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SINCE 1908 YOUR WEALTH MANAGEMENT BANK

交通銀行股份有限公司 Bank of Communications Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 03328, 4605 (Preference Share))

2018 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of Bank of Communications Co., Ltd. (the “**Bank**”) is pleased to announce the unaudited consolidated financial information (the “**Interim Results**”) of the Bank and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”), which has been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. The Board of Directors of the Bank (the “**Board of Directors**”) and the Audit Committee of the Board of Directors have reviewed and confirmed the Interim Results.

I. CORPORATE INFORMATION

	Stock name	Stock code	Stock exchange
A Share	Bank of Communications	601328	Shanghai Stock Exchange
H Share	BANKCOMM	03328	The Stock Exchange of Hong Kong Limited
Domestic Preference Share	BOCOM PREF1	360021	Shanghai Stock Exchange
Overseas Preference Shares	BOCOM 15USDPREF	4605	The Stock Exchange of Hong Kong Limited

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II. FINANCIAL HIGHLIGHTS

The Group adopted new standards of financial instruments from 1 January 2018. As permitted by the transitional provisions of new standards, the Group did not restate comparative figures. Any adjustments to the carrying amounts at the date of transition were recognised in the opening retained earnings and other reserves. For the related impact, Please refer to this results announcement and 2018 Interim Report to be published on the HKEx News website of Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”).

As at the end of the Reporting Period, key financial data and financial indicators prepared by the Group under International Financial Reporting Standards (the “**IFRSs**”) are as follows:

Key financial data	<i>(in millions of RMB unless otherwise stated)</i>		
	January to June 2018	January to June 2017	Increase/ (decrease) %
Net interest income ¹	60,658	61,333	(1.10)
Profit before tax	47,470	47,355	0.24
Net profit (attributable to shareholders of the Bank)	40,771	38,975	4.61
Earnings per share (attributable to shareholders of the Bank, in RMB yuan) ⁵	0.51	0.49	4.08
	30 June 2018	31 December 2017	Increase/ (decrease) %
Total assets	9,322,707	9,038,254	3.15
Including: Loans and advances to customers ¹	4,793,965	4,579,256	4.69
Total liabilities	8,652,646	8,361,983	3.48
Including: Due to customers ¹	5,732,928	5,545,366	3.38
Shareholders’ equity (attributable to shareholders of the Bank)	663,653	671,143	(1.12)
Net assets per share (attributable to shareholders of the Bank, in RMB yuan) ²	8.13	8.23	(1.22)
Net capital ³	782,132	790,381	(1.04)
Including: Net Core Tier 1 Capital ³	599,954	609,454	(1.56)
Other Tier 1 Capital ³	60,005	59,975	0.05
Tier 2 Capital ³	122,173	120,952	1.01
Risk-weighted assets ³	5,645,071	5,646,313	(0.02)

Key financial indicators (%)	January to	January to	Changes
	June 2018	June 2017	(percentage point)
Cost-to-income ratio ⁴	29.26	26.96	2.30
Annualized return on average assets	0.89	0.91	(0.02)
Annualized return on average shareholders' equity ⁵	12.99	13.06	(0.07)
	30 June	31 December	Changes
	2018	2017	(percentage point)
Impaired loans ratio ¹	1.49	1.50	(0.01)
Provision coverage of impaired loans ¹	170.98	154.73	16.25
Capital adequacy ratio ³	13.86	14.00	(0.14)
Tier 1 Capital adequacy ratio ³	11.69	11.86	(0.17)
Core Tier 1 Capital adequacy ratio ³	10.63	10.79	(0.16)

Notes:

1. Due to changes in the presentation basis on the items in financial statements, the comparative data of the corresponding periods has been restated to the current presentation basis. Same applies hereinafter.
2. Refers to shareholders' equity attributable to shareholders of the Bank after the deduction of preference shares against the total issued ordinary shares at the end of the Reporting Period.
3. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the China Banking and Insurance Regulatory Commission ("CBIRC").
4. Calculated in accordance with China Accounting Standards for business and management fees divided by operating income net of other business costs, consistent with the financial report data compiled in accordance with China Accounting Standards. The comparative data of the corresponding periods has been restated in accordance with the requirements of China Accounting Standards.
5. Excluding the impact of preference shares.

III. CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

(I). Changes in Share Capital of Ordinary Shares

As at the end of the Reporting Period, the Bank issued a total of 74,262,726,645 ordinary shares, including 39,250,864,015 A shares and 35,011,862,630 H shares, which accounted for 52.85% and 47.15%, respectively. All the ordinary shares issued by the Bank are not subject to sales restrictions.

	31 December 2017		Changes (+/-) during the Reporting Period					30 June 2018		
	Number		Newly issued	Bonus share	Conversion		Others	Sub-total	Number	
	of shares (share)	Percentage (%)			from reserves				of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	-	-	-	-	-	-	-	-	-	-
II. Shares not subject to sales restrictions	74,262,726,645	100.00	-	-	-	-	-	74,262,726,645	100.00	
1. Renminbi ordinary shares	39,250,864,015	52.85	-	-	-	-	-	39,250,864,015	52.85	
2. Domestically-listed foreign shares	-	-	-	-	-	-	-	-	-	-
3. Overseas-listed foreign shares	35,011,862,630	47.15	-	-	-	-	-	35,011,862,630	47.15	
III. Total	74,262,726,645	100.00	-	-	-	-	-	74,262,726,645	100.00	

(II). Shareholdings of the Shareholders (According to the Bank's Register of Members Maintained at its Share Registrars)

As at the end of the Reporting Period, the total number of holders of ordinary shares of the Bank was 364,695, of which 329,321 were holders of A shares and 35,374 were holders of H shares.

Shareholdings of Top 10 Ordinary Shareholders

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Number of shares pledged or frozen ¹	Nature of shareholders
The Ministry of Finance of the People's Republic of China ("Ministry of Finance")	-	15,148,693,829	20.40	A Share	Nil	The State
	-	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited	4,963,192	14,959,462,463	20.14	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited	-	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund	-	1,877,513,451	2.53	A Share	Nil	The State
	-	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	297,374,619	2,702,127,637	3.64	A Share	Nil	State-owned legal person
Capital Airport Holding Company	-	1,246,591,087	1.68	A Share	Nil	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	-	808,145,417	1.09	A Share	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	-	794,557,920	1.07	A Share	Nil	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.	-	745,305,404	1.00	A Share	Nil	State-owned legal person
China FAW Group Corporation	-	663,941,711	0.89	A Share	Nil	State-owned legal person

Notes:

1. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert as defined under *Provisional Measures on Equity Management of Commercial Banks*. The Bank is not aware of the existence of any related relationship among the above shareholders, or whether they are parties acting in concert as defined in *Provisional Measures on Equity Management of Commercial Banks*.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
3. According to the Bank's register of members, the Hongkong and Shanghai Banking Corporation Limited ("HSBC") held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure forms of interests filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the *Securities and Futures Ordinance* ("SFO")" for details of the H shares that deemed to be beneficially owned by HSBC.

4. According to the Bank's register of members, the National Council for Social Security Fund ("SSF") held 1,877,513,451 A shares and 1,405,555,555 H shares of the Bank as at the end of the Reporting Period. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,639,224,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 611,447,000 H shares were indirectly held by certain asset managers (including Hong Kong Stock Connect). As at the end of the Reporting Period, SSF held a total of 10,922,293,783 A shares and H shares of the Bank, representing 14.71% of the Bank's total ordinary shares issued.

(III). Controlling Shareholders/Actual Controllers

There is no controlling shareholder or actual controller of the Bank.

(IV). Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed Under Division 2 and 3 of Part XV of the *Securities and Futures Ordinance*

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (excluding the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO are as follows:

Name of substantial shareholders	Capacity	Number of A shares (share)	Nature of interests ¹	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance	Beneficial owner	15,148,693,829 ²	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451 ³	Long position	4.78	2.53

Name of substantial shareholders	Capacity	Number of H shares (share)	Nature of interests ¹	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	9,044,780,332 ³	Long position	25.83	12.18
Ministry of Finance	Beneficial owner	4,553,999,999 ²	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interests of controlled corporations	2,674,232 ⁴	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04

Name of substantial shareholders	Capacity	Number of H shares (share)	Nature of interests ¹	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
HSBC Finance (Netherlands)	Interests of controlled corporations	14,138,310,845 ⁵	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250 ⁶	Long position	0.0002	0.0001
	Total:	<u>9,075,250</u>		<u>0.03</u>	<u>0.01</u>
HSBC Holdings plc	Interest of controlled corporations	14,147,386,095 ⁷	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held 9,044,780,332 H shares and 1,877,513,451 A shares of the Bank, representing 12.18% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC holds 62.14% of equity interests in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited.

Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.

5. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC is wholly owned by HSBC Asia Holdings BV, which is wholly owned by HSBC Asia Holdings (UK) Limited. Furthermore, HSBC Asia Holdings (UK) Limited is wholly owned by HSBC Holdings BV, which is in turn wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC.

6. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, 94.90% of which is owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to own the interests associated with the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 4, 5 and 6, and the SFO, HSBC Holdings plc is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, as at the end of Reporting Period, no other person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

IV. INFORMATION OF PREFERENCE SHARES

(I). Preference Shareholders and Their Shareholdings

1. Total number of preference shareholders

As at the end of the Reporting Period, the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 43.

2. Top 10 domestic preference shareholders and their shareholdings as at the end of the Reporting Period

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Number of shares pledged or frozen		Nature of shareholders
					Status of shares	Number of shares	
China Mobile Communications Corporation	-	100,000,000	22.22	Domestic preference share	Unknown	-	State-owned legal person
AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	-	20,000,000	4.44	Domestic preference share	Unknown	-	Others
CCB Trust Co., Ltd. – “Qian Yuan – Ri Xin Yue Yi” open-ended wealth management single fund trust	-	20,000,000	4.44	Domestic preference share	Unknown	-	Others
Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	-	20,000,000	4.44	Domestic preference share	Unknown	-	Others
Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	-	20,000,000	4.44	Domestic preference share	Unknown	-	Others
Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	-	20,000,000	4.44	Domestic preference share	Unknown	-	Others
China Ping An Life Insurance Co., Ltd. – Self-owned capital	-	18,000,000	4.00	Domestic preference share	Unknown	-	Others
China National Tobacco Corporation – Henan Branch	-	15,000,000	3.33	Domestic preference share	Unknown	-	State-owned legal person
China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	-	15,000,000	3.33	Domestic preference share	Unknown	-	Others
China Citic Bank Corporation Limited – LeYing Series of CITIC Banking Service	-	14,000,000	3.11	Domestic preference share	Unknown	-	Others

Notes:

1. Shareholdings of domestic preference shareholders are summarized according to the Bank's register members of domestic preference shareholders.
2. "Percentage" refers to the percentage of number of domestic preference shares held by domestic preference shareholders in the total number of domestic preference shares.
3. The Bank is not aware of the existence of any related relationship among the Top 10 domestic preference shareholders, the above shareholders and Top 10 ordinary shareholders, or whether they are parties acting in concert.

3. *Overseas preference shareholders and their shareholdings as at the end of the Reporting Period:*

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Number of shares pledged or frozen		Nature of shareholders
					Status of shares	Number of shares	
DB Nominees (Hong Kong) Limited	-	122,500,000	100.00	Overseas preference share	Unknown	-	Foreign legal person

Notes:

1. Shareholdings of overseas preference shareholders are summarized according to the Bank's register members of overseas preference shareholders.
2. DB Nominees (Hong Kong) Limited, as a trustee, held 122,500,000 overseas preference shares, accounting for 100% of the Bank's total overseas preference shares, on behalf of all assignees in clearing systems (Euroclear and Clearstream) as at the end of the Reporting Period.
3. "Percentage" refers to the percentage of number of overseas preference shares held by overseas preference shareholders in the total number of overseas preference shares.
4. The Bank is not aware of the existence of any related relationship among the overseas preference shareholders and Top 10 ordinary shareholders, or whether they are parties acting in concert.

(II). Dividends Distribution of Preference Shares

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 15th meeting of the 8th Session of the Board of Directors of the Bank was held on 27 April 2018, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares was considered, and approved to distribute dividends of overseas preference shares on 30 July 2018, and to distribute dividends of domestic preference shares on 7 September 2018.

The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the overseas preference shares. In addition, in accordance with relevant laws and regulations, 10% withholding tax of USD13,611,111 was withheld by the Bank on behalf of overseas preference shareholders. Please refer to the announcement published on the Shanghai Stock Exchange ("SSE") website, the Hong Kong Stock Exchange website and the Bank's official website for the details of the dividends distribution of preference shares. The above dividends were fully paid in cash on 30 July 2018.

The dividends on domestic preference shares were calculated at the nominal dividend yield of 3.90% and amounted to RMB1,755,000,000, which would be distributed on 7 September 2018.

(III). Redemption and Conversion of Preference Shares

During the Reporting Period, there is no redemption or conversion of preference shares.

(IV). Restoration and Exercise of Voting Rights

During the Reporting Period, the Bank did not restore any voting rights of preference shares.

(V). Accounting Policy for Preference Shares and its Rationale

According to *Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, *Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments* and the *Regulations on Distinguishing between Liabilities and Equity Instruments and Relevant Accounting Treatment* issued by the Ministry of Finance as well as terms and conditions of the preference shares, the preference shares issued by the Bank met the requirements to be recognized as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

V. MANAGEMENT DISCUSSION AND ANALYSIS

(I). Business Review

In the first half of 2018, the Group actively responded to the changing market and political environment, firmly implemented strategies, effectively adapted to the changes, served the real economy, accelerated the reform and innovation, effectively strengthened risk management and control activities in order to achieve steady development of various businesses and stable financial results. As at the end of the Reporting Period, the Group's total assets increased by 3.15% over the end of the previous year to RMB9,322.707 billion. During the Reporting Period, the net profit of the Group (attributable to shareholders of the Bank) increased by 4.61% on a year-on-year basis to RMB40.771 billion. The Group was honored with the "Top 500 Global Companies" for ten consecutive years by *FORTUNE*, ranked No.168 in terms of operating income, up by 3 ranks as compared with the previous year. The Group was also ranked at No.11 among the global Top 1,000 banks rated in terms of Tier 1 Capital by *The Banker*, which hit the record high and ranked among Top 20 in this award for five consecutive years.

The Group realized a new enhancement in serving the real economy. The Group supported the key areas of national strategies, gave full play to professional advantages and contributed to the high quality development of economy. As at the end of the Reporting Period, the balance of loans and advances to customers (before allowances, if not specially stated, same applies hereinafter) increased by RMB214.709 billion or 4.69% over the end of the previous year to RMB4,793.965 billion. The Group vigorously developed the inclusive finance, and increased support for the financing needs of small and micro enterprises, "Mass Entrepreneurship and Innovation", poverty alleviation and "Agriculture, Rural areas and Farmers". As at the end of the Reporting Period, the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers both increased, and the loan balance of the inclusive finance increased by RMB9.602 billion or 10.83% over the end of the previous year, which was higher than the average growth rate of all loans. The Group continuously optimized the credit structure, supported the supply-side structural reform and five major tasks of "de-capacity, de-stocking, de-leveraging, cost reduction, and weakness remediation", as a result, the percentage of loan in seriously excess capacity industry decreased continuously.

The Group achieved new results in the prevention and control of financial risks. The Group adhered to the prudent and stable risk preference, held the bottom line of non-occurrence of systematic financial risks, and kept the major asset quality indicators stable and sound. As at the end of the Reporting Period, the impaired loans ratio was 1.49%, decreasing by 0.01 percentage point over the end of the previous year. The balances of overdue loan and overdue loan for over 90 days decreased by RMB7.654 billion and RMB11.730 billion respectively over the end of the previous year, and the ratio of overdue loan and overdue loan for more than 90 days decreased by 0.25 and 0.32 percentage points respectively over the end of the previous year. Provision coverage of

impaired loans increased by 16.25 percentage points over the end of the previous year to 170.98%. The market and liquidity risks were generally controllable, and all indicators of risk limits were well implemented. The liquidity coverage ratio (legal entities) was 113.22%, which met the regulatory requirements. All kinds of measures were taken to detect the potential cases and risks and keep the case prevention and operational risks stable.

The Group created new highlights on the construction of “Your Wealth Management Bank”. The Group applied big data, mobile interconnection, artificial intelligence and other financial technologies and gave wealth management banks new insights to build a digital, intelligent and an integrated online and offline wealth management bank. The Group initiated a quantitative financial quotient evaluation system and an intelligent product recommendation system, and created a mobile banking of “OTO Financial Advisor” to provide customers with more affordable, professional and personalized wealth management solutions. As at the end of the Reporting Period, the amount of individual financial assets under management (“AUM”) increased by 3.69% over the end of the previous year to RMB2,987.976 billion. The number of qualified customers of BOCOM FORTUNE, OTO FORTUNE and private banking increased by 3.09%, 6.84% and 9.21% respectively over the end of the previous year. The customers of wealth management with assets above RMB50 thousand per day in a quarter increased by 4.37% over the end of the previous year. The total custody assets increased by 4.90% over the end of the previous year to RMB8,630.701 billion.

The Group made new progress in deepening reform comprehensively. The Group initialized the reform of credit risk management system to solidify the foundation of risk management. The Group reformed the talent incentive mechanism to precisely stimulate the key talent groups such as officers in-charge from basic level operating institutions as well as client relationship managers. The Group launched the intelligent transformation project of the Group’s information system and closely linked to the pulse of Fintech development. The Group promoted the reform of “delegation, regulation, service” of BoCom and speeded up the establishment of a new Authorization Management System, that is distinctive, accurate and dynamic. The Group also deepened the reform of the divisional system, and the development of “two engines” of “branch operation and divisional structure operation” increased both in speed and efficiency. During the Reporting Period, the profit before tax and provision of the six major business divisions increased by 3.43% on a year-on-year basis. The Group adhered to the direction of transformation of retail business under the new situation and promoted the reform and development of provincial branches and basic level operating institutions collaboratively. As at the end of the Reporting Period, the profit contribution and retail business proportion of provincial branches increased by 1.22 percentage points and 1.31 percentage points respectively over the end of the previous year, and the balance of overdue loan showed a significant downtrend.

1. Corporate banking businesses

- During the Reporting Period, the Group's profit before tax from corporate banking businesses amounted to RMB25.258 billion, with an increase of 7.87% on a year-on-year basis, and net fee and commission income amounted to RMB7.962 billion.
- As at the end of the Reporting Period, the Group's corporate deposit balance increased by 2.35% over the end of the previous year to RMB3,946.825 billion; corporate loan balance increased by 1.80% over the end of the previous year to RMB3,226.445 billion.
- As at the end of the Reporting Period, the Group's corporate impaired loan balance was RMB54.482 billion and the identified impaired loans to total loans was 1.69%.

The Group focused on serving the real economy, took the international and comprehensive management advantages, and satisfied customers' comprehensive financing requirements by using products portfolio, such as credit, bonds, funds, leasing, trust, asset management, insurance, and investments. The Group provided supports for major national strategies, major projects and key areas, and established a reputable brand in areas, including cash management, supply chain finance, investment banking and cross-border finance.

(1) Corporate and institutional businesses

The Group continuously strengthened the construction of customers infrastructure, optimized the system functions of products, focused on "System Digging", speeded up the replication and promotion of key business systems, adhered to executing the "Settlement, Transactions and Flow", and enhanced customer cooperation. During the Reporting Period, the Group increased 409 institutional system customers and 6,803 corporate system customers. The Group focused on the key industries and key customers such as schools, hospitals, salary payment to customers and settlement of transactions, intensified business development, and promoted scenarios and industry-oriented services solutions. The number of salary payment to source customers had a net increase of 164.8 thousand, 250 schools became new customers of "Bank-Connected-School" business, and 87 hospitals became new customers of "Bank-Connected-Hospital" business. As at the end of the Reporting Period, the total number of corporate customers of domestic banks increased by 4.10% over the end of the previous year.

(2) *Inclusive finance businesses*

The Group deepened the reform of the Inclusive Finance Development Committee, optimized the mechanism of the inclusive finance system, improved the financial service capacity of inclusive finance, and formed a customer-centered comprehensive inclusive financial service system with whole process including account opening, settlement, deposit, finance and financing, etc. The Group strengthened the channel construction, and coordinately promoted the development of key areas including small and micro enterprises, “Agriculture, Rural areas and Farmers”, poverty alleviation and “Mass Entrepreneurship and Innovation”. The Group improved the pricing management, standardized the charging behavior, and effectively alleviated the problem of “difficult financing and expensive financing” in key areas and key customers. As at the end of the Reporting Period, the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers both increased, and the loan balance of the inclusive finance increased by RMB9.602 billion or 10.83% over the end of the previous year, which was higher than the average growth rate of all loans. The number of loan customers with outstanding balance increased by 5,745, representing that the Group achieved a target of two increase of the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers periodically.

(3) *“One Branch Offering Nationwide Services” industrial value chain financial services*

The Group focused on “Payment and Settlement + Trade Financing” and built an integrated service of “Online + Offline” whole chain. Relying on “Internet+”, blockchain, big data analysis and other technologies, the Group innovated and optimized the system platforms such as electronic supply chain and smart cars, and accelerated the promotion of key products, such as “Express Bill Discounting”, “Express Receivable Collector”, “Express Pay”, “Win to Fortune E Chain”, and “Smart Cars”. The Group strengthened the promotion of industrial chain finance in key industries such as construction, medical, retail, automobile and modern agriculture, deepened the cooperation with key enterprises and their upstream and downstream, and promoted comprehensive benefits. The Group was awarded “Top 10 Financial Innovation Award (Corporation Business)” of 2018 by *The Banker*. As at the end of the Reporting Period, the total number of qualified industrial chain networks of domestic banks reached nearly 2,900, and the financing balance of key products in industrial chain exceeded RMB100 billion, with an increase of 10.9% over the end of the previous year.

(4) *Cash management businesses*

The Group strengthened the optimization and innovation of cash management products such as RMB cash pool, the bill pool, Payments to Bids and Payments to Party Committee, improved the services of opening new account for high-quality corporate customers, and improved the settlement activity of corporate customers. The Group established a green channel service for key customers, enhanced the response speed and service experience of key customers. The Group built a global cash management platform to achieve centralized operation and management of cross-border interbank accounts. The Group intensified the promotion of the financial management system of financial companies and improved the long-term operation mechanism. The Group launched distinctive discount packages of “Corporate Settlement+” for the “Win to Fortune” and strengthened the development of low-cost settlement funds. As at the end of the Reporting Period, there were more than 22 thousand group customers in the cash management of the “Win to Fortune” account, which involved more than 0.37 million cash management accounts.

(5) *International settlement and trade financing*

The Group actively promoted international settlement and cross-border trade financing, and provided financial support and guarantee for “Going Global” enterprises. The Group implemented the measures of steady growth in foreign trade and coordinated with the structural adjustment of foreign trade. During the Reporting Period, the domestic banks handled international settlements of RMB2,217.785 billion and the international trade financing amounted to RMB47.237 billion. The Group actively supported the strategy of the “Belt and Road” and “Going Global” enterprises through offering financing and settlement products such as foreign guarantee. During the Reporting Period, the domestic banks handled foreign guarantee of RMB77.026 billion. The Group took steps forward on Fintech innovation and real economy services. The Group was the first bank operating blockchain business for domestic letter of credit, which facilitated the real-time electronic transmission of Chinese interchange information of domestic letter of credit business and continuing services in less time and faster funding flow matter. During the Reporting period, a number of branches put such technology into practice.

(6) *Investment banking businesses*

The Group vigorously promoted investment banking businesses of flow transformation and low capital consumption, increased cooperation with external institutions and expanded capital channels. The Group supported the development of national housing rental business, and registered the first debt financing instruments for rental housing. The Group completed the Central Huijin's medium-term notes of RMB15 billion and the State Grid's medium-term notes of RMB5 billion. The Group continued to promote the development of green bonds, and the underwriting amount of green bonds instruments as the lead underwriter reached RMB2.8 billion. The Group strongly supported the demand for enterprises' cross-border bond issuance, and had overseas bonds of approximately USD26.7 billion. The Group promoted asset securitization business comprehensively. The total underwriting asset securitization amount (including credit asset-backed securities and asset-backed notes) ranked second in the banking system. The Group issued "Jiao Yuan" first credit card installment asset-backed securities of RMB16.95 billion in 2018, which was the largest single-issue credit asset-backed securities in China and the first issuance of credit card installment asset-backed securities introducing foreign investors through the "Bond Connect". The Group accelerated the de-leverage and debt-to-equity swap activities. The Group was rewarded as the "Jun Ding Award of Chinese Comprehensive Investment Bank" by *Securities Times* and the "Best Green Bond Bank" by *Asian Currency*. During the Reporting Period, the Group achieved an income of RMB2.470 billion in investment banking businesses, accounting for 10.86% of the Group's total fee and commission income. The number of debt financing instruments (excluding local government debt) underwritten by domestic banks as the lead underwriters was 179, and the underwriting amount of such instruments (excluding local government debt) increased by 66% on a year-on-year basis to RMB132.786 billion.

(7) *Asset custody businesses*

The Group vigorously developed key custody products, and promoted new business cooperation models such as the connection between custody public funds and Yu'E Bao as well as the Tencent Finance Communications Platform. The custody scale of public funds exceeded RMB one trillion and ranked to the fourth in the market. The Group kept pace with the reform of the State's pension security system, strengthened the pension market development of basic pension, supplementary pension and commercial pension, and maintained the advantages of pension trusteeship. The Group seized the policy opportunities of interconnection and cross-border investment, developed cross-border custody business such as QDII and Bond Connect, and Hong Kong Trusteeship Center became the sole fund custody service agency of Tencent Wechat Payment in Hong Kong. The Group promoted the construction of "Custody E-connect" of BoCom, and created an internet custody service platform that integrated customer service, business processing and publicity. As at the end of the Reporting Period, the total custody assets increased by 4.90% over the end of the previous year to RMB8,630.701 billion, and the market share increased by 0.18 percentage points over the end of the previous year.

2. *Personal banking businesses*

- During the Reporting Period, the Group's profit before tax from personal banking businesses sector was RMB11.103 billion; net fee and commission income increased by 11.44% on a year-on-year basis to RMB11.366 billion.
- As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 5.81% over the end of the previous year to RMB1,783.778 billion; the balance of personal loans of the Group increased by 11.18% over the end of the previous year to RMB1,567.520 billion; the total number of individual customers in domestic banks increased by 3.08% over the end of the previous year.
- As at the end of the Reporting Period, the balance of personal impaired loans was RMB17.030 billion and the personal identified impaired loans to total loans was 1.09%.

The Group adhered to the "customer-centered" principle, followed the innovation of Fintech, explored the innovative business model, continuously improved the service quality, and further built the brand characteristics of "Your Wealth Management Bank" to promote the transformation and development of the retail business.

(1) *Personal deposits and loans*

The Group continuously enriched the variety of savings deposit products, promoted individual large certificates of deposit, innovated structural deposit products, and upgraded low-cost core liabilities. The Group constantly deepened precision marketing and used white list for precise control to effectively promote the development of personal savings deposit business.

The Group made reasonable arrangements for the pace and areas of mortgage loans placement, strictly implemented the national macro-control policies and controlled the issuance rate of mortgage loans. Under the premise of effective management and control of risks, the Group supported the residents' reasonable owner-occupied housing demand. The Group constantly promoted the innovation of products and services, accelerated product and service innovation, and launched a petty consumer credit loan product named "Benefit Loan" targeting at high-quality salary payment to customers through the methods of online applications and automatic approvals to better meet customer demand. As at the end of the Reporting Period, the balance of personal residential mortgage loans increased by 6.17% over the end of the previous year to RMB952.652 billion.

(2) *Wealth management businesses*

Adhering to the concept of "A century of BoCom, your wealth management bank", the Group persisted in Fintech innovation to lead development, and actively applied big data, mobile interconnection, artificial intelligence and other Fintech, giving wealth management banks new insights. The Group built a digital wealth management bank, made full use of big data analysis technology, promoted the innovation of wealth management services of "thousands of people, thousands of views" and constantly improved the ability of personalized customer service. The Group built an intelligent wealth management bank, initiated a quantitative financial quotient evaluation system and an intelligent product recommendation system, created a mobile banking of "OTO Financial Advisor" to provide online personalized wealth management services such as "asset diagnosis, allocation suggestions, product recommendations and order by one click" for public customers, which made professional wealth management services more inclusive and brought more benefits. The Group build an integrated online and offline wealth management bank. The Group was the first to launch online live broadcasts, air finance room and other live columns among domestic banking industry. The Group also launched "My Account Manager" in the mobile banking, which upgraded the wealth management services comprehensively.

As at the end of the Reporting Period, the amount of individual financial assets under management (AUM) increased by 3.69% over the end of the previous year to RMB2,987.976 billion. The number of qualified customers of BOCOM FORTUNE, OTO FORTUNE and private banking increased by 3.09%, 6.84% and 9.21% respectively over the end of the previous year, and the customers of wealth management with assets above RMB50 thousand per day in a quarter increased by 4.37% over the end of the previous year.

(3) *Bank card businesses*

Credit card businesses

The Group accelerated the application of Fintech in credit card businesses. The Group's mobile credit card was awarded "Top 10 Events of Financial Informatization in 2017" by the *Financial Electronization*. The quickest approval process took 2 seconds, and average approval process took 49 seconds upon submission. The credit card can be activated with 2 steps through "Go Pay" App which can be settled both online and offline. The Group issued the YouthElite platinum credit card for the young and high-end customers, and the number of issued cards was over 300 thousand for three weeks upon the launch. Cooperating with well-known enterprises, the Group issued 8 co-branded cards such as Sohu video card, Jingdong baitiao card, VISA world cup card, Shumen mobile game card and so on. The Group promoted the brand of "Super Red Friday", and launched a series of online and offline activities. The Group actively cooperated with overseas enterprises and increased 3,500 overseas preferential merchant stores. The Group constantly optimized the functions of "Go Pay" App, with the number of customers exceeding 47.60 million. The Group tapped the potential of products like "Well Enjoy the Loan" and "Install as You Like" to meet the consumer credit needs of different groups of customers, and the volume of consumer credit transactions in the first half of the year increased by 47% on a year-on-year basis. The Group optimized the function of Mobile Credit Card 3.0, added new functions such as face recognition and video activation to realize the online opening and activation of cards. The Group optimized self-help service such as online customer service and Robot Xiao Jiao, reducing the volume of manual traffic by 8%.

As at the end of the Reporting Period, the number of domestic credit cards (including quasi-credit cards) amounted to 68.83 million, representing a net increase of 6.40 million over the end of the previous year. The accumulated consumption in the first half of the year amounted to RMB1,465.954 billion, representing a year-on-year increase of 43.79%. The Group's credit card overdraft balance increased by 24.79% over the end of the previous year to RMB497.920 billion. The credit card overdraft impairment rate was 1.84%, which remained stable over the end of the previous year.

Debit card businesses

The Group made full use of mobile internet technology and strengthened the innovation of payment tools. Relying on C2B and C2C scan code payment products, the Group accelerated the construction of QR code payment system. The Group actively promoted innovative products and services such as "Security Pay", cards without intermediary and "Worry-free Card". The Group continuously optimized the service process of personal accounts, simplified the procedures of opening and cancellation of accounts to effectively enhance user experiences.

As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 137.17 million, representing a net increase of 5.49 million over the end of the previous year; the accumulated consumption in the first half of the year increased by 25.14% on a year-on-year basis to RMB545.639 billion.

3. *Interbank and treasury businesses*

- During the Reporting Period, the Group's profit before tax from treasury businesses increased by 41.58% on a year-on-year basis to RMB9.714 billion.
- As at the end of the Reporting Period, the Group's investments in securities amounted to RMB2,632.770 billion with an increase of 6.40% over the end of the previous year; during the Reporting Period, the investment securities yield was 3.56%.

The Group adhered to the principle that the finance should return to its origin, focused on serving the main business of the real economy, constantly consolidated the customer base, accelerated business transformation and product innovation, strengthened various risk prevention and defusing, and promoted stable operations and compliance development of the interbank and market businesses.

(1) *Interbank businesses*

The Group deepened the cooperation of financial market. During the Reporting Period, the Group was the first batch to obtain the depository qualification for overseas customers' deposits in the Dalian Commodity Exchange and provided foreign investors with the foreign currency deposit service when they participated in the domestic iron ore futures trading. The Group completed oil futures listing work of the Shanghai International Energy Center, which resulted in that the scale of security deposit of oil futures in the market was in the lead. The Group completed the first batch of market credit default swap centralized liquidation transaction, representing that the Group fully participated in the central counterparties clearing for interest rates, exchange rates, commodities and credit derivatives in Shanghai Clearing House. The Group exploited its international and comprehensive advantages, attracted foreign investors to participate in oil and iron ore futures trading, and proposed specific commodity varieties to be priced in RMB. During the Reporting Period, the average balance of deposits in financial market amounted to RMB165.3 billion.

The Group strengthened the construction of Interbank platform, extended high quality services to the villages and vast rural areas through agricultural commercial banks and rural credit cooperatives, and supported the development of inclusive finance through interbank cooperation in wealth management consignment, precious metal wallet consignment and bond distribution. As at the end of the Reporting Period, there were 763 cooperative corporate customers on the Interbank platform, increased by 230 over the end of the previous year, and there were 605 corporate customers on the interbank wealth management platform "Interbank Smart Platform", increased by 375 over the end of the previous year. The Group cooperated with insurance companies to launch the first (set of) major equipment insurance agency business as the representative of innovative products to support the national strategy of "Made in China 2025". The Group improved the ability of clearing services in the direct financing market. The number of cooperative securities companies in businesses of third-party custody reached 100, the cooperative coverage rate reached 100%, and the market proportion of the newly increased individual customers of the Bank and securities companies cooperation increased significantly. The number of cooperative futures companies in businesses of bank transfer reached 146, the cooperative coverage rate reached 98%, and the brokerage deposit of futures companies had a balance of RMB72 billion, maintaining its leading position in the market for 9 consecutive years.

(2) *Treasury businesses*

The Group actively responded to price fluctuations in the bond market, flexibly adjusted trading strategies, and maintained the stable income of trading business. The Group actively undertook the responsibility of performing the “Bond Connect” business market maker and introduced overseas investors. During the Reporting Period, 51 “Bond Connect” transactions were executed, amounting to RMB15.550 billion. The Group vigorously developed the Renminbi bond lending business and signed new Master Agreements for Renminbi bond lending business with 96 institutions. The Group strengthened market analysis and anticipation, and actively expanded overseas counterparties in foreign exchange swap transactions. During the Reporting Period, the transaction volume of domestic banks in respect of Renminbi-denominated bonds reached RMB1.76 trillion and the volume of interbank foreign currency transactions reached USD969.608 billion.

The Group strengthened market research, laid out the scale of various products in each quarter, optimized the structure of bond, and reasonably arranged the duration of the portfolio. As at the end of the Reporting Period, the Group’s investments in securities amounted to RMB2,632.770 billion, representing an increase of 6.40% over the end of the previous year; during the Reporting Period, the investment securities yield was 3.56%.

(3) *Asset management businesses*

The wealth management of the Group operated steadily and the market share of product scale remained stable. The Group accelerated the transformation of net worth products and improved product structure to meet the increasingly diversified investment needs of investors. During the Reporting Period, the average daily value of net worth financial products exceeded RMB100 billion. The Group actively implemented the new regulations on asset management to promote the establishment of the subsidiary of asset management. The Group planned to set up BoCom Asset Management Co., Ltd. with a registered capital not higher than RMB8 billion, becoming the first large state-owned commercial bank to announce the establishment of asset management subsidiary. During the Reporting Period, the Bank issued a total of 5,089 wealth management products, raised funds of more than RMB10 trillion, and achieved revenue of more than RMB34 billion for customers. As at the end of the Reporting Period, the scale of Renminbi off-balance sheet asset management amounted to RMB627.454 billion.

(4) *Precious metal businesses*

The Group was the first batch of pilot members of the forward curve quotation group of the silver inquiry market, the first batch to obtain the qualification of gold option implied volatility quotation of the Shanghai Gold Exchange and completed the first day deal of the silver inquiry business of the Shanghai Gold Exchange. During the Reporting Period, the domestic banks achieved RMB70.208 billion in terms of volume of precious metal brokerage transactions. The sales of real precious metals products businesses amounted to RMB1.126 billion, and the accumulated gold trading accounted to 3,824.56 tons. The gold trading volume of the Shanghai Gold Exchange ranked among Top Five in the market, and continuously maintained its active banking status in the market.

4. ***“Online and Offline” network construction***

- During the Reporting Period, the profit per person of the Group (annualized) amounted to RMB920.3 thousand, representing an increase of 7.69% on a year-on-year basis. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 3.61% over the end of the previous year to RMB2.150 billion.
- During the Reporting Period, the total e-channels transactions in domestic banks reached 3.333 billion, and the transaction amount reached RMB108.19 trillion. As at the end of the Reporting Period, the diversion rate of e-channels increased by 1.63 percentage points over the end of the previous year to 96.17%.
- As at the end of the Reporting Period, the total amount of domestic banking outlets decreased by 11 over the end of the previous year to 3,259, of which 15 were newly opened and 26 low-yield ones were integrated.

The Group continued to improve its institutional layout, insisted on controlling the cost by reducing the areas and the counters of physical outlets, and speeded up the light and intelligent transformation of the network. By optimizing the e-channel service and product innovation, the Group effectively enhanced customer experience, and actively created a new integrated development situation of “Online + Offline”.

(1) *Online network construction*

Mobile banking. The Group deepened the application of Fintech, constantly upgraded the service mode and improved the customer experience. The Group optimized and revised the services of asset management, fund, precious metal, foreign exchange and life payment channels, added key and new functions such as “OTO Financial Advisor”, “My Account Manager”, continued purchase of financial products, small amount auto-deduction, cross-border financial sector, Manjinbao service, as well as small and micro business services. As at the end of the Reporting Period, the number of the Group’s mobile banking registered customers reached 67.54 million, representing an increase of 10.62% over the end of the previous year. During the Reporting Period, the number of mobile banking transactions reached 173 million, representing an increase of 19.33% on a year-on-year basis, and the transaction amount increased by 35.49% on a year-on-year basis to RMB5.23 trillion.

Online banking. Regarding the corporate e-banking, the Group continued to strengthen the agency settlement product innovation of “Delivery and Guarantee” to meet customers’ needs of large capital and long cycle. More than 1.6 thousand customers used “Delivery and Guarantee” for the fund settlement with a total amount of RMB5.49 billion. The Group actively promoted the services upgrading of the traditional “Bank-Connected-Corporate” to realize the whole transactions of electronization for the connected customers. During the Reporting Period, the number of corporate e-banking customers who newly signed contracts increased by more than 10 thousand on a year-on-year basis to over 50 thousand, and the number of corporate e-banking transactions increased by 15.98% on a year-on-year basis to 0.590 billion. Regarding the personal e-banking, the Group upgraded the home page of e-banking as well as risk control and security management to provide customers with a more stable and reliable trading environment. As at the end of the Reporting Period, the number of personal e-banking customers increased by 6.39% over the end of the previous year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased by 5.61% on a year-on-year basis to 2.395 billion.

(2) *Offline network construction*

Physical outlets. Relying on the means of operation transformation, Fintech and intelligent machine tools, the Group coordinately promoted the construction of outlets miniaturization, light operation, intelligent service and cooperative operation. The Group experimentally set up the light and intelligent outlets of “low cost, excellent experience, characteristic features with basic public and private operating functions”, explored and established the new model of business institutions construction, service and operation. As at the end of the Reporting Period, the total number of domestic banking outlets decreased by 11 over the end of the previous year to 3,259, of which 15 were newly opened and 26 low-yield outlets were integrated. The number of comprehensive outlets, traditional outlets and inclusive outlets was 576, 2,005, and 677 respectively. The Group’s network covered 239 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities at 71.56%, which remained stable over the end of the previous year. In particular, the coverage ratio in Western China was 45.97%.

Self-service banking. The Group reduced the cost of self-service channels with low efficiency and improved the operation efficiency of machine tools. As at the end of the Reporting Period, the number of self-service machines in domestic banks was 23 thousand and the number of self-service banks was 2,878. The ratio of self-service banks to traditional branches was 1.12:1. During the Reporting Period, the number of self-service banking transaction was 176 million with transaction amounts reaching RMB1.31 trillion.

Relationship manager. The Group innovated to promote the construction of relationship manager team, enhanced the ability of business development for relationship managers, optimized the evaluation and incentive mechanism of relationship managers, and broadened the room for development for relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic banks reached 22,296, equivalent to 29.51%, among which the number of corporate relationship managers reached 10,253 and the number of retail relationship managers reached 12,043.

(3) *Service promotion and the protection of the rights and interests of consumers*

The Group actively built a setup of “Full Service”, and committed to building the best service brand in the financial industry. The Group grasped the customer pain point, took the reduction of people in the extra-long queue as the breakthrough point, optimized the business process, and improved customer experience and service efficiency. As at the end of the Reporting Period, the average queuing time per person decreased by 6.27 minutes over the end of the previous year. The Group regarded the protection of consumers’ legitimate rights and interests as their own responsibility, continued to promote the consumer protection approval of the whole process of personal products. The Group carried out a campaign named “Universalizing financial knowledge, holding on to pocket money”, strengthened the spread and popularization of financial knowledge and continuously improved consumer satisfaction. In the CBIRC’s assessment in 2018 on the protection of consumer rights and interests in 2017, the Group was awarded “First Class Bank”, which was the only one among the large banks, the postal savings bank and the 12 nationwide joint-stock banks.

Technology Innovation Leads Business Transformation and Development

The Group continuously developed the advanced corporate information system in the industry, and deeply integrated information technology and business development to strongly support the “BoCom Strategy”.

In January 2018, the information systems of Frankfurt Branch and Hong Kong Branch (Subsidiary) were smoothly put into operation. On the basis of unified application structure and data standard, the information system integrated and restructured for domestic and overseas businesses, which laid a solid foundation for the business transformation and development of the whole Bank. The “BoCom Domestic and Overseas Integrated Business System and Restructuring Project” was awarded the “First Prize of Banking Technology Development Award” by People’s Bank of China.

The Group promoted the deep integration of new financial technologies such as big data, artificial intelligence, cloud computing, mobile communication and blockchain for banking business, actively explored various areas, such as intelligent customer services, precision marketing, “Online + Offline” integration, risk monitoring, and launched several applications, including online inquiry, online live broadcasts, air finance room and intelligent risk identification. Two App platforms, namely mobile banking and “Go Pay” of credit cards provided one-stop financial services in all time, all places and all situations. The credit card business achieved the online prompt approval, the smart outbound system accurately targeted marketing, and there were over 100 episodes of online live broadcasts, which attracted millions of audiences with nearly 3 millions interactive comments barrages.

The Group actively established the intelligent service system to initiate the intelligent transformative project on the Group’s information system (“New 531” project). The “New 531” project placed digitization and intelligence as the core and applied the technical combination framework of “focus+distribution” as basis. Supported by two platforms of data application and information security, the Group managed to build an integrated intelligent service system through the intelligent ability construction in intelligence operation, intelligence interaction, intelligent investment advising and intelligent risk management.

Intelligent operation. By applying biological recognition such as face, fingerprint, iris and voice, as well as technologies on image processing and mobile interaction, the Group overcame the constraint of physical network as well as restriction of time and location in order to provide instant financial services so that the customers could enjoy the convenience of handling business without leaving home.

Intelligent interaction. By applying the intelligent voice technology such as voice recognition, semantic understanding and natural language processing and integrating image recognition, deep learning and knowledge graph, the Group offered personification of intelligent customer service and provided customers with kinds of ways to easily get operations processing and consultation enquiry by natural language, which enhanced customer service experience to the utmost extent.

Intelligent investment advice. By applying the intelligent decision making technology such as big data analysis and integrating modern portfolio theory, capital asset pricing model and years of experience of private banking in asset management, the Group researched and developed the supplementary service tool of investment that advised customers with intelligent diagnose, automatic analysis and customized investment planning on asset's mobility, reliability, safety and profitability, leading to realization of one-click and panoramic professional financial management services.

Intelligent risk management. By applying data mining technology such as the graphical model, integrating the artificial intelligence such as deep learning and neural networks, researching and developing risk monitoring model of intelligent risk forecast and comprehensive risk assessment, the Group basically achieved the automation of risk monitoring and reporting unexpected events in the manner of early warning, early judgment and early disposal of unexpected risk incidents, effectively identified various types of fraud, and overall provided the safety of customer funds.

5. *Internationalization and integrated operation*

(1) *Internationalization strategy*

- During the Reporting Period, net profits of the Group's overseas banking institutions amounted to RMB2.405 billion.
- As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 9.18% over the end of the previous year to RMB1,053.229 billion, accounting for 11.30% of the Group's total assets, representing an increase of 0.63 percentage points over the end of the previous year.
- As at the end of the Reporting Period, the impaired loan balances of the Group's overseas banking institutions was RMB1.285 billion, and the impaired loan ratio was 0.30%.

The Group actively responded to the national strategic deployment and continued to improve the global institutional layout including countries and regions along the "Belt and Road" strategy. The Group continuously optimized the business structure of foreign banks, promoted the cooperation between branches, subsidiaries and directly operating institutions in an all-round way, accelerated the transformation of high quality development, and enhanced the contribution of international development to the Group.

Overseas service network

The landscape of overseas service network was making a steady progress. On 29 January 2018, the wholly-owned subsidiary of the Bank, the Bank of Communications (Hong Kong) Limited officially opened. On 2 February 2018, the acquired subsidiary in Brazil was officially approved to be renamed as Bank of Communications (Brazil) Co., Ltd., and its operation and management had a smooth transition. Toronto branch of Canada, Prague branch of Czech and the Johannesburg branch of South Africa were actively preparing for the setup. As at the end of the Reporting Period, the Group set up 21 overseas subsidiaries, branches and representative offices in 16 countries and regions. They were Hong Kong Branch/Bank of Communications (Hong Kong) Limited, New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, London Branch/Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited/Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd. and Toronto representative office, with a total of 66 overseas operating outlets (excluding the representative offices). The Group established agency relationship with 1,515 banks in over 142 countries and regions, set up 242 cross-border Renminbi interbank accounts for 122 overseas agent banks in 35 countries and regions, and opened 83 foreign currency settlement accounts in 26 major currencies with 64 banking institutions in over 31 countries and regions.

Domestic and overseas synergetic businesses

The Group took advantages of domestic and overseas network, relied on the professional synergetic businesses service platform, and provided domestic and overseas financial services such as the syndicated loan, the export buyer's credit, the overseas merger and acquisition, the project financing and the issuance of direct debt financing instruments for the "Going Global" enterprises in the field of international business. During the Reporting Period, the total transaction amount of the synergetic businesses was USD19.707 billion, and its accumulated revenue reached USD0.188 billion.

Cross-border Renminbi transactions

The Group promoted the standardized construction of the cross-border RMB business development, and obtained the highest level of class A in the special assessment of foreign exchange self-discipline and foreign exchange market standards in 2017 by the Self-discipline Mechanism of the National Foreign Exchange Market. As the leading underwriter and bookkeeper, the Group deepened to promote the development of “Bond Connect”, and successfully completed the underwriting and issuing of the fifth and sixth Medium Term Note (Bond Connect) of Central Huijin Investment Ltd. in 2018. During the Reporting Period, the transaction amount of the cross-border Renminbi settlements by domestic and overseas banking institutions amounted over RMB1.2 trillion.

Offshore services

The Group continuously cultivated the core customer groups and increased the intensity of business restructuring. During the Reporting Period, the number of new offshore high-quality customers increased by 47.2% and the net revenue of offshore intermediary business increased by 7.05%. As at the end of the Reporting Period, the total amount of offshore assets was RMB122.964 billion, the loan balance was RMB93.475 billion, and deposit balance was RMB70.534 billion.

(2) *Integrated operation*

- During the Reporting Period, net profits attributable to shareholders of the Bank from the subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited, Bank of Communications (Brazil) Co., Ltd., and Bank of Communications (Hong Kong) Limited, same applies hereinafter) amounted to RMB2.451 billion, representing a year-on-year increase of 17.10%, the proportion of which to the net profit of the Group increased by 0.64 percentage points to 6.01% on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of the subsidiaries increased by 8.65% over the end of the previous year to RMB344.437 billion, the proportion of which to the total assets of the Group increased by 0.18 percentage points to 3.69% over the end of the previous year.

The Group persisted in deepening reforms, improved top-level design, enhanced the efficiency of comprehensive operation, and stimulated the operating vitality of subsidiaries. All subsidiaries adhered to the Group's strategy, kept pace with market trends, accelerated the pace of transformation, enhanced the quality and efficiency of development, and maintained a good momentum of development.

Bank of Communications Financial Leasing Co., Ltd. deepened to promote the business in aviation and shipping, and the assets of aircrafts and ships amounted to RMB109.614 billion, accounting for 52.41% of all the leasing assets. During the Reporting Period, the company realized a net profit of RMB1.352 billion, with a year-on-year increase of 12.20%. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB209.134 billion, with an increase of 4.57% over the end of the previous year.

Bank of Communications International Trust Co., Ltd. accelerated the pace of business transformation, and vigorously promoted the active management, asset securitization, family trust and other business development. As at the end of the Reporting Period, its asset under management amounted to RMB857.762 billion.

Bank of Communications Schroder Fund Management Co., Ltd. bucked the trend and strived for a steady progress, and several public funds under the company achieved outstanding performance. Many funds such as BoCom Pharmaceutical Innovation, BoCom Alfa, BoCom Advantaged Industry and BoCom Technology Innovation were ranked top 5% among funds in term of performance. As at the end of the Reporting Period, its asset under management amounted to RMB471.924 billion (including two subsidiaries).

BoCommLife Insurance Company Limited steadily developed its business and continuously improved its asset quality. During the Reporting Period, the accumulated premium income amounted to RMB8 billion, of which renewal premiums amounted to RMB3.5 billion, with a year-on-year increase of 130%. The company continuously optimized the business structure, leading the industry in terms of the quality of insurance business with premium paid by installment. The premium paid by installment of the new insurance business accounted for 92%, while the persistency rate of premium paid by installment of 13 months in insurance business reached 95.9%, leading in the industry.

China BoCom Insurance Co., Ltd. continued to deepen the Group's synergistic businesses, promoted the main business of insurance service to be professional, excellent and powerful, and spared no effort to build a global professional service platform of the general insurance for the Group.

In accordance with the principle of marketization and legislation, BoCom Financial Asset Investment Co., Ltd. studied the comprehensive de-leverage scheme such as the combination of shares and debt and the majority of shares to effectively decrease the leverage ratio of enterprises. As at the end of the Reporting Period, it reached a preliminary cooperative intention with a number of pillar enterprises concerning national economy and the people's livelihood.

(II). Financial Statement Analysis

1. Analysis on key income statement items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB0.115 billion or 0.24% on a year-on-year basis to RMB47.470 billion, profit before tax was mainly derived from net interest income and net fee and commission income.

The table below illustrates the selected items which contributed to the Group's profit before tax for the periods indicated:

	<i>(in millions of RMB)</i>	
	For the six months	
	ended 30 June	
	2018	2017
Net interest income	60,658	61,333
Net fee and commission income	21,182	21,261
Credit impairment losses on loans	(15,202)	(14,805)
Profit before tax	47,470	47,355

(2) Net interest income

During the Reporting Period, the Group's net interest income decreased by RMB0.675 billion on a year-on-year basis to RMB60.658 billion, accounting for 59.45% of the Group's operating income, becoming a major component of the Group's income.

The table below shows the average daily balances, associated interest income and expenses, and annualized average rate of return or annualized average costs of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
	Average balance	Interest income/ (expense)	Annualized average rate of return (cost) (%)	Average balance	Interest income/ (expense)	Annualized average rate of return (cost) (%)
Assets						
Cash and balances with central banks	938,141	6,785	1.46	957,404	6,685	1.40
Due from banks and other financial institutions	831,837	12,868	3.12	735,912	9,559	2.60
Loans and advances to customers and receivables	4,602,049	109,686	4.81	4,316,050	97,350	4.51
Including: Corporate loans and receivables	2,998,226	66,890	4.50	2,972,984	62,645	4.21
Individual loans	1,460,221	39,316	5.43	1,207,046	32,184	5.33
Discounted bills	143,602	3,480	4.89	136,020	2,521	3.71
Investment securities	2,333,251	41,207	3.56	2,190,236	38,984	3.56
Interest-bearing assets	8,705,278	170,546	3.95	8,199,602	152,578	3.72
Non-interest-bearing assets	652,648			519,004		
Total assets	9,357,926			8,718,606		
Liabilities and shareholders' equity						
Due to customers	5,681,819	63,620	2.26	5,387,258	54,883	2.04
Including: Corporate deposits	3,902,427	42,465	2.19	3,740,354	37,660	2.01
Individual deposits	1,779,392	21,155	2.40	1,646,904	17,223	2.09
Due to banks and other financial institutions	2,124,818	35,401	3.36	2,092,921	30,544	2.92
Debt securities issued and others	553,702	10,867	3.96	319,432	5,818	3.64
Interest-bearing liabilities	8,360,339	109,888	2.65	7,799,611	91,245	2.34
Shareholders' equity and non-interest-bearing liabilities	997,587			918,995		
Total liabilities and shareholders' equity	9,357,926			8,718,606		
Net interest income		60,658			61,333	
Net interest spread¹			1.30			1.38
Net interest margin²			1.41			1.50
Net interest spread¹			1.46³			1.53³
Net interest margin²			1.57³			1.64³

Notes:

1. Represented the difference between the annualized average rate of return on total average interest-bearing assets and the annualized average cost of total average interest-bearing liabilities.
2. Represented the annualized net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bond investments.
4. Due to changes in the presentation basis on the items in financial statements, the comparative data of the corresponding periods has been restated to the current presentation basis. Same applies hereinafter.

During the Reporting Period, the Group's net interest income decreased by 1.10% on a year-on-year basis. The net interest spread and net interest margin decreased by 8 basis points and 9 basis points on a year-on-year basis to 1.30% and 1.41%, respectively. The net interest spread and net interest margin in the second quarter both increased by 9 basis points as compared to those in the first quarter.

The table below illustrates the impact of changes in scales and interest rates on the Group's interest income and interest expenses. The changes are based on the changes in scales and interest rates on interest-bearing assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

**Comparison between
January to June 2018 and
January to June 2017
Increase/(decrease) due to**

	Amount	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	(134)	234	100
Due from banks and other financial institutions	1,237	2,072	3,309
Loans and advances to customers and receivables	6,396	5,940	12,336
Investment securities	2,223	–	2,223
Changes in interest income	9,722	8,246	17,968
Interest-bearing liabilities			
Due to customers	2,980	5,757	8,737
Due to banks and other financial institutions	462	4,395	4,857
Debt securities issued and others	4,229	820	5,049
Changes in interest expenses	7,671	10,972	18,643
Changes in net interest income	2,051	(2,726)	(675)

During the Reporting Period, the Group's net interest income decreased by RMB0.675 billion on a year-on-year basis, of which the increase of RMB2.051 billion was due to changes in the average balances of assets and liabilities and the decrease of RMB2.726 billion was due to changes in the average rate of return and average cost ratio.

① Interest income

During the Reporting Period, the Group's interest income increased by RMB17.968 billion or 11.78% on a year-on-year basis to RMB170.546 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB12.336 billion or 12.67% on a year-on-year basis to RMB109.686 billion, which was largely due to the impact on the average balance of loans and advances to customers and receivables increased by 6.63% on a year-on-year basis and the annualized average rate of return increased by 30 basis points on a year-on-year basis.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB2.223 billion or 5.70% on a year-on-year basis to RMB41.207 billion, which was largely due to the year-on-year increase of 6.53% in the average balance of investment securities.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks increased by RMB100 million on a year-on-year basis to RMB6.785 billion, which was largely due to that the annualized average rate of return from cash and balances with central banks increased by 6 basis points on a year-on-year basis.

D. Interest income from balances due from banks and other financial institutions

During the Reporting Period, the interest income from balances due from banks and other financial institutions increased by RMB3.309 billion or 34.62% on a year-on-year basis to RMB12.868 billion, which was largely due to the year-on-year increase of 13.03% in the average balances due from banks and other financial institutions and the year-on-year increase of 52 basis points in the annualized rate of return of balances due from banks and other financial institutions.

② Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB18.643 billion or 20.43% on a year-on-year basis to RMB109.888 billion.

A. Interest expenses on due to customers

Due to customers were the Group's main source of funding. During the Reporting Period, interest expenses on due to customers increased by RMB8.737 billion or 15.92% on a year-on-year basis to RMB63.620 billion, accounting for 57.90% of total interest expenses. The increase in interest expenses of due to customers was largely due to a year-on-year increase of 22 basis points in the annualized rate of cost of due to customers.

B. Interest expenses on balances due to banks and other financial institutions

During the Reporting Period, interest expenses on balances due to banks and other financial institutions increased by RMB4.857 billion or 15.90% on a year-on-year basis to RMB35.401 billion, which was largely due to a year-on-year increase of 44 basis points in the annualized rate of cost of balances due to banks and other financial institutions.

C. Interest expenses on debt securities issued and other interest-bearing liabilities

During the Reporting Period, interest expenses on debt securities issued and other interest-bearing liabilities increased by RMB5.049 billion or 86.78% on a year-on-year basis to RMB10.867 billion, which was largely due to a year-on-year increase of 73.34% in average balance of debt securities issued and other interest-bearing liabilities and a year-on-year increase of 32 basis points in the annualized rate of cost.

(3) *Net fee and commission income*

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously improved the quality and efficiency of intermediary business development, vigorously facilitated the transformation of its profit-making mode and moved towards a business mode with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income decreased by RMB0.079 billion or 0.37% on a year-on-year basis to RMB21.182 billion. Bank cards were the main drivers of the Group's intermediary businesses.

The table below illustrates the breakdown of the Group's net fee and commission income for the periods indicated:

	<i>(in millions of RMB)</i>	
	For the six months ended 30 June	
	2018	2017
Bank cards	9,301	7,763
Management services	6,511	7,236
Investment banking	2,470	2,813
Agency services	1,736	2,183
Guarantee and commitment	1,400	1,531
Settlement services	1,170	1,058
Others	158	461
Total fee and commission income	22,746	23,045
Less: fee and commission expense	(1,564)	(1,784)
Net fee and commission income	21,182	21,261

Fee income from bank card services increased by RMB1.538 billion or 19.81% on a year-on-year basis to RMB9.301 billion, which was mainly due to an increase of issued volume and card consumption business.

Fee income from management services decreased by RMB0.725 billion or 10.02% on a year-on-year basis to RMB6.511 billion, which was mainly due to a decrease of volume in brokerage wealth management and investment management services.

Fee income from investment banking decreased by RMB0.343 billion or 12.19% on a year-on-year basis to RMB2.470 billion, which was mainly due to a decrease of consulting services.

Fee income from brokerage services decreased by RMB0.447 billion or 20.48% on a year-on-year basis to RMB1.736 billion, which was mainly due to a decrease in the fee income from insurance brokerage services.

Fee income from guarantee and commitment services decreased by RMB0.131 billion or 8.56% on a year-on-year basis to RMB1.400 billion, which was mainly due to a decrease of bill risk exposure management fee.

Fee income from settlement services increased by RMB0.112 billion or 10.59% on a year-on-year basis to RMB1.170 billion, which was mainly due to an increase in fee income from settlement services for overseas banking operations.

(4) *Operating costs*

During the Reporting Period, the Group's operating costs increased by RMB1.553 billion or 5.75% on a year-on-year basis to RMB28.573 billion. The Group's cost-to-income ratio was 29.26%, representing a year-on-year increase of 2.30 percentage points.

The table below illustrates the breakdown of the Group's operating costs for the periods:

	<i>(in millions of RMB)</i>	
	For the six months	
	ended 30 June	
	2018	2017
Staff costs and welfare	12,778	12,484
Operating expenses	12,999	11,614
Depreciation and amortization	2,796	2,922
Total operating costs	28,573	27,020

(5) *Credit impairment losses on loans*

The Group's impairment losses on assets included the provision for impairment losses on loans and advances to customers, financial investments, other receivables and foreclosed assets.

During the Reporting Period, the Group's credit impairment losses on loans and advances to customers increased by RMB397 million or 2.68% on a year-on-year basis to RMB15.202 billion. During the Reporting Period, credit cost ratio decreased by 0.03 percentage points on a year-on-year basis to 0.63%.

(6) *Income tax*

During the Reporting Period, the Group's income tax expenses decreased by RMB1.657 billion or 20.37% on a year-on-year basis to RMB6.476 billion. The effective tax rate of 13.64% was lower than the statutory tax rate of 25%, which was largely due to the tax exemption on interest income from government bonds and local government bonds held by the Group, as promulgated in relevant tax provisions.

2. *Analysis on key balance sheet items*

(1) *Assets*

As at the end of the Reporting Period, the Group's total assets increased by RMB284.453 billion or 3.15% over the end of the previous year to RMB9,322.707 billion.

The table below illustrates the balances (after impairment allowances) of the key components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	4,669,207	50.08	4,473,255	49.49
Investment securities	2,632,770	28.24	2,474,348	27.38
Cash and balances with central banks	917,282	9.84	938,571	10.38
Lendings to banks and other financial institutions	733,308	7.87	782,468	8.66
Total assets	9,322,707		9,038,254	

① Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB214.709 billion or 4.69% over the end of the previous year to RMB4,793.965 billion, among which the Renminbi loans from domestic banks increased by RMB208.478 billion or 5.33% over the end of the previous year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrade of industrial structure and the development of the real economy, as well as promoted the optimization of its own business structure.

The table below illustrates the distribution of the Group's loans and advances to customers by industry as of the dates indicated:

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	118,875	2.48	114,010	2.49
Manufacturing				
– Petroleum and chemical	108,495	2.26	110,087	2.40
– Electronics	77,815	1.62	76,261	1.67
– Steel	34,942	0.73	36,377	0.79
– Machinery	100,927	2.11	96,532	2.11
– Textile and clothing	28,340	0.59	30,043	0.66
– Other manufacturing	211,131	4.41	231,606	5.06
Electricity, gas and water production and supply	187,042	3.90	180,471	3.94
Construction	124,499	2.60	112,544	2.46
Transportation, storage and postal services	574,378	11.98	576,156	12.58
Telecommunication, IT services and software	32,267	0.67	26,229	0.57
Wholesale and retail	259,614	5.42	283,654	6.19
Accommodation and catering	34,228	0.71	35,531	0.78
Finance	130,516	2.72	118,533	2.59
Real estate	204,522	4.27	189,295	4.13
Services	394,425	8.23	358,956	7.84
Water conservancy, environmental and other public utilities	272,039	5.67	265,073	5.79
Education, science, culture and public health	88,571	1.85	82,780	1.81
Others	107,501	2.24	106,278	2.32
Discounted bills	136,318	2.84	138,958	3.03
Total corporate loans	3,226,445	67.30	3,169,374	69.21
Mortgage loans	952,652	19.87	897,264	19.60
Credit card overdraft	497,920	10.39	399,004	8.71
Others	116,948	2.44	113,614	2.48
Total individual loans	1,567,520	32.70	1,409,882	30.79
Gross amount of loans and advances to customers before impairment allowances	4,793,965	100.00	4,579,256	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB57.071 billion or 1.80% over the end of the previous year to RMB3,226.445 billion. Among them, the four most concentrated industries were transportation, storage and postal services, manufacturing, services, and water conservancy, environmental and other public utilities, which accounted for 55.87% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB157.638 billion or 11.18% over the end of the previous year to RMB1,567.520 billion. The proportion of individual loans to total loans and advances to customers increased by 1.91 percentage points over the end of the previous year to 32.70%.

Loan concentration by borrowers

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for 1.85% of the Group's net capital, and the total loans of Top 10 customers accounted for 12.42% of the Group's net capital, which were in compliance with the regulatory requirements.

The table below illustrates the loan balances of Top 10 single borrowers of the Group as at the date indicated:

(in millions of RMB unless otherwise stated)

30 June 2018

	Type of industry	Loan balances	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	14,468	0.30
Customer B	Services	14,000	0.28
Customer C	Transportation, storage and postal service	12,302	0.26
Customer D	Mining	10,000	0.21
Customer E	Transportation, storage and postal service	9,436	0.20
Customer F	Transportation, storage and postal service	8,980	0.19
Customer G	Construction	7,500	0.16
Customer H	Manufacturing – other manufacturing	7,000	0.15
Customer I	Wholesale and retail	6,740	0.14
Customer J	Transportation, storage and postal service	6,725	0.14
Total of Top 10 Customers		97,151	2.03

Loan concentration by geography

The Group's credit customers were mainly located in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 34.54%, 16.32% and 7.67% respectively, and the loan balances in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta increased by 7.87%, 3.12% and 4.37% respectively over the end of the previous year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio decreased by 0.01 percentage point to 1.49%. Provision coverage of impaired loans by 16.25 percentage points over the end of the previous year to 170.98%. The provision ratio increased by 0.24 percentage points over the end of the previous year to 2.55%.

The table below illustrates certain information on the Group's impaired loans and overdue loans for more than 90 days as at the dates indicated:

(in millions of RMB unless otherwise stated)

	30 June 2018	31 December 2017
Impaired loans	71,512	68,506
Overdue loans for more than 90 days	65,111	76,841
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.49	1.50

② Investment securities

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB158.422 billion or 6.40% over the end of the previous year to RMB2,632.770 billion. Return on the Group's investment securities reached 3.56%. Under the situation of current credit diversification, the Group's investment securities in bond sector will mainly be structured by local government bonds and national governance bonds, properly increase the proportion of high credit rating bonds, and closely monitor the default risk during the investment period. For the bond duration, the Group continues the research and assessment regarding the changes of macroeconomic situation and monetary policy, properly adjusts the duration of bond portfolio, to prevent the interest rate risk resulting from monetary policy changes.

Breakdown of the Group's investment securities

The table below illustrates the breakdown of the Group's investment securities by the Group's intention of holding and by issuers as of the dates indicated:

– By intention of holding

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	271,998	10.33	173,102	7.00
Financial investments at fair value through other comprehensive income	395,133	15.01	Not applicable	Not applicable
Financial investments at amortized cost	1,965,639	74.66	Not applicable	Not applicable
Financial investments – loans and receivables	Not applicable	Not applicable	387,733	15.67
Financial investments – available-for-sale	Not applicable	Not applicable	402,138	16.25
Financial investments – held-to-maturity	Not applicable	Not applicable	1,511,375	61.08
Total	2,632,770	100.00	2,474,348	100.00

– By issuers

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Governments and central banks	1,404,398	53.34	1,306,610	52.80
Public sector entities	75,160	2.85	35,663	1.44
Banks and other financial institutions	765,509	29.08	730,088	29.51
Corporate entities	387,703	14.73	401,987	16.25
Total	2,632,770	100.00	2,474,348	100.00

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond name	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2018 policy bank bonds	6,900	4.99	24/01/2023	2.07
2017 policy bank bonds	6,590	4.39	08/09/2027	1.95
2018 policy bank bonds	6,510	4.82	24/01/2021	1.93
2015 policy bank bonds	5,860	3.74	10/09/2025	0.90
2017 policy bank bonds	5,710	4.44	09/11/2022	0.85
2018 policy bank bonds	5,070	4.53	07/02/2020	0.76
2018 policy bank bonds	4,730	4.98	12/01/2025	1.42
2018 policy bank bonds	4,510	4.83	22/01/2021	0.66
2018 policy bank bonds	4,450	4.97	29/01/2023	0.66
2017 banks and non-bank financial institutions bonds	4,400	4.20	17/04/2020	0.88

(2) *Liabilities*

As at the end of the Reporting Period, the Group's total liabilities increased by RMB290.663 billion or 3.48% over the end of the previous year to RMB8,652.646 billion. Among them, due to customers increased by RMB187.562 billion over the end of the previous year, which accounted for 66.26% of total liabilities and represented a decrease of 0.06 percentage points over the end of the previous year. Balance due to banks and other financial institutions decreased by RMB113.390 billion over the end of the previous year, which accounted for 23.03% of total liabilities and represented a decrease of 2.16 percentage points over the end of the previous year.

Due to customers

Due to customers were the Group's main source of funding. As at the end of the Reporting Period, the Group's due to customers balance increased by RMB187.562 billion or 3.38% over the end of the previous year to RMB5,732.928 billion. In terms of the Group's customer structure, the proportion of corporate due to customers accounted for 68.84%, representing a decrease of 0.70 percentage points over the end of the previous year. The proportion of individual deposits was 31.12%, representing an increase of 0.72 percentage points over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 1.56 percentage points over the end of the previous year to 43.67%, while the proportion of time deposits increased by 1.58 percentage points over the end of the previous year to 56.29%.

The table below illustrates the Group's corporate and individual deposits as of the dates indicated:

	<i>(in millions of RMB)</i>	
	30 June	31 December
	2018	2017
Corporate deposits	3,946,825	3,856,119
Including: Corporate demand deposits	1,826,003	1,852,676
Corporate time deposits	2,120,822	2,003,443
Individual deposits	1,783,778	1,685,792
Including: Individual demand deposits	677,373	655,559
Individual time deposits	1,106,405	1,030,233

3. *Analysis on key cash flow items*

As at the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB22.130 billion over the end of the previous year to RMB251.049 billion.

The net cash inflows from operating activities increased by RMB30.697 billion on a year-on-year basis to RMB76.207 billion, which was mainly resulted from a year-on-year increase of cash inflows due to the net decrease in financial assets purchased under reverse repurchase agreements.

The net cash outflows from investing activities decreased by RMB21.373 billion on a year-on-year basis to RMB69.800 billion, which was mainly due to a year-on-year decrease in net cash outflows related to investment securities activities.

The net cash inflows from financing activities decreased by RMB17.654 billion on a year-on-year basis to RMB14.792 billion, which was mainly due to a year-on-year decrease in the cash inflows related to the issuance of bonds.

4. Segment analysis

(1) Operating results by geographical segments

The table below illustrates the profit before tax and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	For the six months ended 30 June			
	2018		2017	
	Profit before tax	Net operating income¹	Profit before tax	Net operating income¹
Northern China	8,113	10,688	6,552	11,536
North Eastern China	(1,535)	3,439	1,420	3,796
Eastern China	15,970	36,987	14,019	41,882
Central and Southern China	12,541	18,651	11,145	18,272
Western China	3,830	8,342	4,736	8,492
Overseas	3,551	5,952	3,875	5,964
Head Office	5,000	17,974	5,608	13,998
Total²	<u>47,470</u>	<u>102,033</u>	<u>47,355</u>	<u>103,940</u>

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investment, insurance business income, net investment income of associates and joint ventures and other operating income. Same applies hereinafter.
2. Including profit attributable to non-controlling interests. Same applies hereinafter.

(2) *Deposits and loans and advances by geographical segments*

The table below illustrates the Group's deposits and loans and advances balances by geographical segments as at the dates indicated:

	30 June 2018		<i>(in millions of RMB)</i> 31 December 2017	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	978,813	602,592	959,447	588,224
North Eastern China	292,983	211,363	288,765	207,142
Eastern China	2,044,891	1,677,290	1,974,271	1,625,585
Central and Southern China	1,343,662	903,167	1,254,785	851,780
Western China	662,275	451,424	661,326	447,924
Overseas	406,846	414,266	402,687	424,852
Head Office	3,458	533,863	4,085	433,749
Total	5,732,928	4,793,965	5,545,366	4,579,256

(3) *Operating results by business segments*

The Group's four main business segments were corporate banking, personal banking, treasury businesses and other businesses. The corporate banking segment formed as the primary source of profit for the Group, accounting for 53.21% of the Group's profit before tax.

The table below illustrates the Group's profit before tax and net operating income from each of the Group's segments for the periods indicated:

(in millions of RMB)

For the six months ended 30 June 2018

	2018		2017	
	Profit before tax	Net operating income	Profit before tax	Net operating income
Corporate banking	25,258	48,632	23,415	48,645
Personal banking	11,103	35,475	15,504	34,012
Treasury businesses	9,714	11,059	6,861	8,237
Other businesses	1,395	6,867	1,575	13,046
Total	47,470	102,033	47,355	103,940

5. *Capital Adequacy Ratio*

(1) *Measurement method of the capital adequacy ratio*

The Group calculated the capital adequacy ratio pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and the relevant requirements. The Group adopted the Advanced Measurement Approach of Capital Management upon the approval of the CBIRC. The credit risk was assessed by the internal rating based approach, the market risk by the internal model approach and the operational risk by the standardized approach.

(2) *Measurement scope of capital adequacy ratio*

The calculation of capital adequacy ratio included the Group's domestic and overseas branches and subsidiaries of those financial institutions (excluding insurance companies).

(3) *Measurement result of capital adequacy ratio*

As at the end of the Reporting Period, pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC, the Group's capital adequacy ratio, Tier 1 Capital adequacy ratio and Core Tier 1 Capital adequacy ratio were 13.86%, 11.69% and 10.63% respectively, all of which met the regulatory requirements.

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC

(in millions of RMB unless otherwise stated)

Item	The Group	The Bank
Net Core Tier 1 Capital	599,954	535,889
Net Tier 1 Capital	659,959	595,766
Net Capital	782,132	714,584
Core Tier 1 Capital adequacy ratio (%)	10.63	10.02
Tier 1 Capital adequacy ratio (%)	11.69	11.13
Capital adequacy ratio (%)	13.86	13.35

Note: Pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*, the above calculation excluded China BoCom Insurance Co., Ltd. and BoCommLife Insurance Company Limited.

Calculated pursuant to the *Administrative Measures for the Capital Adequacy Ratio of Commercial Banks* issued by the CBIRC and relevant requirements

Item	The Group	The Bank
Core Capital adequacy ratio (%)	9.98	9.75
Capital adequacy ratio (%)	12.96	12.48

(4) Risk-weighted assets

The table below states the Group's risk-weighted assets in accordance with the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*. The credit risk-weighted asset was assessed by the internal rating based approach, the market risk-weighted asset by the internal model approach, and the operational risk-weighted asset by the standardized approach.

(in millions of RMB)

Item	30 June 2018
Credit risk-weighted asset	5,104,527
Market risk-weighted asset	203,392
Operational risk-weighted asset	337,152
Additional risk-weighted assets due to use of capital floor	–
Total risk-weighted assets	5,645,071

(5) *Credit risk exposure*

① Exposure to default risk under the internal rating approach

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and relevant requirements

Item	<i>(in millions of RMB)</i> 30 June 2018
Corporate risk exposure	3,614,700
Financial institution risk exposure	952,278
Retail risk exposure	<u>1,925,174</u>
Total	<u><u>6,492,152</u></u>

② Credit risk exposure not covered under the internal rating approach

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and relevant requirements

Item	<i>(in millions of RMB)</i> 30 June 2018
On-balance-sheet credit risk	3,654,469
Including: Asset securitization	20,094
Off-balance-sheet credit risk	49,561
Counterparty credit risk	65,001
Total credit risk exposure not covered under the internal rating approach	3,769,031

(6) *Market risk capital requirement*

The Group's market risk capital requirement was assessed using internal model approach and for those market risk not covered by internal model approach, the Group assessed via standardized approach. The table below states the market risk capital requirements of the Group.

(in millions of RMB)

Risk type	Capital requirement
Market risk under internal model approach	12,871
Market risk not covered under internal model approach	<u>3,400</u>
Total	<u><u>16,271</u></u>

(7) *Value at risk (VaR)*

The Group adopted the historical simulation method to calculate VaR and stressed value at risk (SVaR) which had a historical observation period of 1 year, holding period of 10 working days with a 99% confidence interval.

(in millions of RMB)

Item name	January to June 2018	
	Value at risk(VaR)	Stressed value at risk (SVaR)
VaR of market risk as at the end of the Reporting Period	1,893	1,893
Maximum VaR during the Reporting Period	1,995	2,323
Minimum VaR during the Reporting Period	1,601	1,791
Average VaR during the Reporting Period	1,843	2,060

6. *Leverage Ratio*

The Group calculated the leverage ratio pursuant to the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC in January 2015. As at the end of the Reporting Period, the Group's leverage ratio was 6.58%, which met the regulatory requirements.

Calculated in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) (2015, No. 1) issued by the CBIRC and relevant requirements

(in millions of RMB unless otherwise stated)

Item	30 June	31 March	31	30
	2018	2018	December	September
			2017	2017
Net Tier 1 Capital	659,959	661,344	669,429	656,403
Balance of adjusted on-and-off-balance sheet assets	10,026,128	10,010,549	9,731,368	9,654,624
Leverage ratio (%)	6.58	6.61	6.88	6.80

7. Liquidity Coverage Ratio

Pursuant to the *Measures for Disclosure of Liquidity Coverage Ratio of Commercial Banks*, commercial banks should disclose the daily average liquidity coverage ratio within the quarter since 2017. The daily average liquidity coverage ratio of the Group in the second quarter of 2018 was 110.85% (the daily average within the quarter is the arithmetic average of daily data of the quarter, the number of average of daily data is 91). The ratio decreased by 7.57 percentage points from the last quarter mainly due to decrease of cash inflows due within a month. The details of average monthly liquidity coverage ratio in the second quarter are listed as follows:

(in millions of RMB unless otherwise stated)

Serial number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,488,601
Cash Outflow			
2	Retail deposits, small business deposits, including:	1,403,847	133,244
3	Stable deposit	139,305	6,790
4	Less stable deposit	1,264,542	126,454
5	Unsecured wholesale funding, including:	3,902,949	1,665,096
6	Business relationship deposit (excluding agency business)	2,425,527	605,046
7	Non-business relationship deposit (including all counterparties)	1,469,975	1,052,603
8	Unsecured wholesale funding	7,447	7,447
9	Secured funding		14,126
10	Other items, including:	1,339,483	590,033
11	Cash outflow relates to derivatives and other derivatives and collateral/pledged assets	546,472	546,216
12	Cash outflow relates to loss of funding on asset-blocked securities	98	98
13	Committed credit and liquidity facilities	792,913	43,719
14	Other contractual obligation to extend funds	35,904	35,904
15	Contingent funding obligations	962,185	30,998
16	Total expected cash outflow		2,469,401
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	51,773	46,736
18	Committed facilities	802,720	511,772
19	Other cash inflow	583,662	567,193
20	Total expected cash inflow	1,438,155	1,125,701
			Amount after adjustment
21	The qualified high-quality liquid assets		1,488,601
22	Net cash outflow		1,343,700
23	Liquidity coverage ratio (%)		110.85

8. *Others*

- ① During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures in the Group.
- ② The Group's assets pledged were mainly collateral under repurchase agreements and loans from banks and other financial institutions. Save as disclosed above, there were no other significant assets pledged to be disclosed during the Reporting Period.

(III). Business Innovation and New Products

During the Reporting Period, the Bank constantly improved the innovation system mechanism. In January 2018, the Bank held the first “Youth Innovation Competition” of Bank of Communications, attracting nearly 10,000 employees to collect 68 ideas in the fields of corporate, retail, interbank and risk prevention and control. In February, the Bank held the first “Innovation Conference” to honor outstanding innovative products award winners. Chairman Peng Chun attended the conference and made an important speech. The Bank issued the *Evaluation Measures for the Innovation Index of BoCom (2018)*, which made the evaluation indicators of Innovation Index closely related to the strategy of the Bank and the development of the main business, and comprehensively reflected the innovation scale, innovation efficiency and innovation driving level of the various operating units.

1. *Corporate financial business innovation*

(1) Corporate business

The Bank innovated to launch BoCom's e-payment platform, and created five functional sections of “Smart Service, Smart Finance, Smart Security, Smart Payment and Smart Accounts” to realize the electronic collection process. The Bank launched an agent settlement product named “Delivery and Guarantee” to promote the trade of small and medium-sized enterprises. Meanwhile, the Bank promoted the construction of enterprise mobile banking and corporate WeChat public account, and provided enterprise customers with mobile reconciliation, settlement and consulting financial services with multi-channel-tasks connected.

(2) *Investment banking business*

The Bank supported the development of national housing rental business, and registered the first debt financing instruments for rental housing. The Bank issued “Jiao Yuan” first credit card installment asset-backed securities of RMB16.95 billion in 2018, which was the largest single-issue credit asset-backed securities in China, the first issuance of credit card installment asset-backed securities introducing foreign investors through the Bond Connect and the first issuance of credit assets securitization by use of the Shanghai Headquarters Bookkeeping Room of Central Clearing Company for bookkeeping and issuing.

2. *Personal financial business innovation*

(1) *Credit card business*

The Bank made use of the existing resources and advantages of the two platforms of platinum card and Y-Power card, issued the YouthElite platinum credit card for the young and high-end customers, which provided a precise and customized consumer finance solution for the outstanding young people in the new era. Three weeks after promotion, the number of issued cards exceeded 300 thousand. In addition, the Bank also launched 8 new products of co-branded cards and theme cards, namely Jingdong baitiao card, Sohu video card, Shumen mobile game card, JX 3 card, Zetianji mobile game card, Wuxi city life card, Joy card and football-themed card, covering consumer finance, Internet video, IP games, life benefit, insurance and hot spots in world cup, further enriching the credit card product system.

(2) *Channel construction*

The Bank innovated to launch online customer manager service like “OTO Financial Advisor” and “My Account Manager”. With customer demand and experience as core business, the Bank comprehensively promoted the intelligent construction of telephone channels, and provided the customers precisely with the services like products information, expiration reminder, publicity and so on.

3. *Interbank and financial market business innovation*

(1) *Interbank business*

The Bank obtained many operation qualifications and deepened the cooperation of financial market. During the Reporting Period, the Bank completed the oil futures listing work of the Shanghai International Energy Center, which resulted in that the scale of security deposit of oil futures in the market was in the lead. The Bank was the first batch to obtain the depository qualification for overseas customers' deposits in the Dalian Commodity Exchange and provided foreign investors with the foreign currency deposit service when they participate in the domestic iron ore futures trading. The Bank exploited its international and comprehensive advantages, introduced foreign investors to participate in oil and iron ore futures trading, and helped specific commodity varieties to be priced in RMB. The Bank completed the first batch of market credit default swap centralized liquidation transaction, full participated in the central counterparties clearing of the Shanghai Clearing House for interest rates, exchange rates, commodities and credit derivatives. The Bank participated in the pilot project of Dalian Commodity Exchange OTC Option for the first time and successfully concluded.

(2) *Asset management business*

The Group built a brand new net worth product framework backed by cash management products, featured by “fixed income+” medium and long-term wealth management products, and highlighted by theme products. The Group issued some special theme products successfully with flexible redemption mechanism and excellent earnings performance like “Enjoying Private Banking for 28 Days”. The Group promoted the long-term wealth management products from 1 to 3 years, and prepared to issue a variety of net worth products, such as the selection of rights and interests, the mix of stock and bond and the enhancement of the index to serve the customers in the medium and long term value preservation and appreciation and individualized investment demand.

(3) *Precious metal business*

During the Reporting Period, the Bank became the first batch of pilot members of the forward curve quotation group of the silver inquiry market of the Shanghai Gold Exchange, the first batch which obtained the qualification of gold option implied volatility quotation. The Bank completed the first day deal of the silver inquiry business of the Shanghai Gold Exchange.

(IV). Risk Management

In the first half of 2018, the Group continued to take “full coverage, whole process, accountability and risk management culture” as the core, refined risk management framework, optimized its credit investment structure and strengthened risk management controls over key areas including credit, market, liquidity, operational, compliance, reputational and geopolitical risk management practices, which has laid a solid foundation and support for the in-depth reform and transformational development strategy of the Group.

1. Risk appetite

The Group adhered to the bottom line of compliance, insisted on the prudential style of risk management, conscientiously implemented external regulatory requirements, actively served the real economy, strictly controlled kinds of risks, constantly and comprehensively deepened the reform, thus upholding the bottom line of preventing the occurrence of systematic financial risks. In the first half of 2018, the Group’s all indicators of the risk tolerance levels and risk limits were stable.

2. Risk management framework

The Board of Directors of the Group assumes the ultimate responsibility and serves the highest function of decision-making and control of the Group’s risk management through its Risk Management and Related Party Transaction Control Committee. The Senior Management established a “1+3+2” Risk Management Committee, where three sub-committees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, and Operational Risk Management and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit Review/Noncredit Review Committee and High-risk Asset Review Committee were also established and performed their respective duties. Each Tier 1 branch, overseas branch, subsidiary and directly operating institution correspondingly established simplified and practical Risk Management Committees referring to the aforementioned framework. The Group ensured the full implementation of risk management requirements through the mechanism of “Leadership and Execution, Supervision and Reporting” between Risk Management Committee and sub-committees, and between committees of Head Office and branches, forming a unified and coordinated risk management.

3. *Risk management tool*

The Group laid great importance to the establishment and application of risk management tools, information systems and econometric models. Risk management was supported by financial technologies. The Group actively explored the application of big data, artificial intelligence, cloud computing and graph computing in the field of risk management, initiated the construction of the Group's risk data application in ecological system and created a unified risk monitoring system covering the entire Group. During the Reporting Period, through innovative data mining, the ability of information consolidation was strengthened and the controls of credit risk management were enhanced. The Group enhanced monitoring of middle office over market risk, interest rate risk of bank account and liquidity risk, improved the application of risk management tool in business management, and strengthened real time control over operating risk, fraud risk and money laundering risk through types of information system to improve the effectiveness of risk management continuously.

The Group established a complete system in implementation of Advanced Measurement Approach of Capital Management covering areas such as policy procedure building, module developing and management, data accumulation and normalization, system design and implementation, business management and assessment application, independent verification and audit and professional training. With the approval from regulatory authorities, the Group adopted primary internal rating based approach for enterprise risk exposures, internal rating based approach for retail risk exposures, internal model based approach for market risk and standard approach for operational risk to measure capital requirements. During the Reporting Period, upon the approval of the CBIRC, the Group ended the parallel run period of the Advanced Approach of Capital Management and expanded the application scope. The Group continued to optimize the econometric models and management systems, which covered all kinds of key risks. The Group consistently implemented operation model in monitoring and analysis, optimized the model and deepened the application of measuring results extensively in strategic planning, structural adjustment, business decision, performance appraisal as well as business management.

4. *Credit risk management*

Credit risk is one of the major risks encountered by the Group. The Group adopted stringent management on different procedures, including investigation, reporting, business review and approval, distribution of fund, duration management, overdue non-performing loan management, all of which reduced the credit risk to an acceptable level and struck a balance between risks and returns.

The Group was determined to implement the decisions and deployments of the central government and the State Council. In response to the State's policies and market fluctuations, the Group issued and dynamically updated an outline regarding the risk of credit authorization policy and guidelines on industrial or regional direction. The Group also proactively served the real economy, constantly optimized credit assets structure, supported national strategies, focused on industrial transformation and advancement, and made good use of both existing and additional monetary and financial resources. The increase in corporate credit was mainly invested in areas that met the characteristics of national economy, the direction of transformation, and the needs and operations of the macro-economy.

The Group emphasized on risk control in key areas. The Group focused on key areas, key branches, key projects, improved level, classified and categorized management and inventory management to improve the management level. The Group also constantly carried out inspection and monitoring on government business, large private groups, credit bonds, and bills, and proactively dealt with the risks of external internet finance and illegal fund-raising.

The Group strengthened the post-loan management and post-investment management. The Group formed and completed systems and measures, formed supporting framework of post-loan and post-investment management, continuously completed various mechanisms and perfected procedure tools.

The Group put efforts into the disposal of risks, proactively made use of different disposal strategies to solve the stock risk in timely manner. In the first half of 2018, the total amount of disposal of non-performing loans was RMB36.5 billion, among which the amount of write-off loans was RMB27.8 billion.

According to the regulatory requirements stated in the *Guidance for the Risk-based Loan Categorization* issued by CBIRC, the Group classified credit assets into five categories (pass, special mention, sub-standard, doubtful and loss) based on their risk level, in which the last three categories are regarded as non-performing loans. The nature of the categories refers to the possibility of timely and full repayment of the principal and interest of credit assets. In relation to corporate credit assets, the Group specified the risk attributes and measurements of the aforementioned five categories, with reference to internal ratings and provisions for each loan. All of these ensured that various factors affecting the quality of credit assets were considered by the Group, so that the Group could perform risk classification in a prudent manner. For retail credit assets, including credit cards, the Group adopted a loan classification system, which considered both the aging schedule of overdue loans and the types of guarantees provided.

As at the end of the Reporting Period, the Group's balance of non-performing loans increased by RMB3.006 billion over the end of the previous year to RMB71.512 billion; the impaired loans ratio decreased by 0.01 percentage point over the end of the previous year to 1.49%. As at the end of the Reporting Period, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities is as follows:

(in millions of RMB unless otherwise stated)

Categories	30 June 2018		31 December 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass loan	4,598,016	95.91	4,378,840	95.62	4,031,560	95.52
Special mention loan	124,437	2.60	131,910	2.88	125,842	2.98
Total performing loan balance	4,722,453	98.51	4,510,750	98.50	4,157,402	98.50
Sub-standard loan	11,591	0.24	18,723	0.41	18,346	0.43
Doubtful loan	35,281	0.74	24,865	0.54	26,950	0.64
Loss loan	24,640	0.51	24,918	0.55	17,937	0.43
Total non-performing loan balance	71,512	1.49	68,506	1.50	63,233	1.50
Total	4,793,965	100.00	4,579,256	100.00	4,220,635	100.00

Note: Due to changes in the presentation basis on the items in financial statements, the comparative data of the corresponding periods has been restated to the current presentation basis.

As at the end of the Reporting Period, the breakdown of the Group's migration rate stipulated by the Chinese banking regulatory authorities is as follows:

Loan migration rates (%)	June 2018	2017	2016
Pass loan	1.04	2.09	2.80
Special mention loan	24.16	21.62	24.60
Sub-standard loan	88.77	53.59	50.04
Doubtful loan	22.40	26.86	33.72

Note: Data calculated pursuant to the *Notice on the Distribution of the Regulatory Indicator and Calculation Formula for off Field Investigation* issued by the CBIRC.

5. *Market risk management*

Interest rate risk and exchange rate risk (including gold) are the major market risks encountered by the Group. Based on the risk appetite of the Board of Directors, the Group proactively identified, measured, monitored, controlled and reported its market risk, using various methods, such as quota management, risk hedging, and risk transfer. As a result, the Group was able to control its market risk exposure to an acceptable level and maximize its risk-adjusted profits. With the establishment of segregation of duties, improvement of policies and procedures, enhancement of measurement systems, monitoring and analysis of market risk management framework in a timely manner, the Group successfully controlled and prevented market risk, and enhanced the level of market risk management.

During the Reporting Period, the Group further improved its market risk management system, and continued to optimize the market risk management information system, including the construction of the large and middle stage of the capital product management system, establishing new valuation models, parameters and market data for new businesses and new products. In addition, the newly established models were tested independently, the risk management models and configurations were constantly updated and the data quality was reviewed on a regular basis. Based on the daily risk analysis, monitoring and management, the Group made a further analysis and study on macro-economy, regulatory policy and financial market situation, evaluated the risk and influence caused by the market fluctuations in time and improved the prospect and effectiveness of market risk management.

The Group continued to promote the application of the results derived from market risk measurement into management's practice. Daily capital transaction positions of the whole Bank and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group quantified market risk and measured VaR on a daily basis from different perspectives, such as different risk factors and different investment portfolios and products. The results were also applied to capital measurement using the internal model based approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results revealed that the market risk measurement model was able to capture the changes in financial market in a timely manner and objectively reflected market risk encountered by the Group.

6. *Liquidity risk management*

During the Reporting Period, the businesses of the Group were developed in a coordinative manner under a stable liquidity risk condition, with satisfactory liquidity indicators under regulatory requirements. Through the mechanism of quarterly market and liquidity risk committee meetings, monthly liquidity management meetings and weekly business communication meetings, the Group evaluated the liquidity risk, prospectively forecast business development and market price trend, and actively carried out the readjustment and optimization of the assets and liabilities business structure. According to the requirements of the *Rules on Liquidity Risk Management of Commercial Group* issued by the CBIRC, the Group strengthened the intraday liquidity risk management, interbank business liquidity risk management and liquidity consolidated risk management, regularly carried out the liquidity risk stress testing, balanced the liquidity and profitability of funds by using FTP tools flexibly, rolling forecast the liquidity gap and made arrangements ahead of time to make sure the coordinated development of the source and the utilization of funds, as well as the liquidity safety and the achievement of liquidity risk management goals.

7. *Operational risk management*

The Group developed comprehensive operational risk management system dealing with the nature, scale and product complexity of the whole Bank's businesses. The Group also ensured and standardized the procedure of operational risk controls, control self-assessment, lost data collection, key risk inspection indicators and operational risk management.

During the Reporting Period, the Group strengthened operational risk management. The Group amended series of operational risk basic systems, and continuously consolidated the management foundation. The Group conducted operational risk and control assessment regularly in key areas to identify weaknesses and compensate controls. The Group promoted the integration construction of business continuity management in domestic and overseas branches, and successfully implemented the first comprehensive emergency plan of city disasters after implementing the new system of overseas branches. The Group strengthened out-site inspection of centralized outsourcing, supervised outsourcing service providers to effectively monitor contract execution management to prevent the risk of outsourcing.

8. *Legal compliance and Anti-Money Laundering*

The Group constantly improved legal compliance management system and optimized the legal compliance management mechanism, strengthened the risk management and control of key areas, key parts and key links, and provided strong legal protection for the “deepening reform, transformation and development” of the whole Group.

During the Reporting Period, the Group adhered to the management concept of “compliance creates value”, continued to improve the long-term mechanism of domestic compliance management, and constantly promoted the normalization and institutionalization of overseas compliance management. The Group continuously strengthened the legal support for the major projects, innovative business and various operation and management activities of the whole Group, and fully promoted the management quality and effectiveness of the legal compliance.

The Group constantly optimized the management system of Anti-Money Laundering, improved the organization construction and internal control system of Anti-Money Laundering, promoted the risk assessment project of Anti-Money Laundering, and strengthened the weak links of Anti-Money Laundering management. The Group further consolidated the management foundation of Anti-Money Laundering to enhance the level and quality of customer identity recognition and large suspicious transaction reports, as well as the capacity building of Anti-Money Laundering.

9. *Reputational risk*

The Group established and improved the reputational risk management framework. Risks of negative comments from various stakeholders during the Group’s operation, management, any other behaviors or external events were well prevented. Myriad reputational risk events were appropriately handled.

The Group continued to improve reputational risk management system and mechanism. The Group intensified the identification, warning, assessment and monitoring of reputational risk, tracked and monitored the occurrence and changes of reputational risk factors in real time, and promptly adjusted corresponding strategy and measures. During the Reporting Period, negative public opinions were actively responded and the reputational risk was under control.

10. Cross-industry, cross-border and country risk management

The Group established cross-industry and cross-border risk management system with “centralized management, clear task allocation, complete and adequate system tools, IT support, quantitative risk, and consolidation of substantially controlled entities”. The Group promoted all subsidiaries and overseas institutions to prevent risks arising from cross-industry and cross-border operations under both the Group’s standardized requirements and the respective requirements from local regulatory governing bodies.

During the Reporting Period, the Group strengthened the cross-industry and cross-border risk management. The Group carried out risk assessment of overseas banking institutions, promoted overseas institutions to fully implement the *Opinions on Further Strengthening Risk Management of Overseas Institutions under the New Situation*. The Group improved the consolidation management, formulated the unified risk view of the Group, supervised the governance of affiliated institutions, and mapped out the ownership relationship of the Group. The Group also strengthened the management of country risk, adjusted and optimized the system of country risk limit, with major support on the development of the national and regional business of “Belt and Road”.

During the Reporting Period, the Bank did not detect any insider trading that would damage the sustainable operation in respect of regulatory arbitrage, risk transfer or transactions without genuine purposes and non-market-based approaches.

(V). Outlook

For the second half of 2018, the macro-economy remains stable but with changes and there are more uncertain factors in the economy, which lead to frequent changes in the market. The State adheres to implement the proactive and stable fiscal and monetary policies in order to maintain the liquidity at a reasonable level. Deepening reform of economic structure and continuous strengthening supervision and control attribute to the improvement of commercial banking’s business environment and transformation development, together with various practical challenges.

On one hand, the supply side structure reform effectively promotes the transformation and upgrading of traditional business, and creates more business opportunities of strategic emerging industries and infrastructure construction. The regulatory environment welcomes the orderly operation of the financial market and the steady operation of commercial banks. The expansion of opening-up policy and “Belt and Road” bring more opportunities of cross-border financial services to the banking industry. The application of Fintech provides innovation energy for the transformation of banking industry and expands the boundaries and markets of financial services. On the other hand, under the upgrading impact of Sino-US economic and trade conflicts, the uncertainty of economic operation significantly increases, and the fluctuation of financial market becomes intensified, which brings comprehensive challenges to the management and operation of banks. The financial regulatory environment, the competitive environment and the technological environment are currently undertaking significant changes. The banking industry enters into differentiation. New competition of in-depth transformation becomes more intense, resulting in urgent needs for banks to build up strategic position, change business models, and create operating characteristics as well as core advantages.

In the second half of 2018, the Group will closely monitor the economic situation, monetary policy, and changes in regulation and market environment. The Group has strong confidence and takes responsibilities and proactive actions in order to enhance operating efficiency and competitive capacities. Specifically, the Group will focus on the following areas. Firstly, continuing to serve the entities. The Group will continue to increase the financial support under the State’s key strategic area, enhance inclusive finance integration, comprehensive services and operational management, and result in self-achievement of structure optimization and high quality while transforming and upgrading. Secondly, maintaining risk prevention. The Group will implement the overall risk management responsibilities, enhance precise risk controls in key areas, and strengthen risk prevention to succeed in the battle of forestalling and defusing the financial risks. Thirdly, continuing the transformation and innovation. The Group will utilize the strategic advantage of “BoCom Strategy” to create a platform covering investing and financing functions of domestic, overseas and onshore and offshore businesses, to speed up the pace of innovating products and service as well as business model, and to enhance the speed and efficiency of the transformation of “two engines” of “branch operation and divisional structure operation”. Fourthly, continuing the technology leadership. The Group will strengthen the application Fintech, steadily promote the intelligent transformation projects, enhance the service efficiency of both online and offline, and promote business development.

VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I). Profile of Directors

As at the date of this report, the members of the Board of Directors of the Bank are as below:

Name	Position	Name	Position
Peng Chun	Chairman of the Board of Directors and Executive Director	Liu Hanxing	Non-executive Director
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	Luo Mingde	Non-executive Director
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	Liu Haoyang	Non-executive Director
Hou Weidong	Executive Director and Executive Vice President	Yu Yongshun	Independent Non-executive Director
Shen Rujun	Executive Director and Executive Vice President	Li Jian	Independent Non-executive Director
Wang Taiyin	Non-executive Director	Liu Li	Independent Non-executive Director
Song Guobin	Non-executive Director	Jason Yeung Chi Wai	Independent Non-executive Director
He Zhaobin	Non-executive Director	Raymond Woo Chin Wan	Independent Non-executive Director
Helen Wong Pik Kuen	Non-executive Director	Cai Haoyi	Independent Non-executive Director

Notes:

1. Mr. Peng Chun has no longer served as the President of the Bank since 1 February 2018. Mr. Peng Chun performed the President's duties from 1 February to 5 August 2018.
2. Mr. Ren Deqi has served as the Vice Chairman of the Board of Directors, Executive Director and President of the Bank since 6 August 2018.
3. Mr. Shen Rujun and Mr. Cai Haoyi have served as the Executive Director and Independent Non-executive Director respectively since 3 August 2018. In accordance with the resolution of the 2017 Shareholders' General Meeting, Mr. Chen Zhiwu has no longer served as the Independent Non-executive Director of the Bank since 3 August 2018.

(II). Profile of Supervisors

As at the date of this report, the members of the Board of Supervisors of the Bank are as below:

Name	Position	Name	Position
Song Shuguang	Chairman of the Board of Supervisors	Tang Xinyu	External Supervisor
Gu Huizhong	Shareholder Representative Supervisor	Xia Zhihua	External Supervisor
Zhao Yuguo	Shareholder Representative Supervisor	Li Yao	External Supervisor
Liu Mingxing	Shareholder Representative Supervisor	Chen Qing	Employee Representative Supervisor
Zhang Lili	Shareholder Representative Supervisor	Du Yarong	Employee Representative Supervisor
Wang Xueqing	Shareholder Representative Supervisor	Xu Ming	Employee Representative Supervisor

Note: Mr. Fan Jun has no longer served as the Employee Representative Supervisor of the Bank since 1 August 2018.

(III). Profile of Senior Management

As at the date of this report, the members of the Senior Management of the Bank are as below:

Name	Position	Name	Position
Ren Deqi	President	Guo Mang	Executive Vice President
Hou Weidong	Executive Vice President	Xu Min	Commissioner of Discipline Inspection
Shen Rujun	Executive Vice President	Gu Sheng	Secretary of the Board of Directors
Wu Wei	Executive Vice President and Chief Financial Officer	Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant

Notes:

1. Mr. Guo Mang has served as the Executive Vice President of the Bank since 11 July 2018 and no longer served as the Director of Corporate Banking.
2. Since 27 July 2018, Mr. Xu Min has served as the Commissioner of Discipline Inspection of the Bank, while Mr. Shou Meisheng no longer served as the Commissioner of Discipline Inspection of the Bank.

(IV). Changes in Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management Appointed/Elected

Name	New Position	Change
Peng Chun	Chairman of the Board of Directors	Elected by the Board of Directors
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	The position of Director was elected at General Meeting and the position of Senior Management was appointed by the Board of Directors
Shen Rujun	Executive Director	Elected at General Meeting
Cai Haoyi	Independent Non-executive Director	Elected at General Meeting
Guo Mang	Executive Vice President	Appointed by the Board of Directors
Xu Min	Commissioner of Discipline Inspection	Newly Appointed
Gu Sheng	Secretary of the Board of Directors	Appointed by the Board of Directors

Directors, Supervisors and Senior Management Resigned/Retired

Name	Ex-position	Change
Niu Ximing	Ex-Chairman of the Board of Directors and Ex-Executive Director	Retired (due to job arrangement)
Yu Yali	Ex-Executive Director and Ex-Executive Vice President	Retired (due to retirement)
Chen Zhiwu	Ex-Independent Non-executive Director	Retired (due to election of new session of the Board of Directors)
Fan Jun	Ex-Employee Representative Supervisor	Retired (due to retirement)
Shou Meisheng	Ex-Commissioner of Discipline Inspection	Retired (due to retirement)
Du Jianglong	Ex-Secretary of the Board of Directors	Resigned (due to personal reason)

(V). Shareholdings of Directors, Supervisors and Senior Management

1. Shareholdings during the Reporting Period

Name	Position	Class of shares	Number of shares held at the beginning of the year (share)	Changes of shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of share changes
Peng Chun	Chairman of the Board of Directors and Executive Director	A share	150,000	–	150,000	–
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	H share	50,000	–	50,000	–
		A share	–	–	–	–
Song Shuguang	Chairman of the Board of Supervisors	H share	–	–	–	–
		A share	130,000	–	130,000	–
Hou Weidong	Executive Director and Executive Vice President	H share	50,000	–	50,000	–
		A share	80,000	–	80,000	–
Shen Rujun	Executive Director and Executive Vice President	H share	20,000	–	20,000	–
		A share	–	–	–	–
Wang Taiyin	Non-executive Director	H share	20,000	–	20,000	–
		A share	80,000	–	80,000	–
Song Guobin	Non-executive Director	H share	30,000	–	30,000	–
		A share	–	–	–	–
He Zhaobin	Non-executive Director	H share	–	–	–	–
		A share	–	–	–	–
Chen Qing	Employee Representative Supervisor	H share	–	–	–	–
		A share	40,000	–	40,000	–
Du Yarong	Employee Representative Supervisor	H share	20,000	–	20,000	–
		A share	60,000	–	60,000	–
		H share	20,000	–	20,000	–

Name	Position	Class of shares	Number of shares held at the beginning of the year (share)	Changes of shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of share changes
Xu Ming	Employee Representative Supervisor	A share	40,000	30,000	70,000	Purchased from secondary market
		H share	–	–	–	–
Wu Wei	Executive Vice President and Chief Financial Officer	A share	46,000	–	46,000	–
		H share	20,000	–	20,000	–
Guo Mang	Executive Vice President	A share	50,000	–	50,000	–
		H share	–	–	–	–
Gu Sheng	Secretary of the Board of Directors	A share	46,100	–	46,100	–
		H share	21,000	–	21,000	–
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	A share	–	–	–	–
		H share	30,000	–	30,000	–
Directors, Supervisors and Senior Management Resigned/Retired						
Niu Ximing	Ex-Chairman of the Board of Directors and Ex-Executive Director	A share	210,000	–	210,000	–
		H share	180,000	–	180,000	–
Yu Yali	Ex-Executive Director and Ex-Executive Vice President	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Fan Jun	Ex-Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Shou Meisheng	Ex-Commissioner of Discipline Inspection	A share	79,100	–	79,100	–
		H share	20,000	–	20,000	–
Du Jianglong	Ex-Secretary of the Board of Directors	A share	80,000	–	80,000	–
		H share	–	–	–	–

Save as disclosed above, as at the end of the Reporting Period, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be filed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to section 352 of the SFO, or which were required, pursuant to the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* (the “**Listing Rules**”) Appendix 10 *Model Code for Securities Transactions by Directors of Listed Issuers* (the “**Model Code**”) to be filed to the Bank and the Hong Kong Stock Exchange.

2. *Changes of shareholdings after the Reporting Period*

From 10 July to 12 July 2018, part of the Directors and Senior Management purchased shares of the Bank from the secondary market with their own funds, which was a significant step to implement the deepening reform of BoCom approved by the State Council and to lead and deepen the reform of long term incentive and restraint mechanism for core management of the Bank. The share purchase reflected the management's confidence towards BoCom with a century history as well as its mid-to-long term investment value. The details of the increase in shareholdings are as follows:

Name	Position	Class of shares	Number of shares held at the end of the Reporting Period (share)	Changes of shareholdings after the Reporting Period (share)	Number of shares held as at the date of this report (share)	Reason of share changes
Peng Chun	Chairman of the Board of Directors and Executive Director	A share	150,000	100,000	250,000	Purchased from secondary market
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	H share	–	100,000	100,000	Purchased from secondary market
Shen Rujun	Executive Director and Executive Vice President	H share	20,000	20,000	40,000	Purchased from secondary market

Name	Position	Class of shares	Number of shares held at the end of the Reporting Period (share)	Changes of shareholdings after the Reporting Period (share)	Number of shares held as at the date of this report (share)	Reason of share changes
Wang Taiyin	Non-executive Director	H share	30,000	20,000	50,000	Purchased from secondary market
Song Guobin	Non-executive Director	A share	–	20,000	20,000	Purchased from secondary market
He Zhaobin	Non-executive Director	A share	–	20,000	20,000	Purchased from secondary market
Wu Wei	Executive Vice President and Chief Financial Officer	A share	46,000	50,000	96,000	Purchased from secondary market
Gu Sheng	Secretary of the Board of Directors	A share	46,100	20,000	66,100	Purchased from secondary market

VII. SIGNIFICANT EVENTS

(I). Corporate Governance

The Bank strictly complied with *Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China*, *Commercial Bank Law of the People's Republic of China* and other relevant laws, regulations and rules. The Bank actively explored the corporate governance model of large commercial banks with Chinese characteristics. The Bank consistently enhanced the level of corporate governance to protect the rights of both domestic and foreign investors as well as relevant stakeholders.

In compliance with Code A.2.1 of the *Corporate Governance Code* in Appendix 14 of the Hong Kong Listing Rules, on 1 February 2018, the Board of Directors of the Bank appointed Mr. Peng Chun as the Chairman of the Bank. On the same day, Mr. Peng Chun resigned from his position as the President of the Bank. Before the appointment of the new President who is appointed by the Board of Directors and approved by the CBIRC, Mr. Peng Chun temporarily performed the duties of the President. On 12 June 2018, the Board of Directors of the Bank appointed Mr. Ren Deqi as the President of the Bank. As of the date of his qualification approved by the CBIRC on 6 August 2018, Mr. Peng Chun ceased to temporarily perform the duties of the President.

Save as disclosed above, the Board of Directors confirmed that the Bank fully complied with the principles and provisions under the *Corporate Governance Code* as set out in Appendix 14 of the Hong Kong Listing Rules, and adhered to majority of the recommended best practices as set out in the *Corporate Governance Code* during the Reporting Period.

(II). Shareholder's General Meeting

On 29 June 2018, the Bank held the 2017 Annual General Meeting, the 2018 First A Share Shareholders' Class Meeting and the 2018 First H Share Shareholders' Class Meeting. In the 2017 Annual General Meeting, 16 proposals were reviewed and approved, including the *2017 Work Report of the Board of Directors*, the *2017 Report of the Board of Supervisors* and the *2017 Report of Financial Accounts*. In the 2018 First A Share Shareholders' Class Meeting and the 2018 First H Share Shareholders' Class Meeting, 20 sub-proposals of the *proposal for Public Issuance of A Share Convertible Bonds* were reviewed and approved. The resolution announcements for all Shareholders' General Meetings have been disclosed on the websites of SSE, HKEx News and the Bank, and they were published as well in news outlets designated by the Chinese Security Regulatory Commission ("CSRC").

(III). Profit Distribution

1. Execution of the profit distribution plan of ordinary share during the Reporting Period

Pursuant to 2017 Profit Distribution Plan approved at the 2017 Annual General Meeting on 29 June 2018, a cash dividend of RMB0.2856 (before tax) for each share, totaling RMB21.209 billion, calculated based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2017. The aforementioned dividend income has been distributed to shareholders of A share and shareholders of H share on 16 July 2018 and 30 July 2018 respectively.

2. *Proposal on payment of interim dividend and proposal on conversion of capital reserve into share capital*

The Bank will not distribute an interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2018.

3. *Execution of the Bank's cash dividend distribution policy during the Reporting Period*

The Bank executed the cash dividend distribution policy strictly in accordance with the relevant provisions of the *Articles of Association*.

(IV). Material Litigation and Arbitration

During the Reporting Period, the Group was not involved in any material litigation and arbitration. As at the end of the Reporting Period, the Group has been involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB3.650 billion (excluding overseas subsidiaries and branches). The Group is of the view that these litigations will not have any material negative effect on the financial position of the Group.

(V). Material Contracts and Execution

1. *Material trust, sub-contract and lease*

During the Reporting Period, the Group did not hold in trust to a material extent or entered into any material sub-contract or leasing arrangement in respect of assets of other corporations, no other corporation held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Group's assets.

2. *Material guarantees*

The provision of guarantees was one of the off-balance sheet transactions carried out by the Group in its ordinary course of business. During the Reporting Period, the Group did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

3. *Other material contracts*

During the Reporting Period, the Group did not enter into any other material contracts.

(VI). Environmental Information

The Bank adhered to the concept of green development, substantively develop green services and implement green operations. The Bank integrated the concept of green and low-carbon into the whole process of financial services, actively innovated green products as much as possible, improved service quality, and reduced waste of resources and negative environmental impacts. The Bank encouraged the implementation of green office, networked and electronic operations, used recyclable and environmental friendly products to create the atmosphere of green and low-carbon office throughout the business operation process. The Bank also increased investments of green credit, actively implemented green finance, and supported green economic development through comprehensively deepened the green credit work.

(VII). Related Party Transactions

During the Reporting Period, all the transactions between the Group and its related parties were the monetary transactions conducted during the ordinary course of business. No significant related party transaction incurred during the Reporting Period. On 28 April 2017, the Board of Directors agreed to renew the *Interbank Master Agreement* with HSBC, relevant resolution announcements have been disclosed on the websites of SSE, HKEx News and the Bank.

As at the end of the Reporting Period, Directors, Supervisors and Senior Management of the Bank had outstanding loan balance of RMB0.558 million in the Bank.

(VIII). Audit Committee

The setup of Audit Committee of the Bank strictly complied with Hong Kong Listing Rules. The Audit Committee is mainly responsible for proposing the appointments, change or removal of the Group's auditors, monitoring the Group's internal audit system and implementation, acting as the communication channels between the Group's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Group's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Group's internal controls. As at the end of the Reporting Period, the Audit Committee under the Board of Directors comprised 7 members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. He Zhaobin, Mr. Luo Mingde, Mr. Yu Yongshun, Ms. Li Jian and Mr. Jason Yeung Chi Wai. Mr. Liu Li, an Independent Non-executive Director, served as the Chairman of the Audit Committee. The Audit Committee and Senior Management reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting including this Report.

(IX). Purchase, Sale or Repurchase of Listed Securities of the Bank

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or repurchased any listed securities of the Bank.

(X). Securities Transactions by Directors, Supervisors and Senior Management

The Bank required that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares* issued by the CSRC. The Bank adopted a set of codes of conduct for securities trading by the Directors and Supervisors no less stringent than the standards set out in Model Code. During the Reporting Period, all the Directors, Supervisors and Senior Management of the Bank confirmed that the securities transactions conducted by them are in compliance with the above rules.

(XI). Appointment of Accounting Firm

With the approval at the 2017 Annual General Meeting, the Bank has continued to appoint PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Group in accordance with China Accounting Standards, the internal control and other related professional services, and appoint PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Bank in accordance with IFRSs and to provide other related professional services. The term of appointment starts upon the approval on the date of the Bank's 2017 Annual General Meeting, and ceases at the end of day of 2018 Annual General Meeting. The overall remuneration is RMB34.85 million.

(XII). Disciplinary Actions

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors or Senior Management was subject to enforcement measure or criminal sanction by judiciary authorities, any investigation, administrative penalty, prohibition from access to market or disqualification by the CSRC, any material administrative penalty by administrative departments including environmental, safety supervision and tax departments, or any other administrative departments, and any situations of denouncement by the stock exchanges.

(XIII). Integrity

During the Reporting Period, the Group was free from refusal to implement effective judgements of a court or failure to repay due debts with considerable amount.

(XIV). Other Significant Events

1. On 29 January 2018, the Hong Kong Branch's retail business and private banking business of the Bank were transferred to Bank of Communications (Hong Kong) Limited and came into effect. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 14 July, 24 November 2017 and 29 January 2018.
2. On 5 February 2018, BoCom Financial Asset Investment Co., Ltd., which is a wholly-owned subsidiary of the Bank, officially started its business. It has a registered capital of RMB10 billion and mainly engaged in debt-to-equity conversion and related supporting services. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 19 January, 26 September, 28 December 2017 and 5 February 2018.
3. On 8 April 2018, the revision on the *Articles of Association* has been approved by the CBIRC and came into effect. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 12 April 2018.
4. On 31 May 2018, the Board of Directors approved to set up BoCom Asset Management Co., Ltd., which is a wholly-owned subsidiary of the Bank, in Shanghai, with a registered capital not higher than RMB8 billion. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018.
5. On 31 May 2018, the Board of Directors approved to invest RMB3 billion in the China National Investment & Guaranty Co., Ltd. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018.

6. On 7 June 2018, BoCom Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank, increased capital of BoCom Aviation and Shipping Financial Leasing Company Limited by RMB7 billion with its own funds. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 1 February, 23 May and 7 June 2018.
7. On 29 June 2018, the Annual General Meeting passed the several proposals, including the proposal of public issuance of A share convertible bonds. According to the aforementioned proposal, the Bank proposed to publicly issue no more than RMB60 billion A share convertible bonds with par value of RMB100 each in SSE, for the purposes of raising increasing capital adequacy, enhancing the capability of guarding against risk and solidifying the capital base for substantive development. After deducting the cost of issuance, the raised fund will be used for business development in the future. After the conversion of the convertible bonds, the Bank will comply with relevant regulations and increase the Core Tier 1 Capital. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 27 April, 3 May, 13 June and 29 June 2018.
8. On 29 June 2018, the plan of increasing the capital of the Bank of Communications (Hong Kong) Limited by not exceeding HKD10 billion with the Bank's funds has been approved by CBIRC. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 27 October 2017 and 29 June 2018.

VIII. FINANCIAL REPORTS

(I). Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Interest income	170,546	152,578
Interest expense	(109,888)	(91,245)
Net interest income	60,658	61,333
Fee and commission income	22,746	23,045
Fee and commission expense	(1,564)	(1,784)
Net fee and commission income	21,182	21,261
Net gains arising from trading activities	8,273	1,564
Net gains arising from financial investments	17	2,655
<i>Net gains/(losses) on derecognition of financial assets measured at amortised cost</i>	17	N.A.
Share of profits of associates and joint venture	140	51
Insurance business income	4,122	10,768
Other operating income	7,641	6,308
Credit impairment losses on loans and advances to customers	(15,202)	(14,805)
Insurance business expense	(3,723)	(9,862)
Other operating expenses	(35,638)	(31,918)
Profit before tax	47,470	47,355
Income tax	(6,476)	(8,133)
Net profit for the period	40,994	39,222

(All amounts expressed in millions of RMB unless otherwise stated)

Six months ended 30 June

2018 2017

Other comprehensive income

Items that may be reclassified subsequently to profit or loss:

Debt instruments at fair value through other comprehensive income

Net gains recorded in equity	1,458	N.A.
Net gains reclassified from equity to profit or loss	4	N.A.

Available-for-sale financial assets

Changes in fair value recorded in equity	N.A.	(39)
Changes in fair value reclassified from equity to profit or loss	N.A.	(1,789)

Net gains/(losses) arising from cash flow hedge

Changes in fair value recorded in equity	94	2
Changes in fair value reclassified from equity to profit or loss	(59)	68

Others

Translation difference on foreign operations	(5)	—
	344	(583)

1,836 (2,341)

Items that will not be reclassified subsequently to profit or loss:

Net gains on equity investments designated at fair value through other comprehensive income

161 N.A.

Actuarial gains/(losses) on pension benefits

(15) 20

Change in fair value attributable to change in the credit risk of financial liabilities at fair value through profit or loss

6 N.A.

Other comprehensive income for the period

1,988 (2,321)

Comprehensive income for the period

42,982 36,901

Net profit attributable to:

Shareholders of the Bank

40,771 38,975

Non-controlling interests

223 247

40,994 39,222

Total comprehensive income attributable to:

Shareholders of the Bank

42,713 36,672

Non-controlling interests

269 229

42,982 36,901

Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)

0.51 0.49

(II). Unaudited Condensed Consolidated Interim Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated)

	As at 30 June 2018	As at 31 December 2017
ASSETS		
Cash and balances with central banks	917,282	938,571
Due from banks and other financial institutions	733,308	782,468
Financial assets at fair value through profit or loss	346,935	261,037
Loans and advances to customers	4,669,207	4,473,255
Financial investments – fair value through other comprehensive income	395,133	N.A.
Financial investments – available-for-sale	N.A.	402,138
Financial investments – amortised cost	1,965,639	N.A.
Financial investments – loans and receivables	N.A.	387,733
Financial investments – held-to-maturity	N.A.	1,511,375
Investment in associates and joint venture	3,379	3,357
Property and equipment	140,056	132,492
Deferred income tax assets	26,278	16,456
Other assets	125,490	129,372
Total assets	9,322,707	9,038,254
LIABILITIES		
Due to banks and other financial institutions	1,992,802	2,106,192
Financial liabilities at fair value through profit or loss	42,396	60,308
Due to customers	5,732,928	5,545,366
Certificates of deposits issued	318,805	150,482
Current tax liabilities	7,239	7,943
Deferred income tax liabilities	598	520
Debt securities issued	304,583	287,662
Other liabilities	253,295	203,510
Total liabilities	8,652,646	8,361,983
EQUITY		
Share capital	74,263	74,263
Preference shares	59,876	59,876
Capital surplus	113,663	113,663
Other reserves	311,938	298,827
Retained earnings	103,913	124,514
Equity attributable to shareholders of the bank	663,653	671,143
Non-controlling interests	6,408	5,128
Total equity	670,061	676,271
Total equity and liabilities	9,322,707	9,038,254

(III). Unaudited Condensed Consolidated Interim Statement of Changes in Equity

(All amounts expressed in millions of RMB unless otherwise stated)

	Other reserves															Total
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Statutory investments-available-for-sale	Revaluation reserve for financial assets at fair value through other comprehensive income/	Revaluation reserve for financial liabilities measured at FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Attributable to the shareholders of the Bank	
Balance at 1 January 2018	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	-	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact on adoption of IFRS 9	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
Balance at 1 January 2018 (restated)	74,263	59,876	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	40,771	40,771	223	40,994
Other comprehensive income	-	-	-	-	-	-	1,566	6	35	355	(15)	(5)	-	1,942	46	1,988
Total comprehensive income	-	-	-	-	-	-	1,566	6	35	355	(15)	(5)	40,771	42,713	269	42,982
Capital contribution by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(59)	(21,268)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	102	24	9,158	-	-	-	-	-	-	(9,284)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(4)	(4)	(1)	(5)
Balance at 30 June 2018	74,263	59,876	113,663	57,563	139,791	113,628	1,092	-	42	(1,520)	20	1,322	103,913	663,653	6,408	670,061
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	-	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	38,975	38,975	247	39,222
Other comprehensive income	-	-	-	-	-	-	(1,827)	-	70	(566)	20	-	-	(2,303)	(18)	(2,321)
Total comprehensive income	-	-	-	-	-	-	(1,827)	-	70	(566)	20	-	38,975	36,672	229	36,901
Purchase of non-controlling interests	-	-	291	-	-	-	-	-	-	-	-	-	-	291	1,678	1,969
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(20,162)	(20,162)	(14)	(20,176)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,693)	(2,693)	-	(2,693)
Transfer to reserves	-	-	-	88	4	16,170	-	-	-	-	-	-	(16,262)	-	-	-
Balance at 30 June 2017	74,263	59,876	113,683	50,738	139,768	103,902	5	-	(44)	(857)	24	1,336	100,556	643,250	5,158	648,408

(IV). Unaudited Condensed Consolidated Interim Statement of Cash Flows*(All amounts expressed in millions of RMB unless otherwise stated)*

	Six months ended 30 June	
	2018	2017
Cash flows from operating activities:		
Net Profit before tax:	47,470	47,355
Adjustments for:		
Provision for impairment losses on loans and advances to customers	15,202	14,805
Provision for impairment of financial investments	163	107
Provision for/(Reversal of) impairment of other receivables	363	29
Provision for/(Reversal of) impairment of interest receivables	935	–
Provision for impairment on foreclosed assets	3	1
Provision for/(Reversal of) insurance contracts reserve	(1,379)	6,895
Depreciation and amortisation	4,958	4,498
Provision for/(Reversal of) outstanding litigation and unsettled obligation	(12)	(5)
Net gains on disposal of property and equipment	(11)	(18)
Net gains on disposal of foreclosed assets	–	(1)
Interest income from financial investments	(41,207)	(38,984)
Unwind of discount on allowances during the period	(927)	(905)
Fair value losses/(gains)	(5,052)	3,277
Share of profits of associates and joint venture	(140)	(51)
Net gains arising from financial investments	(17)	(2,655)
Interest expense on debt securities issued	5,494	4,512
	<hr/>	<hr/>
Operating cash flows before movements in operating assets and liabilities	25,843	38,860
Net decrease/(increase) in mandatory reserve deposits	37,371	(6,664)
Net decrease/(increase) in due from banks and other financial institutions	53,491	(120,952)
Net increase in financial assets at fair value through profit or loss	(41,753)	(21,001)
Net increase in loans and advances to customers	(244,317)	(281,439)
Net decrease/(increase) in other assets	2,732	(11,979)
Net increase in due to banks and other financial institutions	54,933	80,053
Net decrease in financial liabilities at fair value through profit or loss	(5,404)	(20,832)
Net increase in due to customers	187,562	377,990
Net increase in other liabilities	13,064	20,134
Net increase/(decrease) in VAT and other taxes	802	253
Income tax paid	(8,117)	(8,913)
	<hr/>	<hr/>
Net cash flows from operating activities	76,207	45,510

(All amounts expressed in millions of RMB unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Cash flows from investing activities:		
Purchase of financial investments	(527,983)	(298,774)
Disposal or redemption of financial investments	427,821	176,973
Dividends received	109	257
Interest received from financial investments	42,136	42,147
Acquisition of intangible assets and other assets	(204)	(379)
Disposal of intangible assets and other assets	112	6
Purchase and construction of property and equipment	(11,981)	(11,829)
Disposal of property and equipment	190	426
	<hr/>	<hr/>
Net cash flows from investing activities	(69,800)	(91,173)
Cash flows from financing activities:		
Cash received on debt securities issued	21,056	56,096
Interest paid for issuance of debt securities	(2,435)	(1,549)
Capital contribution by non-controlling interests	1,125	1,969
Repayment of principals of debt securities and certificates of deposit issued	(4,895)	(24,056)
Dividends paid to non-controlling interests	(59)	(14)
	<hr/>	<hr/>
Net cash flows from financing activities	14,792	32,446
Effect of exchange rate changes on cash and cash equivalents	931	(3,272)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	22,130	(16,489)
Cash and cash equivalents at the beginning of the period	228,919	316,396
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	251,049	299,907
	<hr/> <hr/>	<hr/> <hr/>
Net cash flows from operating activities include:		
Interest received	125,667	116,511
Interest paid	(98,254)	(80,929)
	<hr/> <hr/>	<hr/> <hr/>

(V). Notes to the Unaudited Condensed Consolidated Financial Statements

1 Basis of preparation and significant accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “*Interim Financial Reporting*” issued by the International Accounting Standard Board.

The Group adopted the going concern basis in preparing its condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements of the Group should be read in conjunction with the 2017 annual consolidated financial statements.

Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Except as described below, the Group’s accounting policies applied in preparing these unaudited condensed consolidated financial statements are consistent with those policies applied in preparing the 2017 annual consolidated financial statements.

The Group has adopted the following international financial report standards which are relevant to the Group:

International Financial Report Standard 9 Financial instruments

International Financial Report Standard 15 Revenue from contracts with customers

The Group has adopted *International Financial Report Standard 9 “Financial Instruments”* (“**IFRS 9**”) as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which composed changes in accounting policies and resulted in adjustments to the amounts previously recognised in the financial statements. No early adoption of IFRS 9 is applied in prior period by the Group.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 “Financial Instruments: Disclosures”*.

Due to the adoption of IFRS 9, the Group’s opening retained earnings reduced from RMB124,514 million to RMB96,257 million, and the opening other reserves increased from RMB298,827 million to RMB300,712 million, and deferred tax assets increased from RMB16,456 million to RMB25,927 million.

The adoption of IFRS 15 has no material effects on the Group’s financial statements.

Critical accounting estimates and judgments in applying accounting policies

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing this condensed consolidated interim financial information, except for the below mentioned amendment, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2 *Net Interest Income*

	Six months ended 30 June	
	2018	2017
Interest income		
Loans and advances to customers	109,686	97,350
Financial investments	41,207	38,984
Due from banks and other financial institutions	12,868	9,559
Balances with central banks	6,785	6,685
	<u>170,546</u>	<u>152,578</u>
Interest expense		
Due to customers	(63,620)	(54,883)
Due to banks and other financial institutions	(35,401)	(30,544)
Certificates of deposits issued	(5,373)	(1,306)
Debt securities issued	(5,494)	(4,512)
	<u>(109,888)</u>	<u>(91,245)</u>
Net interest income	<u>60,658</u>	<u>61,333</u>
Including:		
Interest income on impaired financial assets	<u>927</u>	<u>905</u>

Note: The net interest income, before subtraction of those arising from financial assets and liabilities at fair value through profit or loss, is RMB63,262 million. On a year-on-year basis, net interest income in this period increased by 0.88%, or RMB554 million.

3 *Fee and Commission Income*

	Six months ended 30 June	
	2018	2017
Bank cards	9,301	7,763
Management services	6,511	7,236
Investment banking	2,470	2,813
Agency services	1,736	2,183
Guarantee and commitment	1,400	1,531
Settlement services	1,170	1,058
Others	158	461
	22,746	23,045

	Six months ended 30 June	
	2018	2017
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	513	755
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,716	1,552

4 *Credit Impairment Losses on Loans and Advances to Customers*

	Six months ended 30 June	
	2018	2017
Loans and advances to customers at amortised cost	15,469	14,805
Loans and advances carried at FVOCI	(267)	–
	15,202	14,805

5 *Income Tax*

	Six months ended 30 June	
	2018	2017
Current tax		
– PRC enterprise income tax	6,632	10,620
– Hong Kong profits tax	485	492
– Overseas taxations	296	178
	7,413	11,290
Deferred income tax	(937)	(3,157)
	6,476	8,133

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2017: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the PRC tax rate shall be reported and paid by the PRC head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2017: 25%). The major reconciliation items are as follows:

	Six months ended 30 June	
	2018	2017
Profit before tax	47,470	47,355
Tax calculated at a tax rate of 25%	11,868	11,839
Effect of different tax rates in other countries (or regions)	(4)	33
Tax effect of expenses not deductible for tax purposes ⁽¹⁾	1,209	954
Tax effect of income not subject to tax ⁽²⁾	(5,821)	(4,798)
Income tax adjustment for prior years	(776)	105
Income tax expense	6,476	8,133

- (1) The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense etc., which exceed the tax deduction limits in accordance with PRC tax regulations.
- (2) The income not subject to tax are mainly generated by PRC treasury bonds and municipal government bonds.

6 *Basic and Diluted Earnings Per Share*

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2018	2017
Net profit attributable to shareholders of the Bank	40,771	38,975
Less: Net profit attributable to other equity holders of the Bank	<u>(2,618)</u>	<u>(2,693)</u>
Net profit attributable to ordinary shareholders of the Bank	<u>38,153</u>	<u>36,282</u>
Weighted average number of ordinary shares in issue (expressed in millions)	<u>74,263</u>	<u>74,263</u>
Basic and diluted earnings per share (expressed in RMB yuan per share)	<u><u>0.51</u></u>	<u><u>0.49</u></u>

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,618 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the period ended 30 June 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

7 *Derivative Financial Instruments*

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in 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 price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

As at 30 June 2018	Contractual/ Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange and commodity contracts	2,409,798	26,871	(24,555)
Interest rate contracts and others	658,830	4,652	(2,046)
	<hr/>	<hr/>	<hr/>
Total amount of derivative instruments recognised	3,068,628	31,523	(26,601)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 December 2017	Contractual/ Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange and commodity contracts	2,472,503	31,655	(31,819)
Interest rate contracts and others	721,892	2,352	(1,525)
	<hr/>	<hr/>	<hr/>
Total amount of derivative instruments recognised	3,194,395	34,007	(33,344)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at period/year end. These instruments, comprising foreign exchange and interest rate derivatives, allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amount of derivative financial instruments by original currency:

	As at 30 June 2018	As at 31 December 2017
RMB	1,519,846	1,518,866
USD	1,282,341	1,343,072
HKD	151,483	200,543
Others	114,958	131,914
	<hr/>	<hr/>
Total	3,068,628	3,194,395
	<hr/> <hr/>	<hr/> <hr/>

Hedge accounting

The Group applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate financial assets and financial liabilities (fair value hedge)

The Group holds a portfolio of long-term fixed rate financial assets and financial liabilities and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate financial assets and financial liabilities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

- 1) Differences between the expected and actual holding amount, as the Group hedges to the expected maturity date but may sell the bond investment according to trading strategies;
- 2) Counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

Foreign exchange risk on foreign currency debt and interest rate risk on floating rate debt (cash flow hedge)

The Group accesses international markets in order to obtain effective sources of funding. As part of this process, the Group assumes significant foreign currency exposure, principally USD, HKD, CNY and GBP. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange financial liabilities such as placements from banks and certificates of deposits issued in the foreign currency for financial liabilities in AUD, USD and GBP. These instruments are entered into to match the maturity profile of estimated repayments of the Group's debt instruments. This hedging strategy is applied to the portion of the exposure that is not naturally offset against matching asset positions held by the Group in financial investments also denominated in foreign currencies.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument.

The Group bears financial debts on floating interest rate and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps. Only the interest rate risk element is hedged and therefore other risks are managed but not hedged by the Group. The interest rate risk component is determined as changes in fair value of future cash flows due to changes in market interest rates.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign currency contracts or interest rate contracts with changes in fair value of the hedged debt attributable to the hedged risk or changes in net present value of future cash flows using the hypothetical derivative method.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

- 1) Differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- 2) Counterparty credit risk which impacts the fair value of derivative instruments but not the hedged items.

- a) The following table sets out the maturity profile and average exchange rate/interest rate of the hedging instruments used in the Group's non-dynamic hedging strategies:

As at 30 June 2018	Up to one month	One to three months	Maturity Three months to one year	One year to five years	More than five years	Total
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	115	2	2,945	41,305	12,551	56,918
Average fixed interest rate	1.50%	2.10%	2.98%	3.16%	3.61%	
Cash flow hedge						
Foreign exchange						
Foreign exchange contract in CNY						
Notional	477	152	4,532	–	–	5,161
Average USD/CNY exchange rate	6.32	6.63	6.59	–	–	
Average AUD/CNY exchange rate	–	–	5.12	–	–	
Foreign exchange contract in HKD (a)						
Notional	1,465	1,099	3,347	1,309	–	7,220
Average fixed interest rate	–	–	–	2.68%	–	
Average USD/HKD exchange rate	7.80	7.84	7.79	–	–	
Average AUD/HKD exchange rate	6.02	5.80	5.99	–	–	
Average GBP/HKD exchange rate	–	–	–	10.40	–	
Foreign exchange contract in USD (a)						
Notional	433	893	5,416	1,382	–	8,124
Average fixed interest rate	–	–	4.06%	3.08%	–	
Average USD/AUD exchange rate	–	1.35	1.32	1.38	–	
Average GBP/USD exchange rate	–	–	1.43	–	–	
Average USD/BRL exchange rate	3.35	3.47	–	–	–	
Average USD/CNY exchange rate	–	–	6.45	–	–	
Foreign exchange contract in GBP						
Notional	–	–	606	–	–	606
Average GBP/USD exchange rate	–	–	1.43	–	–	
Average GBP/AUD exchange rate	–	–	1.86	–	–	
Interest rate						
Interest rate contract						
Notional	–	–	–	1,029	5,310	6,339
Average fixed interest rate	–	–	–	4.75%	4.16%	

(a): Foreign exchange contracts include currency swap contracts and cross-currency interest swap contracts.

b) The following table contains details of the hedging instruments used in the Group's hedging strategies:

As at 30 June 2018	Notional	Carrying amount		Line item on balance sheet	Fair value changes of the hedging instruments
		Assets	Liabilities		
Fair value hedge					
Interest rate					
Interest rate contract	56,918	1,690	(54)	Financial assets/ liabilities at fair value through profit or loss	884
Cash flow hedge					
Foreign exchange					
Foreign exchange contract	21,111	225	(213)	Financial assets/ liabilities at fair value through profit or loss	39
Interest rate					
Interest rate contract	6,339	105	(1)	Financial assets/ liabilities at fair value through profit or loss	87

- c) The following table contains details of the hedged exposures covered by the Group's hedging strategies:

As at 30 June 2018	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Line item on balance sheet	Fair value changes of the hedged items	Cash flow hedge reserves
	Assets	Liabilities	Assets	Liabilities			
Fair value hedge							
Interest rate							
Debt securities	54,694	-	(1,574)	-	Financial investments - fair value through other comprehensive income	(787)	N.A.
Deposits from other banks and other financial institutions	-	(631)	-	31	Due from banks and other financial institutions	16	N.A.
Certificates of deposits issued	-	(31)	-	(3)	Certificates of deposits issued	-	N.A.
Loans and advances to customers	2,362	-	(104)	-	Loans and advances to customers	(56)	N.A.
Placement from banks	-	(822)	-	(85)	Loans from banks and other financial institutions	(91)	N.A.
Cash flow hedge							
Foreign exchange	N.A.	N.A.	N.A.	N.A.	N.A.	(39)	(38)
Interest rate	N.A.	N.A.	N.A.	N.A.	N.A.	(87)	80

- d) The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

Six months ended 30 June 2018	Gains/(loss) Recognized in OCI	Hedge Ineffectiveness recognised in P&L	P&L line item that includes hedge ineffectiveness	Amounts reclassified from reserves to P&L as:		
				Hedged cash flows will no longer occur	Hedged item affected P&L	P&L line item that includes reclassified amount
Fair value hedge						
Interest rate	N.A.	(34)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Cash flow hedge						
Foreign exchange	39	-	Net gains arising from trading activities	(9)	(70)	Net gains arising from trading activities
Interest rate	87	-	Net gains arising from trading activities	-	-	Net gains arising from trading activities, Interest expenses

The derivative financial instruments include those designated as hedging instruments by the Group in 2017 as follows:

As at 31 December 2017	Contractual/ notional amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	73,235	927	(129)
Derivative financial instruments designated as hedging instruments in fair value hedges	24,414	401	(228)
Total	97,649	1,328	(357)

(a) *Fair value hedge*

The following table shows the profit and loss effects of the fair value hedges:

	As at 30 June 2017
Net losses on hedging instruments	(359)
Net gains on hedged items attributable to the hedge risk	<u>296</u>
Net losses from fair value hedges	<u><u>(63)</u></u>

(b) *Cash flow hedge*

For the six months ended 30 June 2017, the Group's profit from the cash flow hedge of RMB2 million was recognised in other comprehensive income and the gain and loss arising from the ineffective portion of cash flow hedge was immaterial for the six months ended 30 June 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the six months ended 30 June 2017, as a result of the highly probable cash flows no longer being expected to occur.

8 *Dividends*

	Six months ended 30 June	
	2018	2017
Dividends to ordinary shareholders of the Bank	21,209	20,162
Dividends to preference shareholders of the Bank	<u>2,618</u>	<u>2,693</u>

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the proposal raised at the Board meeting on 29 March 2018 and the approval by the Annual General Meeting of Shareholders on 29 June 2018, the Bank appropriated RMB8,705 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2856 (before tax) for each ordinary share, with total amount of RMB21,209 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2017, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 27 April 2018, the Bank appropriated overseas preference dividends on 29 July 2018 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders), with total amount of USD136 million. Since 29 July is not a working day, the dividend payment day defers to 30 July 2018. The Bank will appropriate domestic preference dividends on 7 September 2018 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

9 *Financial Guarantees and Credit Related Commitments, Other Commitments and Contingent Liabilities*

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to its customers:

	As at 30 June 2018	As at 31 December 2017
Letters of guarantee	276,673	272,981
Letters of credit commitments	142,583	131,280
Acceptances bills	206,329	196,125
Credit card commitments	772,465	742,011
Loan commitments		
– Under 1 year	24,130	16,147
– 1 year and over	51,811	54,159
	<u>1,473,991</u>	<u>1,412,703</u>

Capital expenditure commitments

	As at 30 June 2018	As at 31 December 2017
Contracted but not provided for	<u>67,427</u>	<u>70,236</u>
	<u>67,427</u>	<u>70,236</u>

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

	As at 30 June 2018	As at 31 December 2017
Within 1 year (inclusive)	4,075	4,185
Beyond 1 year but no more than 2 years (inclusive)	3,003	3,124
Beyond 2 years but no more than 3 years (inclusive)	2,105	2,186
Beyond 3 years but no more than 5 years (inclusive)	2,460	2,492
More than 5 years	<u>1,784</u>	<u>1,819</u>
	<u>13,427</u>	<u>13,806</u>

The Group acts as lessor in operating leases principally through aircraft and vessels leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircraft and vessel under irrevocable operating leases are as follows:

	As at 30 June 2018	As at 31 December 2017
Within 1 year (inclusive)	9,727	8,411
Beyond 1 year but no more than 2 years (inclusive)	9,545	8,388
Beyond 2 years but no more than 3 years (inclusive)	9,125	8,139
Beyond 3 years but no more than 5 years (inclusive)	16,658	14,892
More than 5 years	<u>37,847</u>	<u>37,053</u>
	<u>82,902</u>	<u>76,883</u>

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2018, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB73,499 million (31 December 2017: RMB73,271 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

The original maturities of these bonds vary from 1 to 5 years.

As at 30 June 2018, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2017: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the periods are summarised as follows:

	As at 30 June 2018	As at 31 December 2017
Outstanding claims	3,590	3,694
Provision for outstanding litigation	434	449

10 Segmental Analysis

The Group's senior management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

- (1) Northern China – including the following provinces: Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;
- (2) North Eastern China – including the following provinces: Liaoning, Jilin, and Heilongjiang;
- (3) Eastern China – including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
- (4) Central and Southern China – including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi and Hainan;
- (5) Western China – including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- (6) Head Office;
- (7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome and Brazil.

There were no changes in the reportable segments during the period.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis under which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

	Six months ended 30 June 2018							Eliminations	Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office		
External interest income	14,271	4,793	38,493	21,246	10,619	12,711	68,413	-	170,546
External interest expense	(16,577)	(4,736)	(30,231)	(17,034)	(7,488)	(9,689)	(24,133)	-	(109,888)
Inter-segment net interest income/ (expense)	10,151	2,412	12,284	9,728	3,215	2	(37,792)	-	-
Net Interest income	7,845	2,469	20,546	13,940	6,346	3,024	6,488	-	60,658
Net fee and commission income	2,098	814	6,678	4,169	1,625	1,522	4,276	-	21,182
Net gains/(losses) arising from trading activities	146	33	754	194	76	690	6,380	-	8,273
Net gains/(losses) arising from financial investments	-	-	22	-	-	4	(9)	-	17
Insurance business income	-	-	4,106	-	-	16	-	-	4,122
Share of profit of associates and joint venture	-	-	-	-	-	13	127	-	140
Other operating income	599	123	4,881	348	295	683	712	-	7,641
Net operating income	10,688	3,439	36,987	18,651	8,342	5,952	17,974	-	102,033
Credit impairment losses on loans and advances to customers	826	(3,258)	(5,411)	(777)	(1,796)	(12)	(4,774)	-	(15,202)
Insurance business expense	-	-	(3,718)	-	-	(5)	-	-	(3,723)
Other operating expense	(3,401)	(1,716)	(11,888)	(5,333)	(2,716)	(2,384)	(8,200)	-	(35,638)
Profit before tax	8,113	(1,535)	15,970	12,541	3,830	3,551	5,000	-	47,470
Income tax									(6,476)
Net profit for the year									40,994
Depreciation and amortisation	(372)	(170)	(818)	(523)	(297)	(114)	(502)	-	(2,796)
Capital expenditure	(22)	(20)	(11,451)	(114)	(121)	(192)	(275)	-	(12,195)

	Six months ended 30 June 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	13,170	4,625	35,215	18,934	10,005	9,670	60,959	-	152,578
External interest expense	(16,039)	(4,396)	(28,308)	(16,417)	(7,250)	(6,178)	(12,657)	-	(91,245)
Inter-segment net interest income/ (expense)	11,191	2,539	12,686	10,391	3,681	(211)	(40,277)	-	-
Net Interest income	8,322	2,768	19,593	12,908	6,436	3,281	8,025	-	61,333
Net fee and commission income	2,362	875	6,806	4,586	1,724	1,503	3,405	-	21,261
Net gains/(losses) arising from trading activities	136	29	562	260	50	247	280	-	1,564
Net gains/(losses) arising from financial investments	-	-	369	9	-	210	2,067	-	2,655
Insurance business income	-	-	10,748	-	-	20	-	-	10,768
Share of profit of associates and joint venture	-	-	-	-	-	(6)	57	-	51
Other operating income	716	124	3,804	509	282	709	164	-	6,308
Net operating income	<u>11,536</u>	<u>3,796</u>	<u>41,882</u>	<u>18,272</u>	<u>8,492</u>	<u>5,964</u>	<u>13,998</u>	<u>-</u>	<u>103,940</u>
Impairment losses on loans and advances to customers	(1,564)	(744)	(7,069)	(2,169)	(1,358)	(128)	(1,773)	-	(14,805)
Insurance business expense	-	-	(9,856)	-	-	(6)	-	-	(9,862)
Other operating expense	(3,420)	(1,632)	(10,938)	(4,958)	(2,398)	(1,955)	(6,617)	-	(31,918)
Profit before tax	<u>6,552</u>	<u>1,420</u>	<u>14,019</u>	<u>11,145</u>	<u>4,736</u>	<u>3,875</u>	<u>5,608</u>	<u>-</u>	<u>47,355</u>
Income tax									(8,133)
Net profit for the period									<u><u>39,222</u></u>
Depreciation and amortisation	(392)	(194)	(892)	(557)	(320)	(83)	(484)	-	(2,922)
Capital expenditure	(70)	(54)	(11,150)	(239)	(157)	(185)	(558)	-	(12,413)

	As at 30 June 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	<u>1,141,620</u>	<u>335,053</u>	<u>2,640,781</u>	<u>1,485,438</u>	<u>692,229</u>	<u>987,493</u>	<u>4,190,021</u>	<u>(2,176,206)</u>	<u>9,296,429</u>
Including:									
Investment in associates and joint venture	-	-	4	7	-	18	3,350	-	3,379
Unallocated assets									<u>26,278</u>
Total assets									<u>9,322,707</u>
Segment liabilities	<u>(1,129,519)</u>	<u>(335,928)</u>	<u>(2,538,976)</u>	<u>(1,460,604)</u>	<u>(688,508)</u>	<u>(977,377)</u>	<u>(3,697,342)</u>	<u>2,176,206</u>	<u>(8,652,048)</u>
Unallocated liabilities									<u>(598)</u>
Total liabilities									<u>(8,652,646)</u>

	As at 30 June 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	<u>1,278,373</u>	<u>365,648</u>	<u>2,692,078</u>	<u>1,523,081</u>	<u>727,652</u>	<u>939,297</u>	<u>4,077,988</u>	<u>(2,582,319)</u>	<u>9,021,798</u>
Including:									
Investment in associates and joint venture	-	-	4	6	-	82	3,265	-	3,357
Unallocated assets									<u>16,456</u>
Total assets									<u>9,038,254</u>
Segment liabilities	<u>(1,265,063)</u>	<u>(363,044)</u>	<u>(2,597,457)</u>	<u>(1,493,665)</u>	<u>(721,874)</u>	<u>(931,308)</u>	<u>(3,571,371)</u>	<u>2,582,319</u>	<u>(8,361,463)</u>
Unallocated liabilities									<u>(520)</u>
Total liabilities									<u>(8,361,983)</u>

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The business information of the Group is summarised as follows:

	Six months ended 30 June 2018				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	25,290	18,381	15,899	1,088	60,658
Inter-segment net interest income/(expense)	8,685	4,129	(12,814)	-	-
Net interest income	33,975	22,510	3,085	1,088	60,658
Net fee and commission income	7,962	11,366	924	930	21,182
Net gains/(losses) arising from trading activities	1,548	(11)	7,032	(296)	8,273
Net gains/(losses) arising from financial investments	-	-	17	-	17
Share of profit of associates and joint venture	-	-	-	140	140
Insurance business income	-	-	-	4,122	4,122
Other operating income	5,147	1,610	1	883	7,641
Net operating income	48,632	35,475	11,059	6,867	102,033
Credit impairment losses on loans and advances to customers	(9,384)	(5,818)	-	-	(15,202)
Insurance business expense	-	-	-	(3,723)	(3,723)
Other operating expense					
–Depreciation and amortisation	(842)	(1,764)	(61)	(129)	(2,796)
–Others	(13,148)	(16,790)	(1,284)	(1,620)	(32,842)
Profit before tax	25,258	11,103	9,714	1,395	47,470
Income tax					(6,476)
Net profit for the year					40,994
Depreciation and amortisation	(842)	(1,764)	(61)	(129)	(2,796)
Capital expenditure	(3,668)	(7,694)	(268)	(565)	(12,195)

	Six months ended 30 June 2017				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	25,129	15,174	20,163	867	61,333
Inter-segment net interest income/(expense)	8,874	6,963	(15,837)	–	–
Net interest income	34,003	22,137	4,326	867	61,333
Net fee and commission income	9,347	10,199	1,097	618	21,261
Net gains/(losses) arising from trading activities	1,200	64	159	141	1,564
Net gains arising from financial investments	–	–	2,655	–	2,655
Share of profit of associates and joint venture	–	–	–	51	51
Insurance business income	–	–	–	10,768	10,768
Other operating income	4,095	1,612	–	601	6,308
Net operating income	<u>48,645</u>	<u>34,012</u>	<u>8,237</u>	<u>13,046</u>	<u>103,940</u>
Impairment losses on loans and advances to customers	(13,055)	(1,750)	–	–	(14,805)
Insurance business expense	–	–	–	(9,862)	(9,862)
Other operating expense					
– Depreciation and amortisation	(880)	(1,843)	(64)	(135)	(2,922)
– Others	(11,295)	(14,915)	(1,312)	(1,474)	(28,996)
Profit before tax	<u>23,415</u>	<u>15,504</u>	<u>6,861</u>	<u>1,575</u>	<u>47,355</u>
Income tax					(8,133)
Net profit for the year					<u><u>39,222</u></u>
Depreciation and amortisation	(880)	(1,843)	(64)	(135)	(2,922)
Capital expenditure	<u>(3,734)</u>	<u>(7,831)</u>	<u>(273)</u>	<u>(575)</u>	<u>(12,413)</u>

	As at 30 June 2018				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
Segment assets	<u>3,188,160</u>	<u>1,645,661</u>	<u>4,384,382</u>	<u>78,226</u>	<u>9,296,429</u>
Including:					
Investment in associates and joint venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,379</u>	<u>3,379</u>
Unallocated assets					<u>26,278</u>
Total assets					<u>9,322,707</u>
Segment liabilities	<u>(4,276,275)</u>	<u>(1,815,551)</u>	<u>(2,532,858)</u>	<u>(27,364)</u>	<u>(8,652,048)</u>
Unallocated liabilities					<u>(598)</u>
Total liabilities					<u>(8,652,646)</u>

	As at 31 December 2017				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
Segment assets	<u>3,145,789</u>	<u>1,487,329</u>	<u>4,307,392</u>	<u>81,288</u>	<u>9,021,798</u>
Including:					
Investment in associates and joint venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,357</u>	<u>3,357</u>
Unallocated assets					<u>16,456</u>
Total assets					<u>9,038,254</u>
Segment liabilities	<u>(3,621,436)</u>	<u>(1,606,949)</u>	<u>(3,110,385)</u>	<u>(22,693)</u>	<u>(8,361,463)</u>
Unallocated liabilities					<u>(520)</u>
Total liabilities					<u>(8,361,983)</u>

There were no significant transactions with a single external customer that the Group mainly relying on.

11 Maturity Analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 30 June 2018									
Assets									
Cash and balances with central banks	132,524	-	-	44	-	-	-	784,714	917,282
Due from banks and other financial institutions	79,509	277,365	110,816	237,838	27,050	730	-	-	733,308
Financial assets at fair value through profit or loss	6,929	7,963	22,278	64,086	58,873	57,773	270	128,763	346,935
Loans and advances to customers	-	627,618	287,063	1,167,612	1,093,055	1,456,116	37,743	-	4,669,207
Financial investments – fair value through other comprehensive income	-	42,423	23,492	61,119	221,706	42,912	-	3,481	395,133
Financial investments – amortised cost	-	33,490	38,014	238,147	1,159,645	496,263	80	-	1,965,639
Other assets	46,583	9,699	13,077	12,565	38,028	8,312	532	166,407	295,203
Total assets	265,545	998,558	494,740	1,781,411	2,598,357	2,062,106	38,625	1,083,365	9,322,707
Liabilities									
Due to banks and other financial institutions	(410,910)	(310,921)	(416,996)	(814,849)	(21,147)	(17,979)	-	-	(1,992,802)
Financial liabilities at fair value through profit or loss	-	(7,559)	(8,564)	(17,642)	(7,885)	(32)	-	(714)	(42,396)
Due to customers	(3,321,603)	(397,599)	(379,146)	(884,157)	(750,253)	(170)	-	-	(5,732,928)
Other liabilities	(96,915)	(70,282)	(159,935)	(174,266)	(241,453)	(141,669)	-	-	(884,520)
Total liabilities	(3,829,428)	(786,361)	(964,641)	(1,890,914)	(1,020,738)	(159,850)	-	(714)	(8,652,646)
Net amount on liquidity gap	(3,563,883)	212,197	(469,901)	(109,503)	1,577,619	1,902,256	38,625	1,082,651	670,061

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2017									
Assets									
Cash and balances with central banks	129,158	-	-	152	-	-	-	809,261	938,571
Due from banks and other financial institutions	76,427	357,109	81,883	234,917	32,132	-	-	-	782,468
Financial assets at fair value through profit or loss	4,968	15,175	25,693	70,746	50,297	9,717	270	84,171	261,037
Loans and advances to customers	-	544,512	292,796	1,115,050	1,105,688	1,371,355	43,854	-	4,473,255
Financial investments – loans and receivables	-	5,144	6,701	57,857	205,004	112,947	80	-	387,733
Financial investments – available-for-sale	-	17,690	22,554	55,866	234,404	63,234	-	8,390	402,138
Financial investments – held-to-maturity	-	26,455	36,150	134,704	895,522	418,544	-	-	1,511,375
Other assets	50,526	9,672	13,471	7,465	33,354	8,377	121	158,691	281,677
Total assets	<u>261,079</u>	<u>975,757</u>	<u>479,248</u>	<u>1,676,757</u>	<u>2,556,401</u>	<u>1,984,174</u>	<u>44,325</u>	<u>1,060,513</u>	<u>9,038,254</u>
Liabilities									
Due to banks and other financial institutions	(381,472)	(448,523)	(543,334)	(706,377)	(10,870)	(15,616)	-	-	(2,106,192)
Financial liabilities at fair value through profit or loss	(585)	(13,558)	(15,552)	(23,735)	(6,677)	(201)	-	-	(60,308)
Due to customers	(2,512,066)	(686,030)	(569,933)	(929,244)	(838,196)	(9,897)	-	-	(5,545,366)
Other liabilities	(47,566)	(53,545)	(65,062)	(117,156)	(217,476)	(149,312)	-	-	(650,117)
Total liabilities	<u>(2,941,689)</u>	<u>(1,201,656)</u>	<u>(1,193,881)</u>	<u>(1,776,512)</u>	<u>(1,073,219)</u>	<u>(175,026)</u>	<u>-</u>	<u>-</u>	<u>(8,361,983)</u>
Net amount on liquidity gap	<u>(2,680,610)</u>	<u>(225,899)</u>	<u>(714,633)</u>	<u>(99,755)</u>	<u>1,483,182</u>	<u>1,809,148</u>	<u>44,325</u>	<u>1,060,513</u>	<u>676,271</u>

IX. PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement will be simultaneously published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk, as well as the website of the Bank at www.bankcomm.com. This results announcement is extracted from the 2018 Interim Report prepared in accordance with the IFRSs. The full report will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk, as well as the website of the Bank at www.bankcomm.com for the reference of shareholders and investors. The 2018 Interim Report prepared in accordance with China Accounting Standard for Business Enterprises will be simultaneously published on the website of the SSE at www.sse.com.cn, as well as the website of the Bank at www.bankcomm.com. Investors should read together with the full Interim Report to understand the details of interim results announcement. The Interim Report prepared in accordance with the IFRSs will be distributed to the shareholders of H shares in September 2018.

This results announcement is prepared in Chinese and English, respectively. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

By order of the Board of Directors
Bank of Communications Co., Ltd.
Peng Chun
Chairman of the Board of Directors

Shanghai, the PRC
23 August 2018

The Directors of the Bank as at the date of this announcement are Mr. Peng Chun, Mr. Ren Deqi, Mr. Peter Wong Tung Shun, Mr. Hou Weidong, Mr. Shen Rujun, Mr. Wang Taiyin*, Mr. Song Guobin*, Mr. He Zhaobin*, Ms. Helen Wong Pik Kuen*, Mr. Liu Hanxing*, Mr. Luo Mingde*, Mr. Liu Haoyang*, Mr. Yu Yongshun#, Ms. Li Jian#, Mr. Liu Li#, Mr. Jason Yeung Chi Wai#, Mr. Raymond Woo Chin Wan# and Mr. Cai Haoyi#.*

* *Non-executive Director*

Independent Non-executive Director