value | | Fair value | |
| | 2016 | 2015 | 2016 | 2015 |
| **Financial assets** | | | | |
| Debt securities[(1)] | | | | |
| — held to maturity | **1,843,043** | 1,790,790 | **1,853,050** | 1,835,942 |
| — loans and receivables | **375,394** | 330,332 | **374,161** | 332,428 |
| **Financial liabilities** | | | | |
| Bonds issued[(2)] | **362,318** | 282,929 | **369,686** | 294,821 |

(1) Debt securities classified as held to maturity and loans and receivables

The China Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value (Continued)

### *6.2 Financial assets and liabilities not measured at fair value (Continued)*

The tables below summarise the fair values of three levels of "Debt securities" classified as held to maturity and loans and receivables (excluding the China Orient Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value on the statement of financial position.

| | As at 31 December 2016 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | |
| Debt securities | | | | |
| — held to maturity | **45,967** | **1,807,083** | **–** | **1,853,050** |
| — loans and receivables | **–** | **170,041** | **1,620** | **171,661** |
| **Financial liabilities** | | | | |
| Bonds issued | **–** | **369,686** | **–** | **369,686** |

| | As at 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Debt securities | | | | |
| — held to maturity | 82,146 | 1,753,796 | – | 1,835,942 |
| — loans and receivables | – | 129,812 | 116 | 129,928 |
| **Financial liabilities** | | | | |
| Bonds issued | – | 294,821 | – | 294,821 |

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

## 7 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Implement the Scientific Outlook on Development thoroughly; follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.

- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, to steadily improve the efficiency and return of capital, achieving the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 7 Capital management (Continued)

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC. With the approval of the CBRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBRC by the end of 2018, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;

- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;

- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 7 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio[1] calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC.

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| **Common equity tier 1 capital adequacy ratio** | **11.37%** | 11.10% |
| **Tier 1 capital adequacy ratio** | **12.28%** | 12.07% |
| **Capital adequacy ratio** | **14.28%** | 14.06% |
| **Composition of the Group's capital base** | | |
| **Common equity tier 1 capital** | **1,297,421** | 1,197,868 |
| Common shares | **294,388** | 294,388 |
| Capital reserve | **139,443** | 139,572 |
| Surplus reserve | **125,109** | 111,207 |
| General reserve | **193,338** | 179,416 |
| Undistributed profits | **526,804** | 451,585 |
| Eligible portion of minority interests | **30,051** | 29,016 |
| Other[2] | **(11,712)** | (7,316) |
| **Regulatory deductions** | **(16,580)** | (15,568) |
| Goodwill | **(96)** | (96) |
| Other intangible assets (except land use rights) | **(6,498)** | (5,369) |
| Gains on sales related to securitisation transactions | **–** | (204) |
| Direct or indirect investments in own shares | **(53)** | (86) |
| Reserve relating to cash-flow hedge items not measured at fair value | **20** | 16 |
| Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation | **(9,953)** | (9,829) |
| **Net common equity tier 1 capital** | **1,280,841** | 1,182,300 |
| **Additional tier 1 capital** | **103,523** | 103,159 |
| Preference shares and related premium | **99,714** | 99,714 |
| Eligible portion of minority interests | **3,809** | 3,445 |
| **Net tier 1 capital** | **1,384,364** | 1,285,459 |
| **Tier 2 capital** | **225,173** | 212,937 |
| Tier 2 capital instruments issued and related premium | **149,406** | 153,266 |
| Excess loan loss provisions | **64,572** | 45,839 |
| Eligible portion of minority interests | **11,195** | 13,832 |
| **Net capital** | **1,609,537** | 1,498,396 |
| **Risk-weighted assets** | **11,269,592** | 10,654,081 |

# VI FINANCIAL RISK MANAGEMENT (Continued)

## 7 Capital management (Continued)

(1) When calculating the capital adequacy ratios, BOCG Investment, Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with requirements of the CBRC.

(2) This mainly represented exchange differences from the translation of foreign operations and fair value gains/(losses) on available for sale financial assets.

## 8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

(Amount in millions of Renminbi, unless otherwise stated)

## I DIFFERENCES BETWEEN IFRS AND CAS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2016 and 2015 or total equity as at 31 December 2016 and 2015 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

## II UNAUDITED SUPPLEMENTARY INFORMATION

### 1 Liquidity ratios and liquidity coverage ratio

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| RMB current assets to RMB current liabilities | 45.60% | 48.65% |
| Foreign currency current assets to foreign currency current liabilities | 52.73% | 62.02% |

The liquidity ratios are calculated in accordance with the relevant provisions of the CBRC.

***Liquidity coverage ratio***

According to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks* issued by the CBRC, the Group disclosed the information of liquidity coverage ratio ("LCR")(1) as follows.

***Regulatory requirements of liquidity coverage ratio***

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*, the commercial banks' LCR should reach 100% by the end of 2018. During the transition period, the LCR should reach 70%, 80%, 90% and 100% by the end of 2015, 2016, 2017 and 2018, respectively. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

***The Group's liquidity coverage ratio***

The Group's(2) average value of LCR(3) was 117.17% in the fourth quarter of 2016, representing a decrease of 0.37 percentage points over the previous quarter. It was primarily due to the decrease in the high-quality liquid assets ("HQLA").

The Group's HQLA is comprised of cash, central bank reserves which are able to be drawn down under stress scenarios, and debt securities that meet the qualifying criteria for Level 1 or Level 2 assets pursuant to the *Liquidity Risk Management of Commercial Banks (Provisional)*.

| | 2016 | | | |
|---|---|---|---|---|
| | Quarter ended 31 December | Quarter ended 30 September | Quarter ended 30 June | Quarter ended 31 March |
| Average value of LCR | 117.17% | 117.54% | 118.08% | 119.42% |

(Amount in millions of Renminbi, unless otherwise stated)

# II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

## 1 Liquidity ratios and liquidity coverage ratio (Continued)

***The Group's liquidity coverage ratio (Continued)***

The Group's average values of LCR individual line items in the fourth quarter of 2016 are as follows:

| No. | | Total un-weighted value | Total weighted value |
|---|---|---|---|
| **High-quality liquid assets** | | | |
| 1 | Total high-quality liquid assets (HQLA) | | 3,232,892 |
| **Cash outflows** | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 6,090,758 | 498,106 |
| 3 | Stable deposits | 2,218,754 | 110,906 |
| 4 | Less stable deposits | 3,872,004 | 387,200 |
| 5 | Unsecured wholesale funding, of which: | 7,582,514 | 2,831,290 |
| 6 | Operational deposits (excluding those generated from correspondent banking activities) | 4,039,907 | 991,131 |
| 7 | Non-operational deposits (all counterparties) | 3,530,957 | 1,828,509 |
| 8 | Unsecured debt | 11,650 | 11,650 |
| 9 | Secured funding | | 4,256 |
| 10 | Additional requirements, of which: | 1,239,036 | 134,413 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 38,742 | 38,742 |
| 12 | Outflows related to loss of funding on debt products | – | – |
| 13 | Credit and liquidity facilities | 1,200,294 | 95,671 |
| 14 | Other contractual funding obligations | 155,017 | 154,804 |
| 15 | Other contingent funding obligations | 3,042,529 | 54,530 |
| **16** | **Total cash outflows** | | 3,677,399 |
| **Cash inflows** | | | |
| 17 | Secured lending (including reverse repos and securities borrowing) | 124,150 | 109,748 |
| 18 | Inflows from fully performing exposures | 1,055,528 | 650,669 |
| 19 | Other cash inflows | 265,852 | 157,375 |
| **20** | **Total cash inflows** | 1,445,530 | 917,792 |
| | | | **Total adjusted value** |
| **21** | **Total HQLA** | | 3,232,892 |
| **22** | **Total net cash outflows** | | 2,759,607 |
| **23** | **Liquidity coverage ratio** | | 117.17% |

(1) The LCR aims to ensure that commercial banks have sufficient HQLA that can be converted into cash to meet the liquidity requirements for at least thirty days under stress scenarios determined by the CBRC.

(2) When calculating the consolidated LCR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of subsidiary consolidation in accordance with the requirements of the CBRC.

(3) The average values of LCR and individual line items are the simple arithmetic average of month-end values in the quarter.

## II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

### 2 Currency concentrations

The following information is computed in accordance with the provisions of the CBRC.

| | Equivalent in millions of RMB | | | |
|---|---|---|---|---|
| | USD | HKD | Other | Total |
| **As at 31 December 2016** | | | | |
| Spot assets | **1,312,715** | **22,870** | **353,621** | **1,689,206** |
| Spot liabilities | **(1,382,623)** | **(361,995)** | **(321,029)** | **(2,065,647)** |
| Forward purchases | **4,624,107** | **569,469** | **1,023,746** | **6,217,322** |
| Forward sales | **(4,439,207)** | **(254,529)** | **(1,073,565)** | **(5,767,301)** |
| Net options position* | **(51,861)** | **(515)** | **(141)** | **(52,517)** |
| Net long/(short) position | **63,131** | **(24,700)** | **(17,368)** | **21,063** |
| Structural position | **32,534** | **201,228** | **54,047** | **287,809** |
| **As at 31 December 2015** | | | | |
| Spot assets | 1,038,079 | 15,909 | 248,416 | 1,302,404 |
| Spot liabilities | (991,084) | (266,086) | (289,553) | (1,546,723) |
| Forward purchases | 4,395,569 | 408,637 | 793,915 | 5,598,121 |
| Forward sales | (4,375,139) | (205,517) | (780,544) | (5,361,200) |
| Net options position* | (1,998) | (131) | (44) | (2,173) |
| Net long/(short) position | 65,427 | (47,188) | (27,810) | (9,571) |
| Structural position | 27,971 | 147,136 | 55,557 | 230,664 |

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

### 3 International claims

The Group discloses international claims according to *Banking (Disclosure) Rules* (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include "Balances with central banks", "Due from and placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Financial assets at fair value through profit or loss", "Loans and advances to customers" and "Financial investments".

International claims have been disclosed by major countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers.

(Amount in millions of Renminbi, unless otherwise stated)

# II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

## 3 International claims (Continued)

| | Banks | Official sector | Non-bank private sector | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Asia Pacific | | | | |
| Chinese mainland | **601,461** | **200,367** | **709,491** | **1,511,319** |
| Hong Kong | **15,532** | **3,188** | **423,094** | **441,814** |
| Other Asia Pacific locations | **125,198** | **102,622** | **343,365** | **571,185** |
| Subtotal | **742,191** | **306,177** | **1,475,950** | **2,524,318** |
| North and South America | **64,201** | **190,282** | **148,600** | **403,083** |
| Other | **70,327** | **51,652** | **145,130** | **267,109** |
| Total | **876,719** | **548,111** | **1,769,680** | **3,194,510** |

## 4 Overdue assets

For the purpose of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

### *4.1 Total amount of overdue loans and advances to customers*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Total loans and advances to customers which have been overdue | | |
| within 3 months | **102,281** | 72,418 |
| between 3 and 6 months | **20,203** | 21,143 |
| between 6 and 12 months | **37,864** | 44,237 |
| over 12 months | **54,243** | 41,229 |
| Total | **214,591** | 179,027 |
| Percentage | | |
| within 3 months | **1.03%** | 0.79% |
| between 3 and 6 months | **0.20%** | 0.23% |
| between 6 and 12 months | **0.38%** | 0.49% |
| over 12 months | **0.54%** | 0.45% |
| Total | **2.15%** | 1.96% |

### *4.2 Total amount of overdue placements with and loans to banks and other financial institutions*

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2016 and 2015 is not considered material.

# II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

## 5 Leverage ratio

The leverage ratios of the Group calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* are as follows[(1)]:

| | 2016 | | | |
|---|---|---|---|---|
| | As at 31 December | As at 30 September | As at 30 June | As at 31 March |
| Net tier 1 capital | 1,384,364 | 1,362,159 | 1,322,016 | 1,325,582 |
| Adjusted on- and off-balance sheet assets | 19,604,737 | 19,251,144 | 19,062,650 | 18,497,683 |
| Leverage ratio | 7.06% | 7.08% | 6.94% | 7.17% |

| No. | Items | As at 31 December 2016 |
|---|---|---|
| 1 | Total consolidated assets | 18,148,889 |
| 2 | Adjustments that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (9,953) |
| 3 | Adjustments for fiduciary assets | – |
| 4 | Adjustments for derivative financial instruments | 91,615 |
| 5 | Adjustments for securities financing transactions | 24,683 |
| 6 | Adjustments for off-balance sheet exposures | 1,602,678 |
| 7 | Other adjustments | (253,175) |
| 8 | Adjusted on- and off-balance sheet assets | 19,604,737 |

| No. | Items | As at 31 December 2016 |
|---|---|---|
| 1 | On-balance sheet assets (excluding derivatives and securities financing transactions) | 17,661,673 |
| 2 | Less: Tier 1 capital deductions | (16,580) |
| **3** | **Total on-balance sheet exposures (excluding derivatives and SFTs)** | 17,645,093 |
| 4 | Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin) | 130,407 |
| 5 | Add-on amounts for potential future exposure associated with all derivative transactions | 91,757 |
| 6 | Gross-up for derivative collateral provided where deducted from the balance sheet assets | – |
| 7 | Less: Deductions of receivable assets for cash variation margin provided in derivative transactions | – |
| 8 | Less: Exempted CCP leg of client-cleared trade exposures | – |
| 9 | Adjusted effective notional amount of written credit derivatives | – |
| 10 | Less: Deductible amounts for written credit derivatives | – |
| **11** | **Total derivative exposures** | 222,164 |
| 12 | Accounting balance for securities financing transaction assets | 109,408 |
| 13 | Less: Deducted amounts for securities financing transaction assets | – |
| 14 | Counterparty credit risk exposure for securities financing transaction assets | 25,394 |
| 15 | Agent transaction exposures | – |
| **16** | **Balance of assets in securities financing transactions** | 134,802 |
| 17 | Off-balance sheet items | 3,986,645 |
| 18 | Less: Adjustments for conversion to credit equivalent amounts | (2,383,967) |
| **19** | **Adjusted off-balance sheet exposures** | 1,602,678 |
| 20 | Net tier 1 capital | 1,384,364 |
| 21 | Adjusted on- and off-balance sheet exposures | 19,604,737 |
| **22** | **Leverage ratio** | 7.06% |

(1) When calculating the consolidated leverage ratio, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

(Amount in millions of Renminbi, unless otherwise stated)

# II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

## 6 Global systemically importance assessment indicators of commercial banks

The following global systemically importance assessment indicators of commercial banks are disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks* (Yin Jian Fa, [2014] No. 1) promulgated by the CBRC.

| No. | Indicators(1) | 2016 value |
|---|---|---|
| 1 | Adjusted on-balance and off-balance sheet assets | **19,604,737** |
| 2 | Intra-financial system assets | **1,794,957** |
| 3 | Intra-financial system liabilities | **1,485,712** |
| 4 | Securities and other financing instruments | **2,250,654** |
| 5 | Payments settled via payment systems or correspondent banks | **432,865,206** |
| 6 | Assets under custody | **8,206,031** |
| 7 | Underwritten transactions in debt and equity markets | **636,945** |
| 8 | Notional amount of over-the-counter derivatives | **8,144,583** |
| 9 | Trading and available for sale securities | **659,627** |
| 10 | Level 3 assets | **8,890** |
| 11 | Cross-jurisdictional claims | **2,944,587** |
| 12 | Cross-jurisdictional liabilities | **4,031,201** |

(1) The above indicators are calculated and disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks*, which are unaudited and inconsistent with the disclosures in the financial report.

# Reference for Shareholders

## Financial Calendar for 2017

| | |
|---|---|
| 2016 Annual Results | To be announced on 31 March 2017 |
| 2016 Annual Report | To be printed and dispatched to H-Share Holders in late April 2017 |
| 2016 Annual General Meeting | To be held on 29 June 2017 |
| 2017 Interim Results | To be announced no later than 30 August 2017 |

## Annual General Meeting

The Bank's 2016 Annual General Meeting is scheduled to be held in Beijing and Hong Kong, China at 9:30 a.m. on Thursday, 29 June 2017.

## Dividends on Ordinary Shares

The Board of Directors recommended a final dividend on ordinary shares of RMB0.168 per share (before tax), subject to the approval of shareholders at the 2016 Annual General Meeting.

## Securities Information

### Listing and Trading

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively.

The Bank's Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 24 October 2014. The Domestic Preference Shares (First Tranche) were traded on the Comprehensive Business Platform of SSE on 8 December 2014. The Domestic Preference Shares (Second Tranche) were traded on the Comprehensive Business Platform of SSE on 31 March 2015.

### Ordinary Shares

| | | |
|---|---|---|
| Issued shares: | 294,387,791,241 | shares (as at 31 December 2016) |
| Including: | | |
| A Share: | 210,765,514,846 | shares |
| H Share: | 83,622,276,395 | shares |

### Preference Shares

| | | |
|---|---|---|
| Issued shares: | 999,400,000 | shares (as at 31 December 2016) |
| Including: | | |
| Domestic Preference Share: | 600,000,000 | shares |
| Offshore Preference Share: | 399,400,000 | shares |

### Market Capitalisation

As at the last trading day in 2016 (30 December for both A Shares and H Shares), the Bank's market capitalisation was RMB982.349 billion (based on the closing price of A Shares and H Shares on 30 December 2016, and the exchange rate of HKD100 = RMB89.451 as published by the SAFE on 30 December 2016).

# Reference for Shareholders

## Securities Price

| | Closing price on 30 December 2016 | Highest trading price in the year | Lowest trading price in the year |
|---|---|---|---|
| A Share | RMB3.44 | RMB4.01 | RMB3.08 |
| H Share | HKD3.44 | HKD3.77 | HKD2.83 |

## Securities Code

**A Share**

| | |
|---|---|
| Stock Name | 中國銀行 |
| Shanghai Stock Exchange | 601988 |
| Reuters | 601988.SS |
| Bloomberg | 601988 CH |

**H Share**

| | |
|---|---|
| Stock Name | Bank of China |
| Hong Kong Stock Exchange | 3988 |
| Reuters | 3988.HK |
| Bloomberg | 3988 HK |

**Domestic Preference Share (First Tranche)**

| | |
|---|---|
| Stock Name | 中行優1 |
| Shanghai Stock Exchange | 360002 |
| Bloomberg | EK6323670 |

**Domestic Preference Share (Second Tranche)**

| | |
|---|---|
| Stock Name | 中行優2 |
| Shanghai Stock Exchange | 360010 |
| Bloomberg | EK8196546 |

**Offshore Preference Share**

| | |
|---|---|
| Stock Name | BOC 2014 PREF |
| Hong Kong Stock Exchange | 4601 |
| Reuters | 4601.HK |
| Bloomberg | EK5371647 |

## Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the following address:

**A Share**

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
36/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

**H Share**

Computershare Hong Kong Investor Services Limited
17M, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

**Domestic Preference Share**

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
36/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

## Credit Rating (Long Term, Foreign Currency)

| | |
|---|---|
| Standard & Poor's Ratings Services: | A |
| Moody's Investors Service: | A1 |
| Fitch Ratings: | A |
| Rating and Investment Information, Inc.: | A |
| Dagong Global Credit Rating Co., Ltd. (RMB): | AAA |

## Index Constituents

| | |
|---|---|
| Hang Seng Index | Dow Jones Index Series |
| Hang Seng China H-Financial Index | S&P Index Series |
| Hang Seng China Enterprises Index | Bloomberg Index Series |
| Hang Seng Composite Index (HSCI) Series | FTSE Index Series |
| Hang Seng Corporate Sustainability Index Series | Shanghai Stock Exchange Index Series |
| MSCI Index Series | CSI Index Series |

## Investor Enquiry

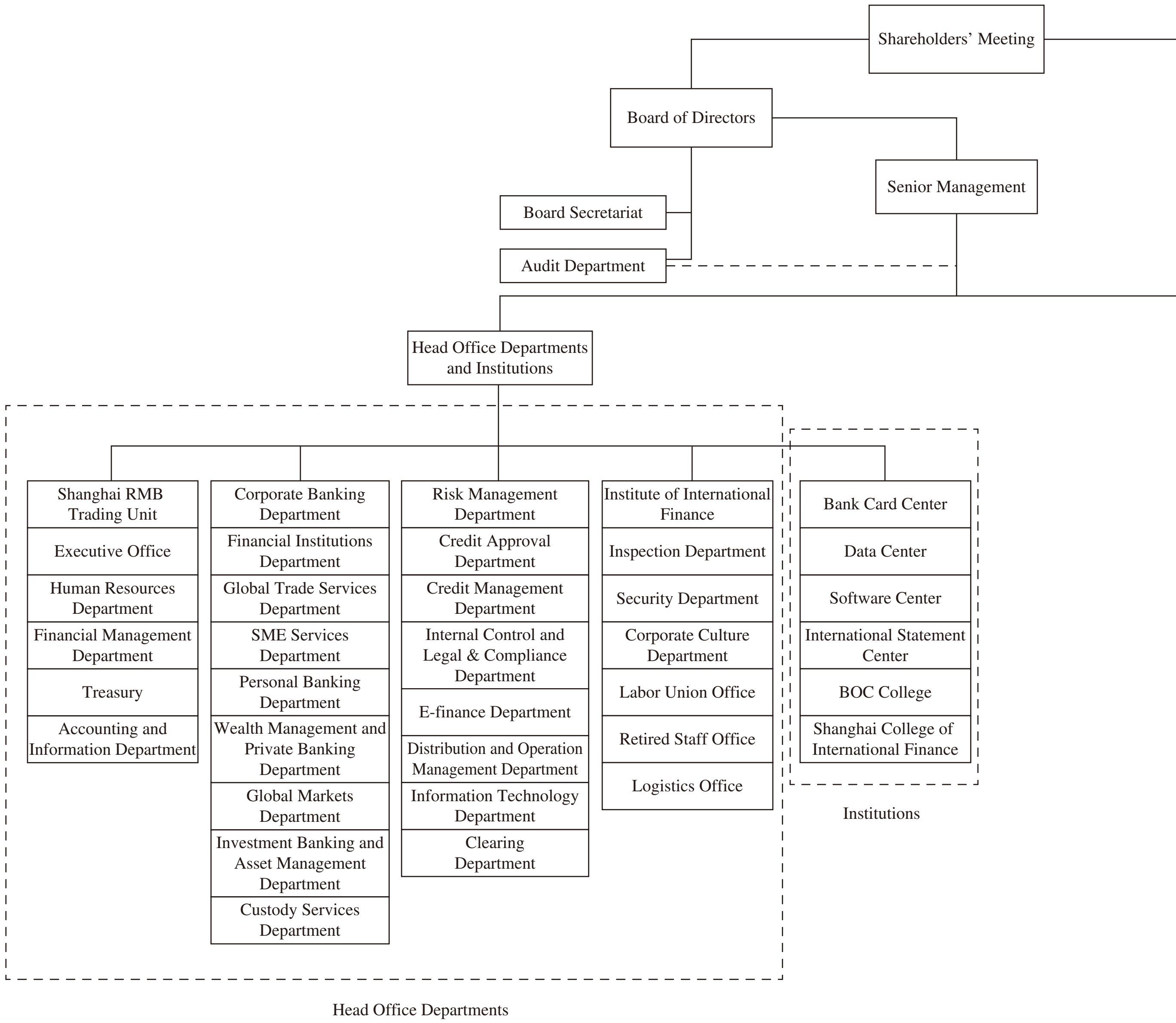
Investor Relations Team, Board Secretariat, Bank of China Limited
8/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

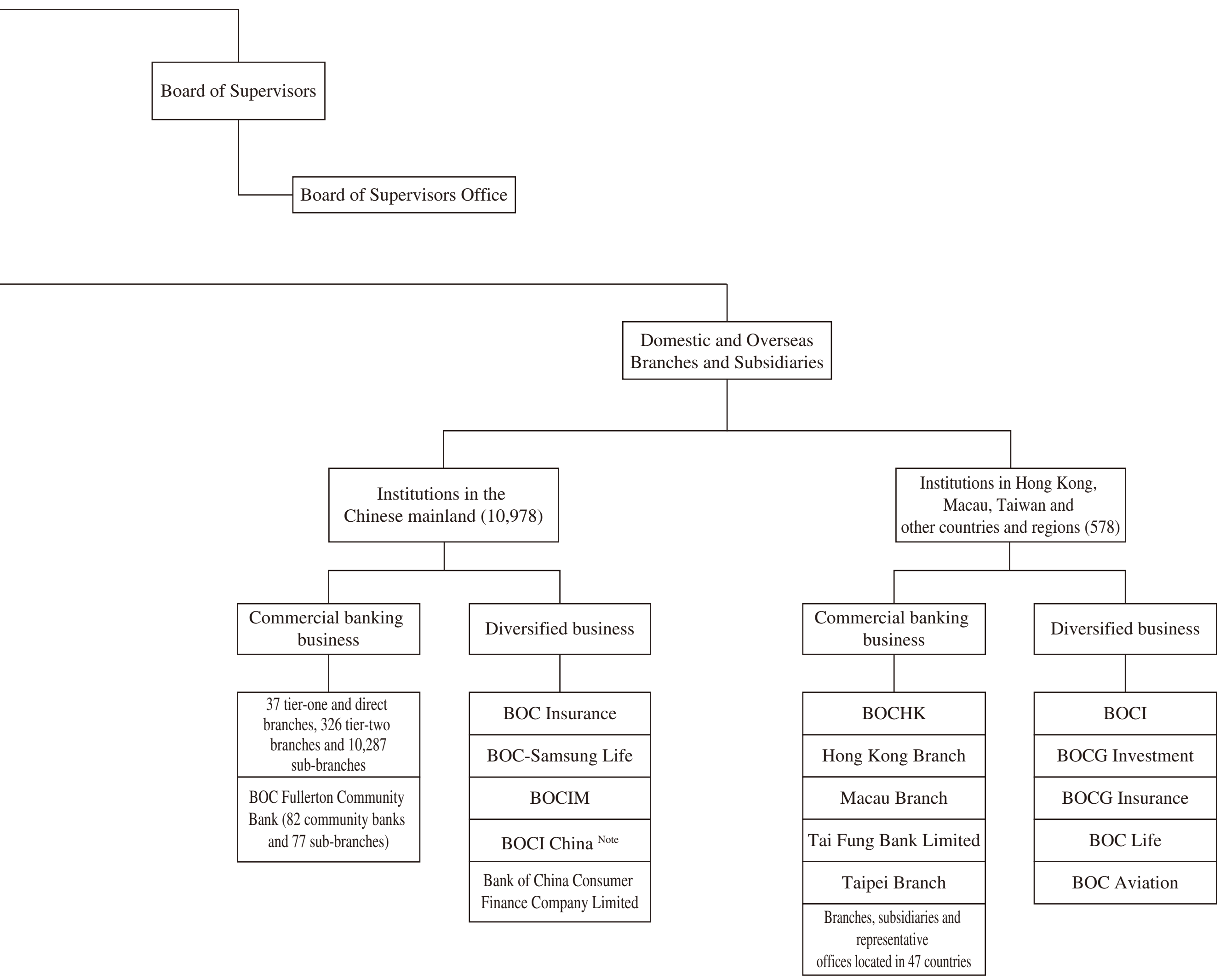
## Other Information

You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's office address for copies prepared under CAS. The Chinese and/or English versions of the annual report are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please call the Bank's H-Share Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

# Organisational Chart






Note: The Bank holds 37.14% of the equity interest of BOCI China by its wholly-owned subsidiary BOCI.

# List of Major Branches and Subsidiaries

## MAJOR BRANCHES AND SUBSIDIARIES IN THE CHINESE MAINLAND

**HEAD OFFICE**

1 FUXINGMEN NEI DAJIE,
BEIJING,
CHINA
SWIFT: BKCHCNBJ
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
WEBSITE: www.boc.cn

**BEIJING BRANCH**

A, C, E KAIHENG CENTER,
2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
SWIFT: BKCHCNBJ110
TEL: (86) 010-85122288
FAX: (86) 010-85121739
POST CODE: 100010

**TIANJIN BRANCH**

8 YOUYI NORTH ROAD,
HEXI DISTRICT,
TIANJIN,
CHINA
SWIFT: BKCHCNBJ200
TEL: (86) 022-27108001
FAX: (86) 022-23312805
POST CODE: 300204

**HEBEI BRANCH**

28 ZIQIANG ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
SWIFT: BKCHCNBJ220
TEL: (86) 0311-69696681
FAX: (86) 0311-69696692
POST CODE: 050000

**SHANXI BRANCH**

186 PINGYANG ROAD,
XIAODIAN DISTRICT,
TAIYUAN,
SHANXI PROV.,
CHINA
SWIFT: BKCHCNBJ680
TEL: (86) 0351-8266016
FAX: (86) 0351-8266021
POST CODE: 030006

**INNER MONGOLIA BRANCH**

12 XINHUA DAJIE,
XIN CHENG DISTRICT,
HUHHOT,
INNER MONGOLIA AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ880
TEL: (86) 0471-4690052
FAX: (86) 0471-4690001
POST CODE: 010010

**LIAONING BRANCH**

253 SHIFU ROAD,
SHENHE DISTRICT,
SHENYANG,
LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ810
TEL: (86) 024-22810827
FAX: (86) 024-22857333
POST CODE: 110013

**JILIN BRANCH**

699 XI AN DA LU,
CHANGCHUN,
JILIN PROV.,
CHINA
SWIFT: BKCHCNBJ840
TEL: (86) 0431-88408888
FAX: (86) 0431-88408901
POST CODE: 130061

**HEILONGJIANG BRANCH**

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ860
TEL: (86) 0451-53627774
FAX: (86) 0451-53623330
POST CODE: 150001

**SHANGHAI BRANCH**

200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
SWIFT: BKCHCNBJ300
TLX: 33062BOCSHCN
TEL: (86) 021-50375566
FAX: (86) 021-50372911
POST CODE: 200120

**JIANGSU BRANCH**

148 ZHONG SHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ940
TLX: 34116BOCJSCN
TEL: (86) 025-84207888
FAX: (86) 025-84206082
POST CODE: 210005

**ZHEJIANG BRANCH**

321 FENG QI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ910
TEL: (86) 0571-85011888
FAX: (86) 0571-87074837
POST CODE: 310003

**ANHUI BRANCH**

NO.1688, YUNGU ROAD,
BINHU NEW DISTRICT,
HEFEI,
ANHUI PROV.,
CHINA
SWIFT: BKCHCNBJ780
TEL: (86) 0551-62926995
FAX: (86) 0551-62926993
POST CODE: 230091

**FUJIAN BRANCH**

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
SWIFT: BKCHCNBJ720
TLX: 92109BOCFJCN
TEL: (86) 0591-87090999
FAX: (86) 0591-87090111
POST CODE: 350003

**JIANGXI BRANCH**

10, LVYIN ROAD,
HONGGUTAN NEW DISTRICT,
NANCHANG,
JIANGXI PROV.,
CHINA
SWIFT: BKCHCNBJ550
TEL: (86) 0791-86471503
FAX: (86) 0791-86471505
POST CODE: 330038

**SHANDONG BRANCH**

22 LUOYUAN STREET,
JINAN,
SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ500
TEL: (86) 0531-58522000
FAX: (86) 0531-58522001
POST CODE: 250000

**HENAN BRANCH**

3-1 BUSINESS OUTER RING ROAD,
ZHENGDONG NEW DISTRICT,
ZHENGZHOU,
HENAN PROV.,
CHINA
SWIFT: BKCHCNBJ530
TEL: (86) 0371-87008888
FAX: (86) 0371-87007888
POST CODE: 450018

**HUBEI BRANCH**

677 JIANSHE ROAD,
WUHAN,
HUBEI PROV.,
CHINA
SWIFT: BKCHCNBJ600
TEL: (86) 027-85562866
(86) 027-85562959
FAX: (86) 027-85562955
POST CODE: 430022

**HUNAN BRANCH**

593 MID. FURONG ROAD (1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
SWIFT: BKCHCNBJ970
TEL: (86) 0731-82580703
FAX: (86) 0731-82580707
POST CODE: 410005

**GUANGDONG BRANCH**

197–199 DONGFENG XI LU,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ400
TEL: (86) 020-83398888
FAX: (86) 020-83348080
POST CODE: 510180

**GUANGXI BRANCH**

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ480
TEL: (86) 0771-2879316
FAX: (86) 0771-2813844
POST CODE: 530022

**HAINAN BRANCH**

29, 31 DATONG ROAD,
LONGHUA DISTRICT,
HAIKOU,
HAINAN PROV.,
CHINA
SWIFT: BKCHCNBJ740
TEL: (86) 0898-66562023
FAX: (86) 0898-66562040
POST CODE: 570102

**SICHUAN BRANCH**

35 MID. RENMIN ROAD (2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
SWIFT: BKCHCNBJ570
TEL: (86) 028-86741950
FAX: (86) 028-86403346
(86) 028-86744859
POST CODE: 610031

**GUIZHOU BRANCH**

BOC BLDG., 347 RUIJIN SOUTH ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
SWIFT: BKCHCNBJ240
TEL: (86) 0851-85822419
FAX: (86) 0851-85825770
POST CODE: 550002

**YUNNAN BRANCH**

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
SWIFT: BKCHCNBJ640
TEL: (86) 0871-63106335
FAX: (86) 0871-63107516
POST CODE: 650051

**TIBET BRANCH**

113 JINZHU XI LU,
LHASA,
TIBET AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ900
TEL: (86) 0891-6599394
FAX: (86) 0891-6599394
POST CODE: 850000

**SHAANXI BRANCH**

18 TANGYAN ROAD BEIDUAN,
LIANHU DISTRICT,
XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCHCNBJ620
TEL: (86) 029-89593900
FAX: (86) 029-89592999
POST CODE: 710077

**GANSU BRANCH**

525 TIANSHUI SOUTH ROAD,
CHENGGUAN DISTRICT,
LANZHOU,
GANSU PROV.,
CHINA
SWIFT: BKCHCNBJ660
TEL: (86) 0931-7825003
FAX: (86) 0931-7825004
POST CODE: 730000

**QINGHAI BRANCH**

218 DONGGUAN STREET,
CHENG DONG DISTRICT,
XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCHCNBJ280
TEL: (86) 0971-8178888
FAX: (86) 0971-8174971
POST CODE: 810000

**NINGXIA BRANCH**

39 XINCHANG EAST ROAD,
JINFENG DISTRICT,
YINCHUAN,
NINGXIA HUI
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ260
TEL: (86) 0951-5681501
FAX: (86) 0951-5681509
POST CODE: 750002

**XINJIANG BRANCH**

1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ760
TEL: (86) 0991-2328888
FAX: (86) 0991-2825095
POST CODE: 830002

**CHONGQING BRANCH**

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT,
CHONGQING,
CHINA
SWIFT: BKCHCNBJ59A
TEL: (86) 023-63889234
FAX: (86) 023-63889217
POST CODE: 400013

**SHENZHEN BRANCH**

INTERNATIONAL FINANCE BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT,
SHENZHEN,
GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ45A
TEL: (86) 0755-22338888
FAX: (86) 0755-82259209
POST CODE: 518001

**SUZHOU BRANCH**

128 WANGDUN ROAD,
SUZHOU INDUSTRIAL PARK,
SUZHOU,
JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ95B
TEL: (86) 0512-66595566
FAX: (86) 0512-65114906
POST CODE: 215028

**NINGBO BRANCH**

139 YAOHANG STREET,
NINGBO,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ92A
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

**QINGDAO BRANCH**

59 HONGKONG
MIDDLE ROAD,
QINGDAO,
SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ50A
TEL: (86) 0532-81858000
FAX: (86) 0532-85818243
POST CODE: 266071

**DALIAN BRANCH**

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