交通銀行
BANK OF COMMUNICATIONS

SINCE 1908 YOUR WEALTH MANAGEMENT BANK

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

2015 ANNUAL REPORT

Stock Code:03328

COMPANY PROFILE

Founded in 1908, BoCOM is one of the Banks with the longest history and was one of the note-issuing banks in China in the past. BoCOM started its business operation after its re-establishment in 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with its Head Office located in Shanghai. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007. The Bank ranked No. 17 among the global top 1,000 banks in terms of Tier 1 Capital rated by the London-based magazine, The Banker in 2015, up 2 places as compared with last year and ranked No. 190 among the "Fortune 500 Companies" in terms of operating income by the Fortune in 2015, up 27 places as compared with last year.

The Bank currently has 230 domestic branches, comprising 30 tier-1 branches, 7 branches directly managed by the Head Office and 193 tier-2 branches. The Bank has also established 3,141 banking outlets in 235 prefecture-level cities or above and 171 county-level cities nationwide. In addition, the Bank has set up 15 overseas[1] institutions, which comprise branches in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, Brisbane, and Taipei, Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and representative office in Toronto. It has established 56 overseas banking outlets in total.

The Bank is one of the major financial services providers in China. The Bank's business scope comprises commercial banking, securities services, trust services, financial leasing, fund management, insurance, offshore financial services and so on. Its wholly-owned subsidiaries include BOCOM International Holdings Company Limited, China BOCOM Insurance Co., Ltd. and Bank of Communications Finance Leasing Co., Ltd.. Subsidiaries controlled by the Bank include Bank of Communications Schroder Fund Management Co., Ltd., Bank of Communications International Trust Co., Ltd., BoCommlife Insurance Company Limited, Dayi Bocomm Xingmin Rural Bank Ltd., Zhejiang Anji BOCOM Rural Bank Ltd., Xinjiang Shihezi BOCOM Rural Bank Ltd. and Qingdao Laoshan BOCOM Rural Bank Ltd.. The Bank is also the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd. and the paratactic largest shareholder of Bank of Tibet Co., Ltd..

CULTURE IDEA AND DEVELOPMENT STRATEGY

Corporate mission:

Creating shared value

Corporate vision:

Building the best wealth management bank in China

Corporate spirit:

Promote development with unremitting effort · Consolidate enterprise with absolute responsibility · Transcend limitations with endless creativity

Business Concept:

One BoCom for One Customer

Development strategy:

Becoming "a first class listed comprehensive banking group focusing on international expansion and specialising in wealth management" (hereinafter referred to as "BoCom Strategy").

Slogan:

A century of Bocom, your best wealth management bank

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[1] Including Hong Kong, Macau and Taiwan.

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IMPORTANT REMINDERS

1. The Board, Supervisory Committee and the Directors, the Supervisors and senior management of the Bank guarantee the authenticity, accuracy and completeness of the annual report, free of false records, misleading statements or material omissions, and assume individual and joint and several obligation legal responsibilities.
2. Mr. Niu Ximing, the Chairman of the Board, Mr. Peng Chun, principal in charge of accounting and Ms. Lin Zhihong, head of accounting department represent that they guarantee the authenticity, accuracy and completeness of the financial statements in the annual report.
3. The Group's financial statements prepared in accordance with China Accounting Standards was audited by PricewaterhouseCoopers Zhong Tian LLP, and those prepared in accordance with IFRSs was audited by PricewaterhouseCoopers, with unqualified audit's reports issued.
4. Proposal on distribution of dividend during the Reporting Period or proposal on conversion of capital reserve into share capital considered by the Board of Directors:
   Based on the total issued ordinary shares of 74.263 billion shares as at 31 December 2015, a cash dividend of RMB0.27 (before tax) per share was distributed to registered shareholders of A share and H share, totalling RMB20.051 billion. There is no proposal on bonus share or proposal on conversion of capital reserve into share capital for the current year.
5. Prospective statement involved in the report, such as future plans, development strategies do not constitute a real commitment of the Bank to investors. Investors and stakeholders are required to keep enough risk awareness, and understand the differences among the plan, forecasting and commitment.
6. The Bank is mainly exposed to credit risks, market risks, operational risks and compliance risks in its operation. The Bank has taken and will continue to take various measures to effectively manage risks. Please refer to section headed "Management Discussion and Analysis – Risk Management".

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

DEFINITIONS

The following terms will have the following meanings in the Annual Report unless otherwise stated:

"Model Code"	Refers to	Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Hong Kong Listing rules
"Company Law"	Refers to	the Company Law of the People's Republic of China
"Articles of Associations"	Refers to	the Articles of Association of Bank of Communications Co., Ltd. as approved by CBRC
"Securities Law"	Refers to	Securities Law of the People's Republic of China
"Reporting Period"	Refers to	the period from 1 January 2015 to 31 December 2015
The Group	Refers to	the Bank and its subsidiaries
"Bank"	Refers to	Bank of Communications Co., Ltd.
"Ministry of Finance"	Refers to	the Ministry of Finance of the People's Republic of China
North Eastern China	Refers to	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"Director(s)"	Refers to	the director(s) of the Bank
"Board of Directors"	Refers to	the board of directors of the Bank
Overseas	Refers to	Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, Brisbane Branch, Bank of Communications (UK) Co., Ltd., Bank of Communications (Luxembourg) Co., Ltd., representative office in Toronto and other overseas subsidiaries
Northern China	Refers to	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
Eastern China	Refers to	Includes Shanghai (excluding the Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
Central and Southern China	Refers to	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"HSBC"	Refers to	the Hongkong and Shanghai Banking Corporation Limited
"Basis point"	Refers to	One in ten thousand
"Supervisor(s)"	Refers to	the supervisor(s) of the Bank
"Supervisory Committee"	Refers to	the supervisory committee of the Bank
"BoCOM Insurance"	Refers to	China BOCOM Insurance Co., Ltd.
"BoCOM International"	Refers to	BOCOM International Holdings Company Limited
"BoCOM International Trust"	Refers to	Bank of Communications International Trust Co., Ltd.
"BoCommLife Insurance"	Refers to	BoCommLife Insurance Company Limited

"BoCOM Schroder"	Refers to	Bank of Communications Schroder Fund Management Co., Ltd.
"BoCOM Leasing"	Refers to	Bank of Communications Financial Leasing Co., Ltd.
"SSE"	Refers to	the Shanghai Stock Exchange
"SSF"	Refers to	the National Council for Social Security Fund
Western China	Refers to	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region
"HKEx"	Refers to	the Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	Refers to	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"CBRC"	Refers to	China Banking Regulatory Commission
"CSRC"	Refers to	China Securities Regulatory Commission
Head Office	Refers to	the Group's Head Office in Shanghai
BBM Bank	Refers to	Banco BBM S.A. in Brazil

CORPORATE INFORMATION

CORPORATE INFORMATION

Chinese name	交通銀行股份有限公司
Chinese abbreviation	交通銀行
English name	Bank of Communications Co.,Ltd.
Legal representative	Niu Ximing

CONTACT PERSON AND CONTACT INFORMATION

Name	Du Jianglong (Secretary to the Board and Company Secretary)
Contact address	No.188, Yin Cheng Zhong Road, Pudong New District, Shanghai, P.R. China
Tel	86-21-58766688
Fax	86-21-58798398
E-mail	investor@bankcomm.com
Postal code	200120

ADDRESS AND OFFICIAL WEBSITE

Registered address	No.188, Yin Cheng Zhong Road, Pudong New District, Shanghai, P.R. China
Postal code of registered address	200120
Official website	www.bankcomm.com
Head office address	No.188, Yin Cheng Zhong Road, Pudong New District, Shanghai, P.R. China
Postal code of office address	200120
Principal place of business in Hong Kong	20 Pedder Street, Central, Hong Kong

INFORMATION DISCLOSURE AND PLACES WHERE THE ANNUAL REPORT IS AVAILABLE

Newspapers for information disclosure (A share)
China Securities Journal, Shanghai Securities News, Securities Times

Designated website for information disclosure (A share)
Website of SSE at www.sse.com.cn

Designated website for information disclosure (H share)
Website of HKEx at www.hkexnews.hk

Places where the annual report is available
Head Office of the Bank and principal business locations

INFORMATION OF ORDINARY AND PREFERENCE SHARES

Classes	Stock exchange	Stock name	Stock code
A share	SSE	Bank of Communications	601328
H share	HKEx	Bank of Communications	03328
Overseas preference share	HKEx	BOCOM 15USDPREF	4605

AUDITORS

Accounting firm employed (domestic)

Name	PricewaterhouseCoopers Zhong Tian LLP
Office address	11th Floor PricewaterhouseCoopers Centre, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC
Name of auditor signed	Yeung Sheung Yuen, Zhou Zhang

Accounting firm employed (overseas)

Name	PricewaterhouseCoopers
Office address	22/F Prince’s Building, Central, Hong Kong
Name of auditor signed	Jimmy Leung Kwok Wai

AUTHORISED REPRESENTATIVE

Yu Yali
Du Jianglong

LEGAL ADVISER

PRC legal adviser: King & Wood Mallesons
Hong Kong legal adviser: DLA Piper Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
3/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New District, Shanghai, P.R. China

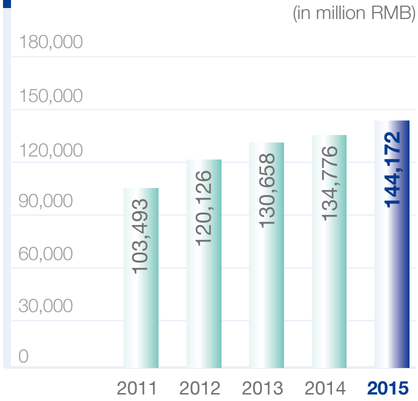
H Share: Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

OTHER INFORMATION

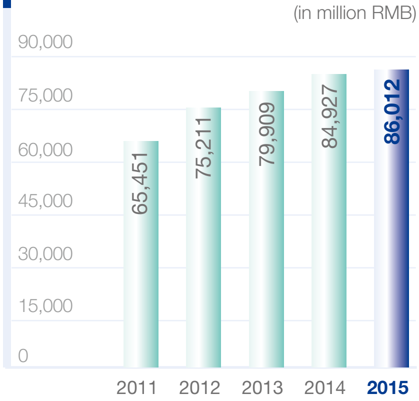
Business registration number: 100000000005954
Tax registration number: 31004310000595X
Organisation code: 10000595-X

FINANCIAL HIGHLIGHTS

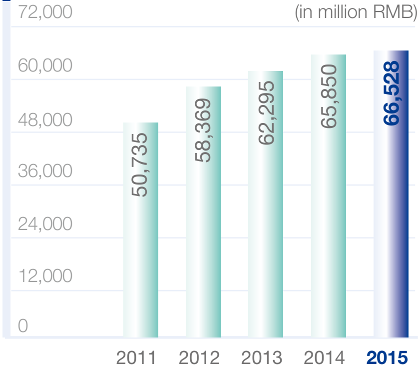
Net interest income



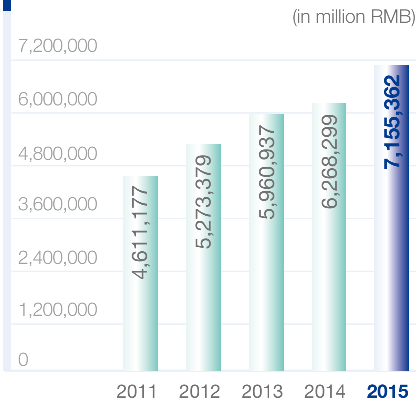
Profit before tax



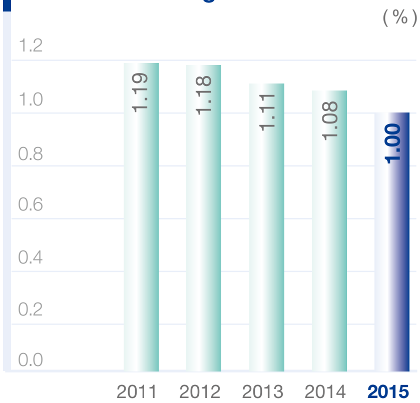
Net Profit (attributable to shareholders of the parent company)



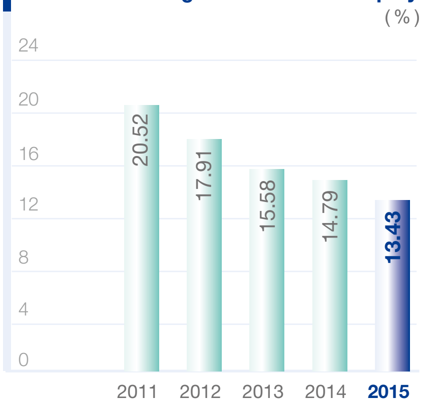
Total assets



Return on average assets

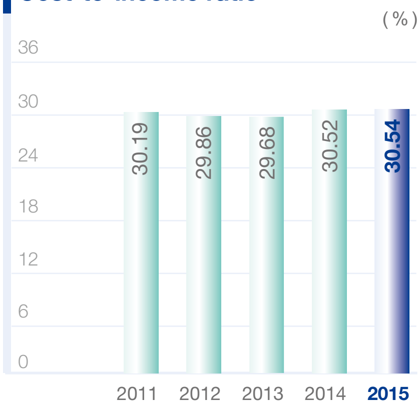


Return on average shareholders' equity

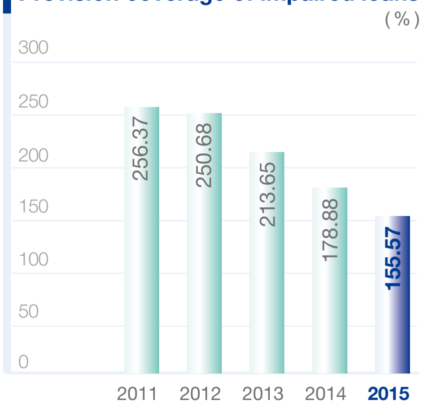


Impaired loans ratio

Cost-to-income ratio



Provision coverage of impaired loans



I. Major Accounting Data and Financial Indicators

As at 31 December 2015, major accounting data and financial indicators prepared by the Group in accordance with International Financial Reporting Standards (the "IFRS") are as follows:

Description	2015	2014	2013	2012	2011
Full year results					*(in millions of RMB)*
Net interest income	**144,172**	134,776	130,658	120,126	103,493
Profit before tax	**86,012**	84,927	79,909	75,211	65,451
Net profit (attributable to shareholders of the parent company)	**66,528**	65,850	62,295	58,369	50,735
As at the end of the year					*(in millions of RMB)*
Total assets	**7,155,362**	6,268,299	5,960,937	5,273,379	4,611,177
Include: loans and advances to customers	**3,722,006**	3,431,735	3,266,368	2,947,299	2,561,750
Total liabilities	**6,617,270**	5,794,694	5,539,453	4,891,932	4,338,389
Include: due to customers	**4,484,814**	4,029,668	4,157,833	3,728,412	3,283,232
Shareholders' equity (attributable to shareholders of the parent company)	**534,885**	471,055	419,561	379,918	271,802
Per share					*(in RMB)*
Earnings per share (attributable to shareholders of the parent company)	**0.90**	0.89	0.84	0.88	0.82
Net assets per share (attributable to shareholders of the parent company)[1]	**7.00**	6.34	5.65	5.12	4.39
Major financial ratios					*(%)*
Return on average assets	**1.00**	1.08	1.11	1.18	1.19
Return on average shareholders' equity	**13.43**	14.79	15.58	17.91	20.52
Cost-to-income ratio[2]	**30.54**	30.52	29.68	29.86	30.19
Impaired loans ratio	**1.51**	1.25	1.05	0.92	0.86
Provision coverage of impaired loans	**155.57**	178.88	213.65	250.68	256.37
Capital adequacy indicators					*(in millions of RMB unless otherwise stated)*
Net Capital[3]	**627,862**	584,502	516,482	N/A	N/A
Include: net core tier 1 capital[3]	**518,487**	470,456	416,961	N/A	N/A
other tier 1 capital[3]	**14,943**	10	4	N/A	N/A
tier 2 capital[3]	**94,432**	114,036	99,517	N/A	N/A
Risk weighted assets[3]	**4,653,723**	4,164,477	4,274,068	N/A	N/A
Capital adequacy ratio (%)[3]	**13.49**	14.04	12.08	N/A	N/A
Tier 1 Capital adequacy ratio (%)[3]	**11.46**	11.30	9.76	N/A	N/A
Core Tier 1 Capital adequacy ratio (%)[3]	**11.14**	11.30	9.76	N/A	N/A

Notes:

1. Refers to shareholder's equity attributable to shareholders of the parent company after the deduction of other equity instruments against the total issued ordinary shares as at the end of the period.
2. Refers to business and administrative expenses against the total of various net incomes.
3. Calculated pursuant to the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by the CBRC which came into effect from 2013, hence no comparative figures for previous years are presented. In addition, the Advanced Measurement Approach of Capital Management was adopted by the Group for measurement of capital adequacy ratio after obtaining the regulatory approval since the end of June 2014.

II. Credit Rating in the Last Three Years

	2015	2014	2013
Standard & Poor's	**A-/A2/Stable**	A-/A2/Stable	A-/--/Stable
Moody's	**A2/P-1/Stable**	A2/P-1/Stable	A3/P-2/Stable
Fitch	**A/F1/Stable**	A/F1/Stable	A/F1/Stable

Notes:

1. The rating format is "rating of long-term foreign currency deposit"/"rating of short-term foreign currency deposit"/"rating outlook".
2. The rating outlook of the Bank was downgraded from "Stable" to "Negative" by Moody's in March 2016.

CHAIRMAN'S STATEMENT

Niu Ximing | Chairman

In 2015, all my colleagues in BoCom adhered to the spirit of enterprise, which comprises "Promote development with unremitting effort, Consolidate enterprise with absolute responsibility, Transcend limitations with endless creativity". We worked together with steely determination to overcome obstacles, enabled businesses to maintain steady development, reformation and innovation witnessed fresh progress, driven by deepened reformation and guided by the theme of transformation development. We hereby present this informative report.

Development: Making Progress While Maintaining Stability

In unpredictable and complex circumstances, under multiple pressures including decline in demand of credit line, continuous narrowing of level of credit spreads and remained high level of risk pressure, we have adjusted our strategic focus and development strategies accordingly. On one hand, we focused on transformation, actively adjusted our business structure. On the other hand, we vigorously enhanced mechanism construction, meant to strengthen infrastructure. Benefiting from forward-looking and fast action, the operation performance maintained a steady growth in 2015. As at the end of 2015, the Group's total assets increased by 14.15% from the beginning of the year and the net profit increased by 1.03% on a year-on-year basis; return on average assets (ROAA) and return on average shareholders' equity (ROAE) decreased by 0.08 percentage point and 1.36 percentage points respectively on a year-on-year basis to 1.00% and 13.43%. The Group's non-performing loan ratio increased 0.26 percentage point from beginning of the year to 1.51%. Asset quality kept stable. The capital adequacy ratio was 13.49%, which was higher than the average level of commercial banks.

Transformation: Yielding Impressive Results

Facing the adjustment of economic structure and changes in the way of development, we made arrangements in advance, sought changes for survival, and clarified the "Four Standards, Six Fields and Eight Types of Business" of transformation development, committed to achieve efficient growth with low capital consumption and low cost expansion.

We carried forward the "BoCom Strategy" resolutely. The institution building in Luxembourg (Europe), Brisbane (Oceania), Brazil (South America) and etc. has achieved positive progress. Financial markets, asset custody and asset management businesses, as well as subsidiaries' businesses have expanded overseas through various approaches; the Group's financial landscape continues to expand; and the capability of the cross-border, cross-industry and cross-market services boosted continuously. The proportions of profits from overseas banking entities and holding subsidiaries to the total profits of the Group increased by 0.65 percentage point and 1.47 percentage points to 6.15% and 4.47% on a year-on-year basis, respectively. The contribution of internationalization and integration to the Group has further improved.

We adjusted the business strategy timely. By enlarging asset scale, reducing liability costs, and maintaining the steady growth of interest income, in 2015, the Group's net interest income increased by 6.97% on a year-on-year basis to RMB144.172 billion. We also insisted on innovation-driven development, vigorously promoted the development of emerging business and low capital business, continued to increase the proportion of non-interest income. In 2015, net fee and commission income was RMB35.027 billion, representing a year-on-year increase of 18.32%; the proportion of fee and commission income increased by 1.43% on a year-on-year basis to 18.00%.

We explored the transformation of operation mode. We continued to promote the transformation of operating mode of combination of physical outlets, e-banking and customer managers, and the diversion rate of e-banking services increased by 5 percentage points to 88.13% from the beginning of the year. The new generation of business system, which was built by mobilizing the whole Bank for 5 years, launched successfully in all domestic branches, laying a solid foundation for product innovation, customer expansion, efficiency improvement and risk management. Based on enhanced application of information technology and the construction of finance network, we actively explored the "internet finance", set up the Internet Financial Business Center, and promoted the construction of "the Second BoCom".

Reformation: Unyieldingness

As a pioneer and pathfinder of China's financial reformation, BoCom's reformation and innovation philosophy is much deeply entrenched. In the tide of further strengthen reform in China, we are entrusted with an important task again to take up the mission as a pioneer of the reform of large-scale commercial banks. In June 2015, BoCom took the lead in getting approval from the State Council for its reformation strengthening plan, which marked the beginning of a new era of reforming China's banking sector. Continuing to be market-oriented, we are committed to unleashing operating vitality, improving core competitiveness and enhancing key performance benchmarks through innovation of system and mechanism. We have strengthened top-level design with focus on key fields, with the reformation starting from the priorities, the most urgent matters, key concerns of investors and the most prominent problems that restrict the development of business. We actively explored the governance mechanism for large-scale commercial banks with Chinese characteristics and accelerated the establishment of the Group's unified authorized operation system. With great efforts made on transformation and innovation of operating mode, we actively carried forward divisional structure reformation, subsidiary reformation and internationalization strategy. We strengthened the reformation of commercial bank internal operating mechanism with focus on the performance remuneration mechanism, in which we established a professional manager system and promoted an all-product pricing assessment covering all personnel. We have completed preliminary the reformation of the responsibility development system, the mechanism to investigate the risk management responsibility and the divisional structure, while other projects are progressing in an orderly way, which have and will continue to bring new energy and vitality to the development of BoCom.

Service: Preserving Satisfaction

As a large state-owned financial enterprise, harmony and integrity has always been our principle. We are committed to growing with the society and continue to pursue excellence, by proactively fulfilling our modern corporate social responsibilities and maximizing the interests of all stakeholders, including shareholders, clients and employees. We combined and fulfilled our social responsibility and our operation management in an organic way. Aimed to be the best financial service provider in China, we are constantly upgrading our services and devoted to making it our core competitiveness. We ranked number 1 in China Retail Banking Satisfaction Study for the second year in a row, and 20 outlets in total were honored as "Top 100" by the China Banking Association in 2015, making us stay at the first position in term of the number of outlets awarded.

Outlook: Keen determination and sincere practice

The environment is changing rapidly where new contradictions are aggregating, new challenges are emerging, new rules are brewing and new forces are sprouting. In the surging torrent of history, the ship of BoCom should buffet her way through the waves with both robustness and flexibility, to find a balance between change and adherence. What we need to avoid is the inertial ways of thinking as well as inflexible and rigid system, and the obsolete operating mode. What we need to insist is the composure and endurance to control the situation in an all-round manner, the faith in long-term steady development of commercial banks, the risk philosophy of organic balance between the current nature of profits and the hysteretic nature of risks, the operating way of coordination and integration of "security, liquidity and profitability", as well as the consistent reformation gene and entrepreneurial passion of BoCom.

In the coming year, we will adhere to the purpose of co-existence with the real economy with common prosperity, and firmly establish the development concept of "innovation, harmony, green, openness and sharing". We will implement further innovation of our service mode, to resolve challenges that we face in development and to build new growth momentum by way of innovation. We take an active part in national key projects such as "Belt and Road Initiatives", "Made in China 2025", Chinese enterprises "Go Global", "Integration of Beijing-Tianjin-Hebei" and "Yangtze River Economic Zone". In the view that win-win cooperation is the foundation of long-term development, we prioritize projects in fields including livelihood security, consumption upgrading and new urbanization, setting up government-sector funds, high-end equipment manufacturing, in order to improve our comprehensive financial service level. In the context of Mass Entrepreneurship and Innovation, we will explore and improve the service model of internet finance and all-inclusive finance, striving to build our characteristics in supporting small and micro enterprises, especially those in technology industry.

In the coming year, we will continue the "BoCom Strategy" resolutely and boost the capability of the cross-border, cross-industry and cross-market services continuously. Seizing strategic opportunities arising from the "13th Five Year Plan", we will increase the proportion of international and comprehensive businesses, so as to bring the financial service in cross-border market to a higher level in an all-around way. We will gradually integrate all factors including products, services, pricing, channel, information technology system from front and middle offices and different industries, not only to serve the customers in China market with our advantages of mobilizing fund, pricing and products around the globe, but also to serve customers from international market with our advantage in China market and Renminbi market, so that the "BoCom Strategy" can lead the transformation development and drive the overall operation and development.

In the coming year, we will insist the principle of operating stably and make efforts to maintain the stability of asset quality. Under the economic effect of "three period superimposed" and the credit assets quality "357" effect (refers to the "cycle" of the credit assets, with reference to the notation that the assets upon delivery would initially reflect some drawbacks within first 3 years, lead to actual problems within 5 years, and finally turned into bad debts within 7 years), the banks' asset quality has been stressed from all directions, and the coming "de-capacity, de-stocking and de-leverage" in the economic field will bring more challenges to risk management. As for a commercial bank, asset security is above all else. We will build a solid risk dam and stick to the risk bottom line by continuously improving the comprehensive risk control system with "full coverage and whole process", attaching importance to key branches, key fields and key businesses, and taking measures such as integrated management and control, name-list system management, restructuring and collection so as to hold on to the risk minimum.

In the coming year, we will also further strengthen the reformation stoutly. We will continue to perform the three tasks which include exploring corporate governance mechanism with Chinese characteristics for large commercial banks, further reforming internal operation mechanism of commercial banks and transforming the operation mode of commercial banks. In addition, we will accelerate progress of reformation strengthening projects, thereby going through development shackles. Moreover, we will drive the transformation development to lay a solid foundation for centenary BoCom dream and to seek a broader ocean for ship of Chinese financial industry on waves.

"Only the one who makes practice knows what it is." No risk frightens us, as no difficulty discourages us. We believe that by getting ready for new challenges and opportunities, we can continue to do well in 2016 and meet the keen expectations from the investors and the society.

Chairman

PRESIDENT'S STATEMENT

Peng Chun | President

Year 2015 was a challenging year and a year with unprecedented pressure for both global and China's economy, as well as China's banking sector. Facing the complex domestic and overseas economic situation, the Group earnestly implemented the national economic and financial policies and guidelines and the deployment of stabilising growth, promoting reformation, adjusting structure, benefiting people's livelihood and risk resistance. Driven by strengthening reformation, focusing on transformation development and taking "promoting deposit, stabilising profit and controlling risks" as a main line, the Group carried out reformation and development work, so that the operation and management achieved good situation of "Three Stabilities and Three Improvements".

2015: reforming to increase vitality and slowing growth without weakening the momentum

"Three Stabilities": Firstly, stable scale increase. As at the end of 2015, the Group's asset under management ("AUM") increased by 14.15% from the beginning of the year to RMB7.16 trillion. The Group's loans increased by 8.46% from the beginning of the year to RMB3.72 trillion, which gave play to the operation features of internationalisation and operationalisation so as to satisfy clients' financing needs, and effectively supported key fields of real economy; the Group's deposits increased by 11.29% from the beginning of the year to RMB4.48 trillion, which significantly improved the stability of liabilities. Secondly, stable profit increment. Under the extraordinarily difficult operating environment, the Group's net profit (attributable to shareholders of parent company) amounted to RMB66.528 billion, representing a year-on-year increase of 1.03%, which was basically in line with the expectation. Thirdly, basically stable asset quality. The Group's non-performing loan ratio increased by 0.26 percentage point from the beginning of the year to 1.51%; the Group successfully completed the issuance of overseas preference shares with the capital adequacy ratio being 13.49%, and the provision coverage ratio was 155.57%. All of the above were in compliance with the regulatory requirements.

"Three Improvements": Firstly, firmly implemented the plan for deepening transformation. BoCom got approval from the State Council for its plan for deepening transformation in June 2015, which made the Group become the reformation pioneer in China's financial sector once again. Major reformation projects were firmly pushed forward and made great achievements. Secondly, energetically promoting the construction of information system. The new generation of business system, "531" project, successfully went online domestically, having deeply promoted service level and management efficiency. Thirdly, keeping the advanced service level. The Bank ranked among the best in the Customer Satisfaction Survey and "Top 100" outlets appraisal. First-rate service has become the most resounding brand of BoCom.

We always believe that stability makes far-reaching achievements. Keeping honest and perseverant is the key to maintain everlasting development of commercial banks. Under the leadership and support of the Board of Directors, management focused on work in progress, stabilising growth by means of transformation development, while making long-term plans to lay a solid foundation by means of reform and innovation. Efforts have been made in the following areas:

– Strengthening the responsibility consciousness to serve for real economy. Banking sector and real economy are closely related and mutually dependent. As one of the five state-owned joint-stock commercial banks, the Bank actively promoted transformation and upgrading of real enterprises, and enhanced the quality and efficiency of real economy. In 2015, the Bank proactively enlarged social financing scale and activated reserve assets through comprehensive financial products such as credit, asset management plan and investment banking, as well as taking measures such as re-loaning after collections. The Bank adjusted and established Level I financial department of small enterprises, so as to support the strategy of "Mass Entrepreneurship and Innovation". The annual loan balance of small and micro enterprises, the number of customers and the loan acquisition rate comprehensively achieved the goal of "Three No Less Than".

– Promoting development to actively create profit and increase income. The Group was committed to carrying out asset projects in advance with all efforts. Through increase reserve of key projects, it implemented centralised queue of asset projects throughout the Bank to select best among the best and carry out asset projects in advance with all efforts, so as to realise the stable growth of daily average asset balance and interest income. The Group promoted the significant optimisation of liability structure by actively developing low cost liabilities. It greatly broadened the stable and low-cost capital source by strengthening active liability management, focusing on low-cost liabilities, improving customer stickiness by means of product innovation and service upgrading, and increasing customers' settlement flow. At the end of 2015, the balance of demand deposits increased by 4.68% from the beginning of the year. The growth rate increased by 1.29 percentage points on a year-on-year basis. The Group's business transformation strived for further improvement due to robust growth of emerging businesses while stabilising net interest income from the two sides of assets and liabilities. During the Reporting Period, the Group's wealth management business, transactional business, agency business and investment consulting business continued to develop at a high rate of speed. The Group succeeded in the interbank wealth management business that was firstly opened up by the Group. In 2015, the Group's net fee and commission income increased by about 18.32% on a year-on-year basis to RMB35.027 billion. This accounted for 18.00% of the Group's net operating income, representing a year-on-year increase of 1.43 percentage points.

– Reaching out to new customers, stabilising development foundation. We have formulated development outlines for corporate, retail and interbank customers, and made great efforts on expansion of new customers and potential tapping of existing customers, in order to consolidate the foundation for business development. The level for initiating large customer business was raised and trans-provincial group customers were under centralised management of Head Office. The number of corporate customers has maintained a growth rate of more than 10% for three consecutive years. As at the end of 2015, the number of qualified private banking customers and qualified OTO Fortune customers increased by 26% and 16.12% from the beginning of the year to nearly 30,000 and nearly 850,000, respectively. The amount of domestic credit cards in use of domestic branches increased by 6,870,000 or 18.94% from the beginning of the year. Cooperation with interbank customers achieved full coverage of financial factor market and interbank institutions, while coverage ratio of cooperation with non-bank financial institutions exceeded 90%.

– Establishing mechanism to accelerate transformation development. Driven by deepened reformation, we reinvented business development, resource allocation and performance assessment systems in an all-round way, with focus on setting policies, allocating resources and enhancing assessment, which effectively motivated operating units at all levels across the Bank. We strengthened direct operating functions of Head Office, motivated relating parties by use of bilateral accounting mechanism, and accelerated formation of the development model driven by two wheels, namely branches and divisions. The "dual-linkage" mode of performance assessment and resource allocation was implemented for divisions, which were granted with autonomy in remuneration assessment. The operating profits of 10 divisions and quasi-divisions increased by 38.94% on a year-on-year basis, significantly higher than the average level of the whole Bank. Hong Kong sub-centre of asset custody, financial market and asset management businesses was set up, pushing forward the extension of divisional business to overseas market. Layout of Group business was constantly improved by opening of Brisbane Branch and Luxembourg subsidiary, entering into an equity transfer agreement on acquisition of equity interest in Brazil's BBM. Transformation projects of provincial branches, grass-root institutions, overseas banking entities and subsidiaries were launched, and five specific actions regarding corporate, retail, interbank, internationalisation and integration businesses were taken. Net profits of overseas banking entities for the year amounted to RMB4.093 billion and net profits attributable to the parent company from the subsidiaries amounted to RMB2.974 billion, representing a year-on-year increase of 13.00% and 50.58% respectively, both being significantly higher than the average level of the Group.

– Controlling risks to stabilise asset quality. Centring on "system and responsibilities", the Group continued to strengthen institutional improvement, improved a series of fundamental documents including "Outline of Credit and Risk Policy", strengthened internal control compliance assessment, unified risk appetites across the Bank and enhanced the guiding role of risks and policy implementation. In addition to the establishment of institutional regulations and systems, the Group placed more emphasis on accountability through improving risk management responsibility system and strengthening investigation on management responsibility and post responsibility for non-performing loans. The Group carried out specific investigation on "strengthening of internal control and external supervision to prevent illegal operation and crime" in-depth, where all the operation and management stages were subject to overall examination, so as to practically drive remediation and build solid risk defence. Centring on risk points in key areas, the Bank enhanced centralised control of overdue loans, made greater efforts to obtain sufficient buffer for the loans in the instructive name list from top to bottom, as well as developed and carried forward the risk control and restructuring & eliminating schemes characterised by "one bank one policy" and "one item one policy", with focus on risk eliminating of key branches and key projects. During the year, collaterals with an original cost of RMB7.2 billion were added, and the coverage ratio of quantity risk business with collaterals increased by 4.55 percentage points from the beginning of the year. In the risk exposure period, authorisation management of operating units is the key to balance risk control and business operation. During the Reporting Period, the Group, based on the actual situation of operating institutions in different regions, established a management system combining regular authorisation and specific authorisation, and set authorities according to the capability of branches with adjustments as appropriate, which realised differentiated, precise and dynamic authorisation and supported institutions to seize market opportunities while controlling risks.

We really cherish and appreciate that we are able to achieve a result that meet the expectations from the market and investors. Thank to comprehensive reformation and stably upward economy in China, which created good policy environment and development opportunities for BoCom's overall reformation and development. Additionally, we shall value consistent trust and support from regulatory authorities, all shareholders, lots of customers and the whole society which enable us to move forward resolutely without distractions. Moreover, we shall express much more thanks to all our colleagues who spare no efforts to impartially dedicate their heart and soul to BoCom's undertakings. We will work harder for better results in return to the era and to the affection we received.

2016: to facilitate transformation through reformation and innovation and to assure quality and efficiency by overcoming difficulties.

Although the banking sector currently has difficulties in keeping sustained growth, we firmly believe that there must be more opportunities than challenges. The state's structural reform on the supply side at present will improve investment effectiveness and trigger the supply vigour. As residents' spending power rises continuously, the leading role of consumption are gradually revealed and long-term driving forces remain expectable. As the new industrialisation, informatisation, urbanization and agricultural modernisation make steady headway, the next batch of key projects related to "internet plus" emerge from informatisation tide. At the same time, non-stop adjustment and optimisation of policies on macro control and financial regulation result in the good policy environment for reform and transformation of commercial banks.

"Practice and perseverance result in success". BoCom's management is confident and courageous to make progress in stability. We will continue to follow up the strategic deployment of the Board, to facilitate transformation through reform and innovation and to assure quality and efficiency by overcoming difficulties, so that we can make solid progress in all kinds of operating and managing activities, spare no efforts to lower the fluctuation of operation performance, and keep the BoCom's assets safety.

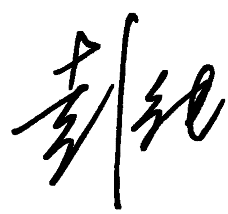
– We will strive for profitable development. Adhering to the state's strategies and policies, we will insist on serving the real economy by flexibly adjusting operation schemes and optimising allocation of assets and liabilities. We will actively expand credit and credit-like businesses of high quality and enlarge the daily average balance to "preserve profits". In addition, we will continue to focus on low cost liabilities and intensify the control over interest rate spreads to "guard profits". Moreover, we will stoutly implement the "BoCom Strategy" and expand sources of profits to "increase profits". Furthermore, we will cut costs and boost benefits by all means and lower down the operating cost to "stabilise profits".

– We will strive for quality development by highlighting risk management and control. We will lock quantity risk by obtaining sufficient buffer and control the risk of quantity increase well through the measures of selecting the best among the best, so as to stick to such a bottom line that no regional and systematic risks occur. We will focus not only on increasing the asset coverage and decreasing risk exposures and the expected loss ratio, but also on collecting distressed assets and overdue interests in cash. Therefore, we will take special action to re-collateralise and collect risk assets, seek for effects via risk management and control and strove for a higher level of economic profits.

– We will strive for sustainable development by continuously reinforcing routine work. We will further implement the customer development strategy and service upgrade strategy and increase the AUM and cross-sale ratio of products, to the extent that services attract customers who support the development. We will make good use of the "531" project platform, a business system of new generation, to speed up innovation ability. We will continue to improve the degree and efficiency of overall resource planning, with focus on key customers, key businesses and key products, for the purpose of doing more with less. Insisting on the market-oriented reform, we will make more efforts to reform the performance remuneration mechanism and achieve more breakthroughs in aspects such as further policy practice, secondary performance distribution and secondary resource allocation, thereby further triggering operating vitality.

"Difficulty is the nurse of greatness." The greatly changing era bring us new historic opportunities to be reborn. We will release new bonuses of strengthened reformation to reshape advantages of the system and mechanism and re-generate driving forces for transformation development. In the year when difficulties in the national structural reformation shall be overcome, we will adapt to changes of time and circumstances, courageously and wisely make every endeavour to have a good start of the "13th Five Year Plan" according to targets and tasks determined by the Board.

President



CHAIRMAN OF THE SUPERVISORY COMMITTEE

Song Shuguang | Chairman of the Supervisory Committee

The transformation of China commercial banks is on its track to success, yet has not achieved the anticipated results. Through comprehensive and effective decision making, execution and supervision, whilst ensuring risks under control, improving efficiency, retaining scientific management and operation mode with sustainable growth in companies with strong Chinese characteristics, the exploration will continue on. In 2015, the Bank's deepening transformation plan was approved by the State Council, once again, becoming the pioneer of transformation of China financial service industry. We will adhere to our glorious tradition as a transformation pioneer, and strive to achieve unprecedented heights.

BUSINESS PROFILE

I. DESCRIPTION OF PRIMARY BUSINESSES AND INDUSTRY

1. Primary Businesses

The Group's primary businesses include corporate banking business, personal banking business, treasury business and other businesses. Corporate banking business includes providing financial products and services for enterprises, government agencies and financial institutional, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses, etc.. Personal banking business includes services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary business for individual customers. Treasury business mainly includes money market transactions, trading book business, banking book investments, foreign exchange business and its agency derivative financial instruments and precious metal business, etc. In addition, the Bank involved in fund management, trust, financial leasing, insurance and overseas securities businesses through its subsidiaries, including BoCOM Schroder, BoCOM International Trust, BoCOM Leasing, BoCommlife Insurance, BoCOM Insurance and BoCOM International. Please see "Operating Results by Business Segments" on Page 64 for the description of profit before tax and net operating income of principal businesses.

During the Reporting Period, the Group's operating mode, principal businesses and key performance drivers had no significant change.

2. Industry overview

According to data published by the CBRC, as at the end of 2015, total assets of financial institutions in China's banking sector increased by 15.67% from the beginning of the year to RMB199.35 trillion and total liabilities increased by 15.07% from the beginning of the year to RMB184.14 trillion, among which, total assets of commercial banks increased by 15.60% from the beginning of the year to RMB155.83 trillion and total liabilities increased by 15.33% from the beginning of the year to RMB144.27 trillion. As at the end of 2015, the Group's total assets increased by 14.15% from the beginning of the year to RMB7.16 trillion, and the total liabilities increased by 14.20% from the beginning of the year to RMB6.62 trillion. The Group is the fifth largest listed bank in China by total assets.

Currently, China's economy is in "New Normal" under adjustment in economic growth, optimisation in structure and shifting of economic drive, hence commercial banks are facing good development opportunities and severe challenges. For details, please refer to the section headed "Outlook" in "Management Discussion and Analysis".

II. Analysis of Core Competitiveness

As the first nationwide state-owned joint-stock commercial bank, the Group has already developed into a large financial institution with century-old national financial branding, featured by "Clear Development Strategy, Comprehensive Corporate Governance, Sound Institutional Networking, Advance Operation and Management, Excellent Financial Services and Good Financial Position". The Group's core competitiveness is mainly as follows:

– Robust and effective corporate governance system. While constantly achieving excellent operating performance, the Bank has always been committed to high-level corporate governance through active exploration. Being the first among domestic banks to establish a corporate governance mode with integration of Chinese characteristics and its own characteristics, the Group has formed a modern corporate governance system with independent operation, coordination and appropriate segregation of duties between the shareholders' general meetings, Board of Directors, Supervisory Committee and senior management team. Particularly in recent years, as part of the transformation, the Bank enhanced the impact of the Party's leadership Group, the strategic decision-making role of Board of Directors, the independent supervisory role of Supervisory Committee and full authority to senior management in operation. Its corporate governance has covered and extended to all-round governance areas including the development of the Party's Leadership Group, strategic management, overall risk management, capital management, market value management and information disclosure, fully safeguarding the legitimate interests and benefits of the domestic and foreign shareholders and other stakeholders. For details of the Bank's corporate governance in 2015 please refer to the section headed "Corporate Governance Report".

– Mega bank with spirit of reformation and innovation. Since the restructuring in 1987, the Bank has always been a pioneer of China's financial system reformation. The Group is the first among domestic banks to carry out comprehensive operation of banking, insurance and securities businesses, to complete financial restructuring, to bring in overseas strategic investors and to enter international capital market. In June 2015, the State Council officially approved the Bank to conduct a pilot run of deepening reform, which comprised three major tasks, including the exploration of corporate governance mechanism of mega commercial bank with Chinese characteristics, the strengthening of reformation in internal operating mechanism of commercial bank and the implementation of transformation and innovation of operating mode of commercial bank. As at the end of 2015, all the relating specific projects have been started and some of them have been completed preliminarily.

– Continuously enhancing comprehensive financial service. In recent years, the Group has been vigorously promoting the "BoCom Strategy" by responding to the diversified demands from its customers. The Group has developed into a comprehensive financial service group with main focus in banking industry. With businesses covering commercial bank, trust, financial leasing, fund management, insurance and securities, it is one of the large-scale commercial banks demonstrating the highest degree of comprehensive operation in China. Based on the principle of "One BoCom One Customer with One Set of Service Program", the Group constantly optimising resource integration and business interaction, actively facilitating innovation of diversified products and further improving its ability to provide comprehensive financial services. For details of the Group's comprehensive operation in 2015, please refer to the section headed "Internationalisation and Universal Operation" in "Management Discussion and Analysis".

– Constantly enhancing global service ability. In recent years, the Group adhered to the principle of "Aligning to National Development Strategy, Following Customers and Improving Services", the Group accelerated the development of overseas institutions and improved the ability to provide global services. The Group is on the top of Chinese-funded banks in terms of level of internationalisation. As at the end of 2015, the Group has set up 15 overseas banking entities and 56 outlets in over 13 countries and regions as well as established agency relationship with 1,610 banks in over 143 countries and regions, as a result, the overseas service network "with Asia-Pacific as main body and Europe and America as two wings" has been formed. Meanwhile, through its 24 hours trading platforms in Shanghai, Frankfurt, New York and Sidney, the asset management centre, financial market centre and custody centre in Hong Kong, and the clearing bank of Renminbi Business in Seoul, the Group has established wealth management platform and financial service platform with a world-wide coverage. For details of the Group's internationalisation development in 2015, please refer to the section headed "Internationalisation and Universal Operation" in "Management Discussion and Analysis".

– Emerging wealth management characteristics. As one of the early advocation of wealth management service concept, the Group continued with the development of its wealth management service system, while its wealth management brand and characteristics become more and more prominent. With regard to corporate business, brand building of "Win to Fortune" has produced initial results, with the growing influence of key products including "Win to Fortune" account and "Win to Fortune" industrial chain, as well as series of activities including "Win to Fortune by Your Side" roadshows and "Win to Fortune" treasurer club. With regard to personal business, a tiered customer service brand system covering both high and mid-end customers and common customers has been established. The core service brand "Win to Fortune" for high and mid-end customers is showing increasing influence. The issuance capability and profitability of wealth management products are at the leading position in the market. As at the end of the Reporting Period, the on and off-balance-sheet wealth management products amounted to RMB1.46 trillion, remaining its leading position in the industry.

– Comprehensive service channel of "Trinity". The Bank has a comparatively broad and rationally structured distribution network which stands out in terms of both scale and benefit. As at the end of 2015, the Bank has set up 3,141 outlets in 235 cities[1] which are prefectural and above all over China, covering all provinces other than Tibet, as well as major large and middle cities. In order to actively adapt to the development tendency of internet economy, the Bank strengthened transformation of outlet operating mode and built up a three-dimensional and multi-functional service mode of "Trinity", namely "physical outlets + e-banking + account manager", while setting up the internet financial centre to make the "second BoCom". For details of the Bank's "Trinity" development in 2015, please refer to the section headed "Trinity" Network Construction in "Management Discussion and Analysis".

– Advanced development and application of informatisation. The Group's informatisation is always focusing on strategies, serving customers and keeping abreast of time, so as to stimulate innovation with science and technology and drive development with innovation. After several years of accumulation and leap-like development, the Group's informatisation development and application is at the leading position within the banking sector. The Bank, with a relatively comprehensive IT governance system, is the first to pass all three verifications, namely CMMI L3, ISO20000 and ISO27001, as well as the first to establish international standards for software R&D, operation and maintenance of production,

[1] Excluding Hong Kong, Macau and Taiwan.

and information security management system. With the worldwide advanced “Two Sites and Three Centre” disaster backup system, the Bank sets an example for peers in terms switch-over of disaster backup and innovative practice of “Intra-city Active-Active”. With an information system whose business coverage ratio, stability and availability ratio coming out top among peers, the success rate of UnionPay card transaction system ranks Top 3 for 5 consecutive years. In 2015, the Bank’s new generation of information system arising from the “531” Project got on line in domestic branches, thereby taking lead in top-level design, business support, customer experience and data integration and independent innovation. As a result, the Bank leads the “Customer Experience First” financial services.

– Precise and comprehensive risk management system. Upon completion of three-step reformation, “Financial Restructuring – Foreign Capital Introduction – Public Listing” in 2005, the Group has been always devoted to establish and improve the comprehensive risk management system. Through a decade’s efforts, the Bank shaped the comprehensive risk management system with “Full Coverage, Whole Process, Responsibility Tracing and Risk Management Culture” as objectives. In 2014, the Bank was approved by the regulation authority to apply the Advanced Measurement Approach of Capital Management at two levels, legal person and the Group, and thus it became the one of the first batch of commercial banks to apply the New Basel Capital Accord. At present, the Bank has a scientific, complete and effective system to apply the Advanced Measurement Approach of Capital Management, so risk models and econometric results are applied to business development and risk management and control in an all-around way and blend in with the comprehensive risk management and capital management. For details of the Group’s risk management in 2015, please refer to the section headed “Risk Management” in “Management Discussion and Analysis”.

– Close strategic cooperation with HSBC. In 2004, the Bank entered into a strategic cooperation agreement with HSBC. Over the past decade, BoCom and HSBC continuously strengthen strategic cooperation in accordance with the principle of mutual understanding and accommodation, mutual benefit, long-term cooperation and joint development, set an example for cooperation between Chinese and foreign banks. BoCom, in an all-around way, cooperate with HSBC in fields such as “1+1 Global Financial Service”, overseas business, international business, cooperate business, personal business, credit card business, custody business, previous metal business and offshore business. For details, please refer to the section headed “Strategic Cooperation with HSBC” in “Management Discussion and Analysis”.

– Rather influential financial service brand. “BoCom”, one of China’s well-known financial service brands, is highly recognised and appreciated in the market. BoCom ranked No. 17 among the global top 1,000 banks rated by the Banker, No. 190 among the “Fortune 500 Companies”, No. 1 for two consecutive years in China Retail Banking Satisfaction Study by J.D. Power, and No. 1 in terms of number of outlets as Top 100 model units for civilised and standardised service in China’s banking sector organised by the China Banking Association in 2015.

During the Reporting Period, there was no significant change in the Group’s core competitiveness.

RANKING AND REWARDS

Fortune magazine (USA)
Fortune Global 500 (ranked 190, up by 27 as compared with 2014)

The Banker (UK)
Global Bank Top 30 (ranked 17, up by 2 as compared with 2014)

China Enterprise Confederation
"Top 500 Enterprises of China 2015" (ranked 31, up by 5)

The Banker (China)
2015 China Finance Innovation Award –
Best Finance Innovation Award

21st Century Business Herald
2015 Golden-Shell Award –
Best Wealth Management Banking Brand in 2015

China Business News
CBN Financial Value Ranking 2015 –
Bank of the Year

eastmoney.com
2015 Eastmoney Award –
Best Comprehensive Bank

The Banker (China)
Top 10 Financial Product Innovation Award

China Financial Certificate Authority
Best Bank for Enterprise E-banking in 2015

Hexun
The 12th China's Financial Annual Champion Awards –
Best Interbank Wealth Management Bank

China Foreign Exchange Trade System
Interbank Currency Market Assessment –
Most Influential Bank

Trade and Finance Committee of China Banking Association
Best Bank for Trade Enterprises

The South Korean government
"Outstanding Contribution Award" by the Ministry of Strategy and Finance of South Korea

The Asian Banker
Best Supply Chain Finance Project

China Business Journal
International Banking with Excellent competitiveness in 2015

China Promotion Association for County Economic Exchanges

Organisation Committee of China Village BankDevelopment Forum

Asia-Pacific Finance Academy
Excellence Award for All-Inclusive Finance Services

China Banking Association
Ranked top for consecutive years in the selection of "Top 100" in terms of number of outlets

J.D. Power (customer satisfaction survey for China's retail banks)
No. 1 in customer satisfaction survey for China's retail banks

China Banking Association
Financial Institution of the Year with the Strongest Sense of Social Responsibility in China's Banking Industry

Peking University & Zhaopin
Best Employer of the Year (Top 100)

China Securities Journal
Taurus Most Profitable Company

MANAGEMENT DISCUSSION AND ANALYSIS

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2015, the global economy recovered slowly with a differentiated growth pattern. The growth of developed economies rose slowly, while the overall growth of emerging markets and developing economy slowed down. Facing the complexity of global economy and economic downward pressure, the Chinese government adopted proactive fiscal policy and prudent monetary policy to actively adapt to and lead the "New Normal". As a result, national economy progressed stably with achievements made. The economic performance was within a reasonable range. Gross domestic product ("**GDP**") in 2015 increased by 6.9% on a year-on-year basis to RMB67.7 trillion. The number of new hires in the labour market in urban regions reached 13.12 million, urban per capita disposable income increased by 7.4% and the national consumer price index ("**CPI**") increased by 1.4%. The economic structure was further optimised. The growth of the tertiary industry accounted for 50.5% of the GDP, 10 percentage points higher than that in secondary industry, and the contribution ratio of the final consumption expenditure to the GDP was 66.4%, representing a year-on-year increase of 15.4 percentage points. Total retail sales of consumer goods increased by 10.7% and the growth of on-line sales reached 33.3%, so the driving forces of economic growth shifted from investment to consumption. The gross growth of industrial output declined, while industrial upgrading trend was obvious. The output value of high-end machinery manufacturing, electronic and telecommunication equipment production and IT product manufacturing grew at a rate of 10% or above.

The monetary credit and social financing grew steadily. At the end of 2015, M2 increased by 13.3% on a year-on-year basis, while the total Renminbi-denominated lending balance increased by 13.4% on a year-on-year basis. The PBOC maintained the steady and slightly loose currency market by lowering basic lending rates of Renminbi-denominated deposits and loans and the deposit reserve ratio several times. PBOC also retained aggregate sufficient liquidity of the banking system by adjusting tools such as integrated utilisation of open market operations, medium-term lending facility and general cut-down of deposit reserve ratio for financial institutions. The interbank lending rate in the Renminbi market, weighted average rate of pledge-style repo and weighted average rate of loans were all lowered.

II. BUSINESS REVIEW

In 2015, amidst the macro environment with decelerated economic growth, accelerated interest rate marketisation, overlapped financial risks, the Group realised coordinated development of all businesses by adhering to the "BoCom Strategy", actively adjusting to the "New Normal", persistently serving the real economy, releasing development bonus through strengthening reformation and stimulating operating vitality through transformation and innovation.

Business scale steadily enlarged by actively serving the real economy. In response to the important national strategic deployments such as “Belt and Road Initiatives”, “Made in China 2025” “Go Global” of enterprises, “Integration of Beijing-Tianjin-Hebei” and “Yangtze River Economic Zone”, the Group proactively enlarged social financing scale to improve the capability to serve the real economy. As at the end of the Reporting Period, the Group’s total assets increased by 14.15% from the beginning of the year to RMB7,155.362 billion, and its balance of loans to customers (before impairment allowances, the same below unless otherwise specified) increased by 8.46% from the beginning of the year to RMB3,722.006 billion, of which balance of loans to transportation, storage and postal service sector increased by 7.48% from the beginning of the year to RMB418.057 billion,the balance of personal housing mortgage loans increased by 14.06% from the beginning of the year to RMB604.357 billion, and balance of loans to small and micro enterprises (SMEs) increased by 8.75% from the beginning of the year, higher than the average growth of loans. The liability business was effectively cemented. As at the end of the Reporting Period, the balance of customer deposits increased by 11.29% from the beginning of the year to RMB4,484.814 billion.

Stable profit growth realised and wealth management features revealed. During the Reporting Period, the Group’s net profits increased by 1.03% on a year-on-year basis to RMB66.528 billion, among which, net fee and commission income was RMB35.027 billion, representing a year-on-year increase of 18.32%, the proportion of fee and commission income increased by 1.43 percentage points on a year-on-year basis to 18.00%, and the contribution of non-interest income was dramatically improved. The Group further revealed features of wealth management operation by expanding and intensifying wealth management business, transactional business and innovative business, agency business. As at the end of the Reporting Period, assets under custody increased by 34.09% from the beginning of the year to RMB5,578.360 billion, retail financial asset under management (“**AUM**”) increased by 13.93% from the beginning of the year to RMB2,451.980 billion, and the on and off-balance-sheet wealth management products denominated in Renminbi amounted to RMB1.46 trillion, remaining at a leading position in the industry.

Globalisation and integration accelerated and overseas banking entity layout improved. Total assets of overseas banking entities and subsidiaries increased by 16.99% from the beginning of the year, accounting for approximately 12.70% of the Group’s total assets, representing an increase of 0.31 percentage point from the beginning of the year; net profit increased by 26.26% on a year-on-year basis, accounting for approximately 10.62% of the Group’s net profit, representing a year-on-year increase of 2.12 percentage points. The layout of overseas banking entities was further improved, with international service coverage extended. During the Reporting Period, Brisbane Branch in Australia and Luxembourg subsidiary were opened successively, the business scale of clearing bank of Renminbi Business in Seoul was continuously enlarged, and agreement regarding acquisition of controlling equity interest in Brazil’s BBM was entered into.

Strengthening reformation bonus released and transformation development accelerated. In June 2015, *BoCom's Plan to Strengthen Reformation* where a new stage of transformation was developed in an all-around way was approved by the State Council. The Group made great efforts to promote reformation of performance remuneration mechanism, professional manager system, development responsibility system and the institutional reformation of Head Office. As a result, the transformation development layout was preliminary established driven by two engines of divisions and branches and top 6 profit making centres of divisional structure had a year-on-year increase of pre-provision profits before tax of 38.34%. With emphasised principle of capital constraint, the Group strived to develop the low capital consumption business. As at the end of the Reporting Period, risk-weighted assets ("**RWA**") increased by 11.75% from the beginning of the year, lower than the increase in asset in two consecutive years.

Risk management and control intensified constantly and asset quality kept stable. The Group adhered to the prudent risk appetite through implementing strict interest-calculation method and rigorous risk monitoring. It proactively reacted to the risk pressure under "New Normal" with strategy of "Early Identification, Early Alert, Early Solving" and took special action to reduce expected loss. During the Reporting Period, the Group strengthened credit risk management and control in key fields and strived to facilitate sufficient buffer obtaining, asset restructuring and strengthened collection of non-performing loans. The Group accumulatively reduced loans with potential risk by RMB60.8 billion, re-collateralised loans of RMB60.1 billion, collected non-performing loans of RMB34.5 billion. The cost of collaterals added by means of restructuring and so on was RMB7.2 billion, and the coverage ratio of quantity risk business with collaterals increased by 4.55 percentage points from the beginning of the year. As at the end of the Reporting Period, the impaired loans ratio was 1.51%, representing an increase of 0.26 percentage point from the beginning of the year; the provision coverage ratio of impaired loans increased by 0.11 percentage point from the beginning of the year to 2.35%.

Upgraded service level to a new height and brand image shaped effectively. The new generation core business system successfully launched in domestic branches, meant to drive product innovation and service improvement by technological advantages. In China Retail Banking Satisfaction Study, the Group ranked first in two consecutive years. 20 outlets in total were honoured as "Top 100" by the China Banking Association, making the Bank stay at the first position in term of the number of outlets awarded. The Group honoured in *FORTUNE*'s "Top 500 Global Companies" in seven consecutive years, and ranked No. 190 in terms of revenue, up by 27 ranks as compared with the prior year. The Group ranked No. 17 among the global top 1,000 banks in terms of Tier 1 Capital rated by *The Banker*, up by 2 ranks as compared with the prior year and ranked top 20 among global banks in two consecutive years. The Group was awarded the Best Bank Capital (China) 2015 by *The Asset* in terms of its issued items of overseas preference shares.

1. Corporate Banking Business

- **During the Reporting Period, the Group's profit before tax in relation to corporate banking business decreased by 18.12% on a year-on-year basis to RMB44.469 billion; net fee and commission income decreased by 3.56% on a year-on-year basis to RMB15.887 billion; the total number of corporate customers of domestic branches increased by 11.87% from the beginning of the year.**
- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 13.66% from the beginning of the year to RMB3,030.408 billion; corporate loan balance increased by 6.45% from the beginning of the year to RMB2,728.687 billion.**
- **As at the end of the Reporting Period, the Group's corporate impaired loan balance increased by 30.09% from the beginning of the year to RMB44.284 billion; the impaired loans ratio increased by 0.29 percentage point from the beginning of the year to 1.62%.**

BoCom provides cross-border, cross-industry and cross-market integrated financial service to its customers. The above picture shows the largest container ship in the world, which was built through Bocom Leasing in early 2015, officially handed over to BoCom in South Korea.

Giving full play to advantages of "BoCom Strategy", the Group devoted great efforts to develop core and special businesses including industrial value chain finance, cash management, investment banking and asset custody, strengthened its support to micro and small businesses, in order to constantly promote transformation and structure optimisation of the corporate banking business. The Group continued to enrich the connotations of wealth management through enhancing overall allocation and management of internal and external assets and liabilities as well as wealth management businesses. The Group pushed forward the development of corporate financial risk middle offices and effectively enhanced the capacity of management during the whole duration of financing and management and control over customer risk, facilitating the soundness of corporate banking business.

(1) Corporate and institutional business

Relying on the one-stop financial service system with the integration of "equity, bond, and loan", focusing on reformation of government budget system, local government debt arrangement and mixed ownership reformation of the state-owned enterprises, the Bank took the lead in grasping the growth opportunities generated from industrial upgrading, consumption upgrading and factor supply integration. The Bank signed Cooperation Framework Agreement and Cooperation Agreement on Industrial Value Chain Finance with local governments, colleges and universities as well as industry leaders, expanding the scope and profundity of collaboration with governments and enterprises. It conducted annual bank-enterprise exchange activities for key customers called "BoCom-HSBC 1+1" and the "Win to Fortune" treasurer club activities, and also actively supported domestic enterprises to "Go Global". To build the new "government finance", the Bank established a social capital pool for the Public-Private-Partnership (PPP) projects. During the Reporting Period, the Bank became the first to be qualified in the government cross-border trading platform in the comprehensive pilot trade zone, and one of the first cooperation banks to be qualified for providing guarantee to the General Administration of Customs. The Bank accelerated the promotion of new financing businesses such as PPP financing and industry fund, completed several pioneer businesses including the issuance of letter of credit to customer with FTN account in Shanghai Free Trade Zone and offshore M&A loan, and became one of the first batch of local signed banks of cross-border Renminbi overseas loan in Xiamen and Guangdong. The Bank completed the development of several businesses including military E-bank and on-line certificates of deposit (CDs) and accelerated the development of network channel of "BoCom WeChat Bank", making Internet finance the new bright spot. Its corporate E-bank was awarded 2015 "Best Corporate E-bank in China" and "Best E-bank Security Award in China" by China Financial Certification Authority (CFCA), and its smart vehicle financing system was awarded "Top 10 Best Financial Product Innovations" by *The Banker*.

(2) Micro, small and medium enterprises (MSMEs) business

The Bank actively promoted the reformation of institutional framework and strengthened the development of specialised institutions for micro and small businesses. The Bank strongly promoted project-based business mode by developing customised schemes for special customer base in the supply chain, business district campus, bank-government collaboration, technology finance and NEEQ (National Equities Exchange and Quotations), to realise scale effects through batch development and cluster management. The Bank placed great effort in promoting its innovative products such as “POS loans”, “Wo Yi Loans”, “Shui Rong Tong” and “Electronic Supply Chain System” and enhanced technology application of Internet and big data, effectively increasing the level and efficiency in providing service and financing to micro and small enterprises (SMEs). The Bank optimised the development of repayment methods including “loan renewal” and “annual examination of credit extension”, to improve the stability and flexibility of financing.

(3) “One Branch Offering Nationwide Service” industrial value chain financial service

Seizing the national strategic opportunities of “Internet +”, the Bank tapped into the financial demands of corporate customers in the field of industrial chain by constantly enhancing customer cooperation. During the Reporting Period, the Bank continued to promote its knock-out products “Express Receivable Collector” and “Express Bill Discounting”, the business volume of which exceeded RMB60 billion. It launched agency discounting service of commercial bills, which built its market image as a commercial bill expert. The Bank made great efforts in the research and development of “Express Chain” brand, offered online financial products in the upstream and downstream of petrochemical fields, and provided online financing application service. As at the end of the Reporting Period, there were more than 1,500 qualified industrial chain networks and more than 15,000 qualified industrial chain companies being developed by the domestic branches. The Bank was awarded “Best Supply Chain Finance Project” by *The Asian Banker*. The market popularity and brand reputation were continuously improved.

(4) Cash management business

The Bank actively built the "Win to Fortune" brand, which provides a comprehensive coverage of corporate account management, receipt and payment management, liquidity management, investing and financing management and global cash management through portfolio and integrated industry solutions. The Bank accelerated innovation of global cash management business, and improved service functions such as national version and FTZ (Free Trade Zone) version of cross-border bi-directional Renminbi and foreign currency cash pool, receipt and payment of foreign exchange under current accounts and net settlement. The Bank continued to optimise and promote products such as notes pool, secondary accounts and inter-bank capital management, to meet enterprises' requirements for fund management and control during transformation period. It released "Bidding Pass" system and "Reimbursement Pass" product in an innovative manner, to provide specialised settlement service for bidding platform customers in the mode of independent business platform. As at the end of the Reporting Period, corporate customers of e-channel "Win to Fortune" cash management amounted to nearly 14,000 and the cash management accounts (including Swiftnet) amounted to more than 130,000. The Bank was awarded "2015 Best Cash Management Bank" by *The Asset*, "Best Cash Management" and "Best Financial Company" in Taozhu Gong Awards 2015 held by the *EuroFinance*, and "2015 Cash Management Bank with Competitiveness" by *China Business Journal*.

(5) International settlement and trade finance

The Bank gave great impetus to combine cross-border settlement and trade finance products to provide personalised and globalised investment and financing services to enterprises. During the Reporting Period, the amount of international settlement processed by domestic branches increased on a year-on-year basis by 5.57% to RMB3,954.992 billion, and the amount of international trade finance reached RMB136.677 billion. The Bank gave active support to "Belt and Road Initiatives" strategy and "Go Global" of enterprises through overseas loans under domestic guarantees and various kinds of letters of guarantee. During the Reporting Period, the amount of external guarantees provided by domestic branches increased on a year-on-year basis by 21.14% to RMB163.918 billion. The Bank actively utilised international factoring to provide small and medium-sized foreign trade enterprises with services such as accounts receivable management and financing facilities. During the Reporting Period, the volume of international factoring processed by domestic branches reached RMB7.241 billion.

(6) *Investment banking business*

Actively promoting innovation of bonds types such as panda bonds, perpetual bonds, overseas bonds and project income notes, the Bank successfully underwrote the first batch of panda bonds issued by the sovereign government in the market and the first batch of financial bonds issued by international commercial bank in China's interbank market. The Bank seized opportunities brought by national strategies, and carried out business innovation such as government guidance funds, urban development/construction funds, M&A funds, PPP funds and pension funds. Orderly improving businesses such as M&A and IPO supporting business, the Bank provided financing to merger and acquisition amounting to approximately RMB3 billion, and provided assistance to several enterprises to list on the stock exchanges in mainland China and Hong Kong. The Bank actively carried out business innovation such as credit asset securitisation and structured financing, underwrote the first batch of domestic credit asset securitisation project issued by foreign bank and successfully issued the first batch of credit card instalment asset securitisation products in the market. Fee income from investment banking reached RMB7.472 billion during the Reporting Period, accounted for 19.54% of the Group's total fee and commission income. The number of debt financing instruments (excluding local government debt) underwritten by domestic branches as lead underwriters increased by 8.58% on a year-on-year basis to 253, and the issuance amount of such instruments increased by 27.42% on a year-on-year basis to RMB453.278 billion.

(7) *Asset custody business*

The Bank seized the policy opportunities and market hotspots, strengthened inter-group business linkage and speed up the development of basic and innovative custody businesses, so as to increase its market influence. In order to continuously enrich pension custody product line and consolidate the advantages of pension business, the Bank vigorously developed social security reserve fund, supplementary pension security, commercial pension security, overseas pension and other multi-level pension markets. The Bank continued to strengthen its cross-border services ability. The development of Custody Centre in Hong Kong achieved remarkable results. To realise safe and steady operation of custody business, the Bank accelerated the development in risk small-scale middle office, and gradually improved the thorough and overall risk management system of custody business. As at the end of the Reporting Period, assets under custody of the Bank increased by 34.09% from the beginning of the year to RMB5,578.360 billion.

2. Personal Banking Business

- **During the Reporting Period, from personal banking business sector, the Group's profit before tax increased by 25.61% on a-year-on-year basis to RMB11.920 billion; net fee and commission income increased by 38.97% on a year-on-year basis to RMB15.790 billion; the total number of individual customers in domestic branches increased by 10.11% from the beginning of the year.**
- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 6.83% from the beginning of the year to RMB1,450.607 billion, and the proportion of personal deposits decreased by 1.35 percentage points from the beginning of the year to 32.34%. The balance of personal loans of the Group increased by 14.39% from the beginning of the year to RMB993.319 billion, and the proportion of personal loans increased by 1.38 percentage points from the beginning of the year to 26.69%.**
- **As at the end of the Reporting Period, the balance of personal impaired loans of the Group increased by 32.81% from the beginning of the year to RMB11.922 billion; the personal impaired loans ratio increased by 0.17 percentage point from the beginning of the year to 1.20%.**

Believing in the "customer-centred" operating principles, the Bank strived to develop saving deposits, personal assets and wealth management business, actively explored "Pedlar" marketing model and continued to build the best service bank with AUM as the lead, benefit as the core and customer as the starting point, so as to comprehensively promote the transformation development of personal financial business.

The above picture shows the kid zone in one of our operation outlets.

(1) Personal deposit and loan

Revolving around key fields such as payroll credit, wealth management and transactional retail customers, the Bank actively developed saving deposits and consolidated basic customer group. The Bank launched exclusive wealth management products for new customers and new funds and launched innovative "Pedlar" marketing models including "Providing Services in Communities", "Providing Services in Enterprises" and "Providing Services in Markets", so as to effectively promote increase of new customers and new funds. It also vigorously developed mortgage business, constantly optimised the operation process of mortgage business, and implemented pricing delicacy management. The Bank spent efforts on promoting consumption loans, improved policies and processes of "Office Worker Loan" and "Community Loan", designed business program of "Housing Loan + Consumption Loan", and developed "mortgage consumption loan" products exclusive for housing fund customers.

(2) Personal wealth management business

The Bank actively carried out the "OTO Fortune Health Popularisation", "OTO Fortune Health Care of Famous Doctors of Traditional Chinese Medicine" and "OTO Community Carnival" to strengthen the influence of its wealth management brand. The Bank fully captured the capital market opportunities and intensively promoted the innovation and sales of its wealth management products. During the Reporting Period, the net income arising from Dollarbuy wealth management product, fund, and insurance intermediary business in domestic branches increased on a year-on-year basis by 30.0%, 194.9%, and 62.9%, respectively. The Bank gave full play to group synergetic advantages and deeply developed characteristic services such as cross-border wealth management of private bank and special accounts of private bank; it developed and designed asset allocation model of private bank to provide product allocation and combination plan for customers, improving professional service ability of private banking.

As at the end of the Reporting Period, retail AUM by the Bank amounted to RMB2,451.980 billion, representing an increase of 13.93% from the beginning of the year. The number of BoCOM fortune customers and OTO Fortune customers increased by 3.84% and 16.12%, respectively from the beginning of the year. The total number of private banking customers increased by 26% as compared to the beginning of the year. Private banking assets under management amounted to RMB407.3 billion, representing an increase of 39.97% from the beginning of the year.

(3) Bank card business

Credit card business

The Bank upgraded the mobile service platform, built an open and unified user system named "Go Pay" provided financial services such as credit card management, on-line application and "Spending to Earning" and a one-stop application platform of life-support services including catering, movies, tickets and life payment. The Bank continued to carry out credit card activities such as "Super Red Friday" and cross-year "Weekly Swipe", and received positive market response. Strengthening the customer complaint management and steadily improving the quality of service, the Bank's overall satisfaction of credit card customer was among the best in the industry in the 2015 Customer Satisfaction Survey in J. D. POWER and Nielsen. By launching the first "registered" instalment asset-back bonds of personal credit card and activating reserve assets from personal consumption loans, the Bank realised another innovation of credit asset securitisation in the interbank bond market.

As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 6.87 million from the beginning of the year to 43.15 million. The accumulated expenditure amounted to RMB1,517.627 billion, representing an increase of 31.92% from the prior year. Credit card overdraft balance amounted to RMB271.542 billion, representing an increase of 21.44% from the beginning of the year while the impairment over credit card overdraft was 1.82%, representing an increase of 0.14 percentage point from the beginning of the year.

Debit card business

Acquiring customer by product innovation and promoting consumption by brand marketing, the Bank constantly drove the stable development of the bank card business. The Bank actively carried out business innovation of the wearable payment products and person-to-person payment, and launched innovative products such as Milan Expo Pacific Card with combination of international hotspots. The Bank continuously promoted the development of special preference shopping district of Pacific Card in communities all over the country, held the theme activities of "Super Red Friday" series and involved hotspots of the people's livelihood including travelling via air plane and high-speed railway, movies and entertainment, and diversified cuisines creating positive brand effect in the market, and driving increase in consumption of bank card. As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 108.16 million, representing an increase of 9.76 million from the beginning of the year. The accumulated spending was RMB882.5 billion, representing a year-on-year increase of 13.77%.

3. Interbank and Treasury Business

- **During the Reporting Period, the Group's net interest income from treasury business increased by 65.00% on a year-on-year basis to RMB29.151 billion.**
- **During the Reporting Period, the Group's profit before tax in terms of treasury business increased by 45.80% on a year-on-year basis to RMB27.946 billion.**

In active response to new situations such as slowdown of macro-economic development, funding market turned to be prudent and sharp fluctuation of Renminbi exchange rate, the Group exactly seized the market opportunity, continued to broaden the interbank cooperation channel and promoted the product innovation, process optimisation and service improvement, so as to drive the comprehensive development of interbank and market business.

(1) Institutional financial service

The Group made great efforts to develop the financial factor market by actively expanding business cooperation with China Europe International Exchange, trust protection fund and FTZ financial factor market and conducting agency business relating to the Cross-border Interbank Payment System ("**CIPS**"). With respect to interbank collaboration, the Group entered into interbank platform contracts with 313 banks, representing an increase of 174.56% from the beginning of the year. The Group actively developed businesses such as Counter Pass, third party depository under interbank collaboration, consignment wealth management business under interbank collaboration and bank-futures trading company transfer under interbank collaboration, among which Counter Pass had 283,400 transactions at an amount of RMB16.465 billion, representing a year-on-year increase of 106% and 92%, respectively and the number of customers engaged in third party depository under interbank collaboration increased by 214% from the beginning of the year. In terms of collaborations with securities companies, the number of customers engaged in financing and securities lending increased by 23.52% from the beginning of the year; AUM of such depository customers increased by 133.12% from the beginning of the year. The Bank had online banking transfer system linked with 55 securities companies, representing 76.39% market coverage. For collaborations with futures trading companies, the balance of margin deposits of futures trading companies amounted to RMB85.143 billion, representing an increase of 102.15% from the beginning of the year. The interbank wealth management business was well developed. The interbank wealth management business developed positively. Total sales amounted to RMB3.29 trillion, increased by 295% on a year-on-year basis.

(2) Money market transactions

The Group improved capital utilisation and returns by means of accurate judgements on market trends, flexible business adjustment, asset allocation tempo and diligent development of quality interbank customer. The Bank actively took countermeasures against effects of changing foreign exchange policies on market fluctuation and rationally adjusted the period of fund use, to ensure the steady transition of the Bank's liquidity. During the Reporting Period, the total volume of Renminbi money market transactions by domestic branches was RMB11.94 trillion, among which RMB9.15 trillion was provided to financial institutions and RMB2.79 trillion was collected from financial institutions. The total volume of foreign currency money market transaction was USD170.9 billion.

(3) Trading account business

The Group created new income growth points by accelerating product innovation and actively expanding such innovative businesses as Renminbi bond lending, standard bond forward and Renminbi bond netting settlement. The Group assisted the PBOC in launching Renminbi-denominated central bank bills as the sole financial agent and assisted South Korean government in registering and launching Renminbi-denominated sovereign bonds in Chinese interbank market, thereby providing a good opportunity for the Bank to further develop transactional and international financial market business as the sole Chinese bank among the book runner, fiscal agent and co-lead underwriter. The Group made great efforts to move forward the set-up of transaction sub-centre in Hong Kong and explored a development mode of the transactional bank integrating home and abroad.

The Group remained active in both trading and innovation in terms Renminbi bond trading. During the Reporting Period, the transaction volume of domestic branches in respect of Renminbi-denominated bonds reached RMB2.95 trillion. In terms of foreign exchange, confronted with the violently fluctuating exchange rate of Renminbi against US dollar, the Bank flexibly adjusted the trading strategy. The Bank increased the Renminbi and foreign exchange cross-market combination transactions in a risk-controlled manner, which continuously enhanced the efficiency in capital utilisation. The Group became one of the pioneer banks for direct exchange of Renminbi for Swiss Franc in the interbank foreign exchange market. During the Reporting Period, the volume of interbank market exchange foreign transactions executed by the domestic branches reached USD1,104.1 billion.

(4) Banking book investments

In actively response to such external situation changes as the monetary policy tended to be easy and returns on bond investment stepped into the downward channel, the Group invested more in bonds and enhanced the income level of bond investment. The Group reasonably control the tempo of local bond investment by keeping abreast of the local governments' bond launching for financing. At the end of the Reporting Period, the Group's investment in bonds amounted to RMB1,615.702 billion, representing an increase of 39.33% from the beginning of the year. The securities investment yield was 4.05%, representing a year-on-year decrease of 11 basis points.

(5) Precious metal business

The Group was granted ordinary membership of London Bullion Market Association ("**LBMA**") and completed innovative transactions for the first time such as importing gold via Shanghai International Gold Trading Centre vault, and inquiring prices on the gold future trading pit at the International Board of the Shanghai Gold Exchange, thereby becoming one of the pioneer banks who qualified to quote in formal gold inquiry market. During the Reporting Period, the domestic branches have achieved RMB140.345 billion in terms of volume for precious metal brokerage transactions, representing an increase of 36.47% from the prior year; the sales of real precious metals business amounted to RMB3.045 billion, representing a year-on-year increase of 63.89%; the accumulated transaction volume of proprietary gold trading accounted to 2,901.43 tons. The Bank maintained an active role in the market.

(6) Asset management business

With product innovation as its breakthrough, the Group formed up the product line covering all products throughout the market. The Group closely followed the market focus to launch innovative products relating to stagging and special account investment such as "Kai Xin Tian Li", "Private Banking-Rui Xing" and "Private Banking-Rui Teng" and promote products transformed from expected return type to net value type, further enriching the connotation of the wealth management business. The Group innovatively launched the BoCom Shengtong Picks portfolio fund products which form part of the absolute benefit series wealth management product line featuring "mixed allocation funds, fund of funds and enhancement fund with fixed increment". The worldwide allocated products were highly recognised by the customers and market. The Group launched products with linkage to CSI 300 Index and gold futures, resulting in high returns to customers. Besides, the Group launched the private banking "Overseas No. 1", the first overseas net-value wealth management product, so the worldwide influence of its asset management was promoted significantly.

During the Reporting Period, the Bank totally launched 13,243 wealth management products and raised funds of RMB21,472.6 billion, representing a year-on-year increase of 6.05% and 39.34%, respectively. As at the end of the Reporting Period, the on and off-balance-sheet wealth management products scale denominated in Renminbi amounted to RMB1.46 trillion, remaining at a leading position in the industry, and the income of intermediary business increased by 47.49% on a year-on-year basis.

4. “Trinity” Network Development

- **During the Reporting Period, the profit per capita of the Group increased on a year-on-year basis by 3.44% to RMB727,300. At the end of the Reporting Period, the deposit per outlet (excluding community branch outlets) increased by 11.22% from the beginning of the year to RMB1.616 billion.**
- **As at the end of the Reporting Period, the total amount of domestic banking branch outlets increased by 356 from the beginning of the year to 3,141, of which 363 were newly opened and 7 low-yield ones were closed down.**
- **As at the end of the Reporting Period, the ratio of self-service bank to traditional branch outlet amounted to 1.42:1. The diversion rate of e-channels increased by 5.00 percentage points from the beginning of the year to 88.13%.**
- **As at the end of the Reporting Period, the number of account managers in domestic branches increased on a year-on-year basis by 1.7% to 23,056.**

The Group vigorously promoted the consolidated development of “Trinity” which comprises of physical outlets, e-banking and relationship managers, and provided more convenient and better products and services to customers through intensifying channel integration and innovation.

(1) Physical outlets

The Bank transformed root branch outlets in-depth, with focus on integration of outlet functional layout and continuous improvement of outlet products comprehensiveness. On one hand, for “making it bigger and more comprehensive”, the Bank constantly carried forward the development of comprehensive outlets. As at the end of the Reporting Period, the number of comprehensive outlets increased by 119 from the prior year to 515. On the other hand, for “making it smaller and more specialised”, the Bank actively promoted development of community branch outlets and continued to improve all-inclusive financial system. As at the end of the Reporting Period, 422 community sub-branches have been opened for business.

As at the end of the Reporting Period, the total number of domestic outlets increased by 356 from the beginning of the year to 3,141, of which 363 were newly opened and 7 were closed down due to their low yields. With the opening of 5 new branches in the year, the Bank’s network covered 235 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities up 1.50 percentage points from the beginning of the year to 70.36%. In particular, the coverage ratio in West China was up 0.76 percentage point from the beginning of the year to 43.51%.

(2) E-banking

The Bank accelerated the development of Internet financial business centre and continued to optimise electronic channel services. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 3.56 billion with the transaction amount exceeding RMB208 trillion. The diversion rate of e-channels was up 5.00 percentage points from the beginning of the year to 88.13%. The Bank was awarded "2015 Best E-bank Security Award in China" by China Financial Certification Authority (CFCA), "2015 Award of Best Customer Satisfaction for Mobile Banking" by Bankrate.com, and "2015 Finance Electronization Annual Award of Outstanding Innovation in Technology and Service in Financial Industry".

Self-service banking. The Bank carried out innovative pilot run of self-service banking mode such as "Hui Min Tong" and "Smart Bank", to broaden the scope and reduce the cost of service. During the Reporting Period, the number of self-service machine increased by 3,618 to more than 30,000 in total and the number of self-service bank increased by 315 to 3,840 in total. The ratio of self-service bank to traditional branch outlet increased to 1.42:1. The transaction number of self-service banking was 669 million and the transaction amount was RMB1.85 trillion. The Bank optimised the card issuing and signing processes via Intelligent Teller Machine (iTM), and 693 iTMs have been promoted across the Bank.

Jiaojiao, a robot appears in several Bocom outlets. Her intelligent and specially cute financial services receive wide favorable comments.

Online banking. The Bank optimised functions and interface of online banking, to constantly improve customer experience. It strengthened risk monitoring and effectively promoted transaction security. As at the end of the Reporting Period, the number of corporate e-banking customers exceeded 550,000, and the number of corporate e-banking transactions increased on a year-on-year basis by 78.82% to 574 million. The number of personal e-banking customers increased by 26.39% from the beginning of the year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased on a year-on-year basis by 85.32% to 2.096 billion.

Mobile banking. The Bank developed the new version of mobile banking, which enriched the contents of WeChat bank service, to provide customers with services via integrated information platform. As at the end of Reporting Period, the Bank's total number of mobile banking customers increased by 26.85% from the beginning of the year. The number of the mobile banking transactions increased on a year-on-year basis by 83.20% to 229 million. The total transaction amounts made via mobile banking increased on a year-on-year basis by 259.29% to RMB4.06 trillion.

(3) Relationship manager

The Bank optimised the management mechanism of relationship managers, broadened the room for development for relationship managers and enhanced the education and training of relationship managers, achieving the increase in both the quantity and quality of relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic branches increased by 1.7% from the beginning of the year to 23,056 in total, among which, the number of the corporate relationship managers increased by 2.0% from the beginning of the year to 10,200 while retail relationship managers increased by 1.4% from the beginning of the year to 12,856. The number of employees with a Master's degree or above increased by 5.8% from the beginning of the year to 2,444, while the number of employees with a Bachelor degree or above increased by 3.2% from the beginning of the year to 19,571.

(4) Customer service

The Bank committed to increase customer satisfaction by upholding the "customer-centred" principle. It ranked No. 1 in China Retail Banking Satisfaction Study (RBSS) for the second year in a row with a score of 837, up 29 as compared with 2014. With active efforts made to build its service brand, the number of outlets of the Bank awarded "Top 100" in the selection of model units for civilised and standardised service in China's banking sector organised by the China Banking Association in 2015 was 20, ranking the first for the second time. With continuous efforts on promotion of customer rights protection, in the assessment of 37 provincial branches and branches directly managed by the Head Office by local banking regulatory bureaus in 2015, 24 of them were rated as first-class banks and 11 were rated as secondary-class banks.

5. Internationalisation and Universal Operation

(1) Internationalisation strategy

- **During the Reporting Period, net profits of the Group's overseas banking entities increased by 13.00% on a year-on-year basis to RMB4.093 billion, accounting for 6.15% of the Group's net profits, which increased by 0.65 percentage point on a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the Group's overseas banking entities increased by 13.55% from the beginning of the year to RMB701.231 billion, accounting for 9.80% of the Group's total assets, representing a decrease of 0.05 percentage point from the beginning of the year.**
- **As at the end of the Reporting Period, the balance of the impaired loans balance in the Group's overseas banking entities increased by 26.53% from the beginning of the year to RMB248 million, and the impaired loan ratio was 0.07%, same as that at the beginning of the year.**

The Group continued to promote the internationalisation strategy, gradually improved overseas service network, and pushed forward the rapid development of core businesses such as domestic and overseas synergy business, cross-border Renminbi business and offshore services. As a result, the domestic and overseas integrated service was further enhanced.

Overseas service network

In April 2015, Brisbane Branch was opened in Australia; in May 2015, the Luxembourg subsidiary was opened, and the Group successfully signed the agreement to acquire a controlling equity-interest in BBM. As at the end of the Reporting Period, the Group had set up 14 branches or subsidiaries and 1 representative office in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco, Taipei, Toronto, Brisbane and Luxembourg with total 56 overseas operating outlets (excluding the representative office). The Bank established agency relationship with 1,610 banks in over 143 countries and regions, signed Renminbi settlement agreements with 125 banks in over 30 countries and regions, set up 234 cross-border Renminbi inter-bank accounts, and opened 71 foreign currency settlement accounts in 18 currencies with 54 overseas banks in over 23 countries and regions.

The synergetic business of domestic and overseas

The Bank integrated resource advantages, such as domestic and overseas branches or subsidiaries, offshore finance and subsidiaries, and continued to carry forward the development of “Global Financial Service Platform” and “Global Wealth Management Platform”, so as to provide comprehensive financial solutions with multiple products and covering the whole process. During the Reporting Period, the total transaction amount of the synergetic business was USD50.670 billion, and its accumulated revenue hit RMB5.354 billion.

Cross-border Renminbi transaction

Seizing the opportunities of Renminbi internationalisation, the Bank increased both the scale and customer base of cross-border Renminbi settlement. By virtue of the clearing bank of Renminbi Business in Seoul and the channel for the banks directly participating in Cross-border Interbank Payment System (CIPS), the Bank provides safe, high-quality and fast clearing and settlement services for cross-border trading, cross-border investing and financing as well as other cross-border Renminbi transactions in major time zones over the world. During the Reporting Period, the transaction amount of the cross-border Renminbi settlement by domestic and overseas institutions increased by 46.51% on a year-on-year basis to RMB1,611.224 billion.

Offshore services

The Bank optimised the onshore and offshore synergetic mechanism, made efforts to accommodate the “Belt and Road Initiatives” strategy through overseas syndicated banking projects, M&A loans and overseas direct loans, and strengthened its support for enterprises to “Go Global”. It effectively prevented risks by enhancing compliance and anti-money laundering management and strict control of customer and project access. As at the end of the Reporting Period, the total amount of offshore assets was USD12.765 billion.

Seizing opportunity of Renminbi internationalisation and improving development quality and efficiency of clearing bank for Renminbi business in Seoul

- Remarkable achievements in development of Renminbi settlement business.

  Automatic processing of clearing bank system for Renminbi business in Seoul maintained at a good level. As at the end of the Reporting Period, message first pass yield ("**FPY**") reached 98% or more, realising full coverage of all Korean banks in South Korea. In December 2015, clearing bank for Renminbi business in Seoul was granted the "Outstanding Contribution Award" by the Ministry of Strategy and Finance, which further improved its influence in South Korea.

- Assisting in the development of offshore Renminbi bond market in South Korea.

  In July 2015, the Bank officially started the Renminbi bond real-time settlement system (DVP), which was cooperatively developed with Korea Securities Depository (KSD). The clearing bank for Renminbi business in Seoul became the ultimate Renminbi bonds trading capital settlement bank appointed by KSD.

  As one of the most important infrastructure of the offshore Renminbi bond market in South Korea, the system directly connected the Renminbi settlement system in Seoul with KSD securities registration & trading system, and provided several facilitating services such as listing, trading, clearing and settlement and information analysis of Renminbi bonds, which were conducive to expanding the scope of Renminbi assets operation of Korean investors and reducing risks, building the diversified offshore Renminbi bond market, and deepening the depth and breadth of the offshore Renminbi market in South Korea.

- Successful underwriting of the first batch of Renminbi-denominated sovereign bonds issued by South Korea.

  On 15 December 2015, "ROK 2015 Renminbi-denominated Bonds" were issued in Beijing Financial Assets Exchange via the bond bookkeeping document system of interbank bond market. The size of the issuance was RMB3 billion, for a period of 3 years and the coupon rate was 3%. The bond received 4.28 times of oversubscription. The Group is the book runner and fiscal agent of the bond issuance, and the only Chinese-funded bank among the co-lead underwriters.

  The bond was the first Renminbi-denominated sovereign bond that was successfully issued by foreign government in Chinese market, and one of the financial cooperation results reached between China and South Korea during the period of Prime Minister Li Keqiang's visiting in South Korea. The issuance of bonds was not only conductive to enriching the type of interbank bond market, promoting the opening-up strategy of bond market and improving the Renminbi internationalisation, but also beneficial to enhancing cooperation and deepening economic and trade relations between China and South Korea.

A new step in internationalisation strategy: agreement made on acquisition of a controlling stake in Brazil's BBM

On 19 May 2015 local time, during China-Brazil Business Summit, the Bank signed an agreement with controlling shareholders of BBM on acquisition of a controlling stake in BBM, with the witness of Li Keqiang, Premier of the State Council, and Dilma Rousseff, President of Brazil. Under the agreement, the Bank would acquire an 80% (excluding treasury stock) stake in the BBM, but such a transaction will be settled after approval from relevant regulators of China and Brazil.

- Acquisition of BBM as the Bank's first step towards getting into Latin America market

  Acquisition of BBM helped the Bank to get into the emerging market in Brazil with broad prospect and establish the ability to expand its business throughout Latin America, which, on the one hand will greatly expand the business coverage of its overseas banking entities and facilitate the improvement of its internationalised layout and international operation level, on the other hand will help the Bank to make full use of its local management experience and resources to serve the Chinese enterprises which "go global" to Brazil and the Brazil customers. It built a new bridge for economic trade and financial exchanges between China and Brazil, and made real contributions to development of enterprises and real economy of both countries.

- Acquisition of BBM as an important measure for promoting "BoCom Strategy"

  With the constant improvement of internationalisation level, the Bank's core businesses such as domestic and overseas synergy business, cross-border Renminbi transaction and offshore financial services developed rapidly, the network of overseas banking entities was constantly improved and the cross-border financial service ability was enhanced comprehensively. Earlier stage of development of the Bank's network of overseas banking entities focused on set-up of new entities, while the acquisition of BBM, as the first overseas acquisition by the Bank, will further enrich the pattern of its overseas layout, and in the future the strategy of promoting internationalised layout driven by the two engines of "set-up of new entities" and "investment and acquisition" will be more clear.

  Based on the experience of acquisition of BBM and subsequent integration management, the Bank will continue to take various measures to promote the development of overseas banking entities, improve the layout of such entities and the development of internationalised service system, in order to further promote the internationalisation strategy.

(2) Universal operation

- **During the Reporting Period, net profits attributable to the parent company from the holding subsidiaries (excluding Bank of Communications (UK) Limited. and Bank of Communications (Luxembourg) Limited.) amounted amounted to RMB2.974 billion, representing a year-on-year increase of 50.58%, the proportion of which to the net profit of the Group increased by 1.47 percentage points to 4.47% on a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the holding subsidiaries (excluding Bank of Communications (UK) Limited, and Bank of Communications (Luxembourg) Limited.) increased by 30.30% from the beginning of the year to RMB207.766 billion, the proportion of which to the total assets of the Group increased by 0.36 percentage point to 2.90% from the beginning of the year.**
- **During the Reporting Period, the total amount of social financing provided by the subsidiaries was RMB525.034 billion.**

Relying on the synergistic model of "Sector + Segment + Subsidiary", the Group vigorously improved the three core capabilities of its subsidiaries, which are development, synergy, and competitiveness, building three key features of its subsidiaries which are high volume business, aviation and air-cargo finance, and wealth management. In addition, the Group deepened strategic synergy and sharpened the edge in the corresponding industries, in order to strengthen cross-border, cross-industry and cross-market operating ability and service capabilities. While achieving fast development of main businesses with constantly improved market status, the subsidiaries actively played the role of being the innovative bodies and fully blended with the Group's overall compositions.

– BoCOM Leasing speeded up the pace of development of operating leases. It owned and managed 233 aeroplanes, including 111 aeroplanes that were delivered for operation. BoCOM Leasing stably ranked the top three among domestic counterparties. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB139.591 billion, representing an increase of 26.32% from the beginning of the year. BoCOM Leasing ranked the third in the domestic financial leasing industry.

– BoCOM International Trust successfully issued the first batch of domestic credit asset securitisation products issued by foreign bank and the first batch of credit card instalment asset securitisation products in the market. It participated in the pilot work of the first batch of housing fund asset securitisation. As at the end of the Reporting Period, trust asset increased by 23.65% from the beginning of the year to RMB493.423 billion. The trust compensation rate and the ratio of impaired proprietary assets both remained zero. BoCOM International Trust continued to be awarded the "Chengxintuo Outstanding Management Team" and "Valuable Trust Products" by *Shanghai Securities News*, and "Outstanding Chinese Trust Company" by *Securities Times*.

– BoCOM Schroder ranked top in the industry in terms of fund performance. Overall yield rate of stocks and bonds all the year round reached 53.90%. BoCOM Schroder ranked the 15th among the 90 fund companies. As at the end of the Reporting Period, BoCOM Schroder's AUM increased by 126.40% from the beginning of the year to RMB434.141 billion. Domestic asset management subsidiaries positively blended into the Group's wealth management strategy division. As at the end of the Reporting Period, the AUM increased by 111.34% from the beginning of the year to RMB273.921 billion.

– BoCommlife Insurance actively integrated within the Group's business system. Insurance policy "BoCom An Dai" which was developed together with the Group achieved sum assured of RMB8.184 billion, and the group accident insurance "BoCom Le Ye" for corporate customers achieved sum assured of RMB35.156 billion. As at the end of the Reporting Period, the realised original premium income increased by 54.24% on a year-on-year basis to RMB4.072 billion.

– With increasing market influence, BoCOM International was awarded as "Most Popular Broker with Investors in Mainland China and Hong Kong", "Best Research Team" and "Golden Bauhinia Best Investment Bank in China". During the Reporting Period, BoCOM International completed 28 investment projects. The number of IPO projects completed as a sponsor ranked in the first tier among Hong Kong's counterparties.

– BoCOM Insurance's premium growth rate and net compensation rate were better than the market average, with investment performance significantly outperforming the market performance in the same period.

– Rural banks achieved a steady growth in their business, and actively supported the development of local economy. As at the end of the Reporting Period, total assets of the four rural banks increased by 33.34% from the beginning of the year to RMB7.703 billion.

III. FINANCIAL STATEMENTS ANALYSIS

1. Analysis on Major Income Statement Items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB1.085 billion, or 1.28% on a year-on-year basis to RMB86.012 billion. Profit before tax mainly derived from net interest income and net fee and commission income.

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

(in millions of RMB)

	2015	2014
Net interest income	**144,172**	134,776
Net fee and commission income	**35,027**	29,604
Impairment losses on loans and advances to customers	**(27,160)**	(20,439)
Profit before tax	**86,012**	84,927

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB9.396 billion on a year-on-year basis to RMB144.172 billion. This accounted for 74.10% of the Group's net operating income and was a major component of the Group's income.

The table below shows the average daily balances, associated interest income and expenses, and annualised average yield or annualised average cost of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2015			For the twelve months ended 31 December 2014		
	Average balance	**Interest income/ (expense)**	**Annualised average yield/(cost) (%)**	Average balance	Interest income/ (expense)	Annualised average yield/(cost) (%)
Assets						
Balances with central banks	**879,938**	**12,868**	**1.46**	838,772	13,074	1.56
Due from banks and other financial institutions	**679,546**	**22,813**	**3.36**	495,386	18,881	3.81
Loans and advances to customers and receivables	**3,715,611**	**214,127**	**5.76**	3,400,175	211,400	6.22
Include: Corporate loans and receivables	**2,670,427**	**147,946**	**5.54**	2,500,848	151,990	6.08
Individual loans	**924,334**	**61,092**	**6.61**	787,991	54,564	6.92
Discount bills	**120,850**	**5,089**	**4.21**	111,336	4,846	4.35
Investment securities	**1,365,768**	**55,318**	**4.05**	1,085,207	45,154	4.16
Interest-bearing assets	**6,505,493[3]**	**300,965[3]**	**4.63**	5,720,454[3]	285,283[3]	4.99
Non-interest-bearing assets	**322,491**			234,279		
TOTAL ASSETS	**6,827,984[3]**			5,954,733[3]		
Liabilities and Shareholders' Equity						
Due to customers	**4,357,575**	**97,743**	**2.24**	3,984,424	93,826	2.35
Include: Corporate deposits	**2,946,566**	**65,070**	**2.21**	2,681,507	62,274	2.32
Individual deposits	**1,411,009**	**32,673**	**2.32**	1,302,917	31,552	2.42
Due to banks and other financial institutions	**1,672,629**	**55,212**	**3.30**	1,304,396	54,341	4.17
Debt securities issued and others	**217,610**	**7,999**	**3.68**	143,510	5,566	3.88
Interest-bearing liabilities	**6,112,444[3]**	**156,793[3]**	**2.57**	5,333,244[3]	150,507[3]	2.82
Shareholders' equity and non-interest bearing liabilities	**715,540**			621,489		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**6,827,984[3]**			5,954,733[3]		
Net interest income		**144,172**			134,776	
Net interest spread[1]			**2.06[3]**			2.17[3]
Net interest margin[2]			**2.22[3]**			2.36[3]
Net interest spread[1]			**2.14[4]**			2.23[4]
Net interest margin[2]			**2.30[4]**			2.42[4]

Notes:

1. This represents the difference between the annualised average yield on total average interest-bearing assets and the annualised average cost of total average interest-bearing liabilities.
2. This ratio represents the net interest income to total average interest-bearing assets.
3. This excludes the impact of wealth management products.
4. This excludes the impact of wealth management products and takes into account the tax exemption on the interest income from investments in government bonds.

During the Reporting Period, the Group's net interest income increased by 6.97% on a year-on-year basis. However, due to the gradual acceleration of interest rate liberalisation, net interest spread and net interest margin decreased by 11 and 14 basis points, on a year-on-year basis to 2.06% and 2.22%, respectively.

The table below illustrates the impact of changes in balances and interest rates on the Group's interest income and interest expense. The changes are based on the changes in average daily balance and interest rates on interest-bearing assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2015 and 2014 Increase/(decrease) due to		
	Balance	**Interest rate**	**Net increase/ (decrease)**
Interest-bearing assets			
Balances with central banks	**642**	**(848)**	**(206)**
Due from banks and other financial institutions	**7,016**	**(3,084)**	**3,932**
Loans and advances to customers and receivables	**19,620**	**(16,893)**	**2,727**
Investment securities	**11,671**	**(1,507)**	**10,164**
Changes in interest income	**38,949**	**(22,332)**	**16,617**
Interest-bearing liabilities			
Due to customers	**8,769**	**(4,852)**	**3,917**
Due to banks and other financial institutions	**15,355**	**(14,484)**	**871**
Debt securities issued and others	**2,875**	**(442)**	**2,433**
Changes in interest expense	**26,999**	**(19,778)**	**7,221**
Changes in net interest income	**11,950**	**(2,554)**	**9,396**

During the Reporting Period, the Group's net interest income increased by RMB9.396 billion on a year-on-year basis, of which the increase of RMB11.950 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB2.554 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 gross interest income increased by RMB16.617 billion or 5.76% on a year-on-year basis to RMB305.126 billion.

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

Interest income from loans and advances to customers and receivables was accounted for 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 RMB2.727 billion, equivalent to an increase of 1.29% on a year-on-year basis to RMB214.127 billion. This was largely due to a year-on-year increase in average balance of loans and advances to customers and receivables by RMB315.436 billion.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB10.164 billion or 22.51% on a year-on-year basis to RMB55.318 billion. This was largely due to the year-on-year increase in the average balance of investment securities by RMB280.561 billion.

C. Interest income from 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 balances with central banks decreased by RMB0.206 billion or 1.58% to RMB12.868 billion, which was primarily due to the decrease in percentage of statutory reserves resulting in the decrease in average interest rate of reserves.

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

Interest income from balances due from banks and other financial institutions increased by RMB3.932 billion of 20.83% on a year-on-year basis to RMB22.813 billion. This was largely due to the year-on-year increase in the average balance due from banks and other financial institutions by RMB184.160 billion.

(2) Interest expense

During the Reporting Period, the Group's interest expense increased by RMB7.221 billion or 4.70% on a year-on-year basis to RMB160.954 billion.

A. Interest expense on balances due to customers

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expense on customer deposits increased by RMB3.917 billion or 4.17% on a year-on-year basis to RMB97.743 billion, accounting for 60.73% of total interest expense. The increase in interest expense on customer deposits was mainly due to a year-on-year increase in average balance of customer deposits by RMB373.151 billion.

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

During the Reporting Period, interest expense on balances due to banks and other financial institutions increased by RMB0.871 billion or 1.60% on a year-on-year basis to RMB55.212 billion. This was largely due to the year-on-year increase in the average balance due to banks and other financial institutions by RMB368.233 billion.

C. Interest expense on debt securities issued and others

During the Reporting Period, interest expense on debt securities issued and other interest bearing liabilities increased by RMB2.433 billion or 43.71% on a year-on-year basis to RMB7.999 billion. This was mainly due to a year-on-year increase in average balance of issuance of bonds and others by RMB74.100 billion.

(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 had continuously accelerated the transformation of its profit-making model and moved towards a business model with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB5.423 billion or 18.32% on a year-on-year basis to RMB35.027 billion. Agent service and management service were the main drivers of the Group's intermediary businesses.

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

(in millions of RMB)

	2015	2014
Settlement service	**2,727**	2,480
Bank cards	**11,185**	10,424
Investment banking	**7,472**	7,643
Guarantee and commitment	**3,014**	3,588
Management service	**9,697**	6,417
Agency service	**3,403**	1,754
Others	**733**	608
Total fee and commission income	**38,231**	32,914
Less: Fee and commission expense	**(3,204)**	(3,310)
Net fee and commission income	**35,027**	29,604

Fee income from settlement service increased by RMB0.247 billion or 9.96% on a year-on-year basis to RMB2.727 billion. This was largely due to the increase in fee income from businesses such as trade settlement and voucher processing.

Fee income from bank card services increased by RMB0.761 billion or 7.30% on a year-on-year basis to RMB11.185 billion. This was mainly due to the substantial increase in the Group's card issuance, spending volume as well as transaction volume at self-service facilities.

Fee income from investment banking was RMB7.472 billion, which is comparable to last year.

Fee income from guarantee and commitment services was decreased by RMB0.574 billion or 16.00% on a year-on-year basis to RMB3.014 billion. This decrease was mainly due to the reduction in the Group's fee income from the off-balance sheet risk exposure business and factoring business.

Fee income from management services was increased by RMB3.280 billion or 51.11% on a year-on-year basis to RMB9.697 billion. This was mainly driven by the increase in the fee income from assets custody services and wealth management products of the Group.

Fee income from agency services increased by RMB1.649 billion or 94.01% on a year-on-year basis to RMB3.403 billion. This was mainly driven by the significant increase in the fee income from fund distribution and insurance agency services.

(4) Operating costs

During the Reporting Period, the Group's operating cost increased by RMB4.701 billion or 8.70% on a year-on-year basis to RMB58.721 billion, while its cost-to-income ratio was 30.54%, representing a year-on-year increase of 0.02 percentage point.

The table below illustrates the major components of the Group's operating costs for the periods indicated:

(in millions of RMB)

	2015	2014
Staff costs	25,429	24,690
Operating expenses	24,771	22,087
Depreciations and amortisations	7,200	5,753
Taxes	611	515
Others	710	975
Total Operating costs	58,721	54,020

(5) Impairment losses on loans and advances to customers

During the Reporting Period, the Group's impairment losses on loans and advances to customers increased by RMB6.721 billion or 32.88% on a year-on-year basis to RMB27.160 billion. The increase comprised of (1) collective assessment increased by RMB3.414 billion on a year-on-year basis to RMB12.420 billion; and (2) individual assessment increased by RMB3.307 billion on a year-on-year basis to RMB14.740 billion. During the Reporting Period, credit cost ratio increased by 0.13 percentage point on a year-on-year basis to 0.73%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB0.289 billion or 1.53% on a year-on-year basis to RMB19.181 billion. The effective tax rate of 22.30% is lower than the statutory tax rate of 25%, which is mainly due to the tax exemption on interest income from national bonds and local government bonds held by the Group, as promulgated in relevant tax provisions.

The table below illustrates the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)

	2015	2014
Current tax	20,039	19,560
Deferred tax	(858)	(668)

2. Analysis on Major Balance Sheet Items

(1) Assets

As at the end of the Reporting Period, the Group's total assets were RMB7,155.362 billion, representing an increase of RMB887.063 billion, equivalent to an increase of 14.15% from the beginning of the year.

The table below illustrates the outstanding balances (after impairment allowances) of the principal 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)

	31 December 2015		31 December 2014	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**3,634,568**	**50.80**	3,354,787	53.52
Investment securities	**1,630,559**	**22.79**	1,162,876	18.55
Cash and balances with central banks	**920,228**	**12.86**	938,055	14.97
Due from banks and other financial institutions	**611,191**	**8.54**	525,033	8.38
TOTAL ASSETS	**7,155,362**		6,268,299	

(1) Loans and advances to customers

During the Reporting Period, the Group reasonably controlled the amount, direction and pace of credit advancement, which brought a balanced and steady growth in loans. As at the end of the Reporting Period, the Group's total loans and advances to customers were RMB3,722.006 billion, representing an increase of RMB290.271 billion or 8.46% from the beginning of the year, among which the increase in Renminbi loans from domestic branches amounted to RMB255.309 billion or 8.41% from the beginning of the year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrade of industrial structure and the development of real economy, as well as vigorously promoted the optimisation 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)

	31 December 2015		31 December 2014	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**101,647**	**2.73**	98,886	2.88
Manufacturing				
– Petroleum and chemical	**125,952**	**3.38**	120,727	3.52
– Electronics	**75,424**	**2.03**	77,856	2.27
– Steel	**36,879**	**0.99**	38,760	1.13
– Machinery	**105,187**	**2.83**	110,486	3.22
– Textile and clothing	**40,680**	**1.09**	39,389	1.15
– Other manufacturing	**238,027**	**6.40**	237,455	6.92
Electricity, gas and water production and supply	**138,256**	**3.71**	132,234	3.85
Construction	**109,893**	**2.95**	107,521	3.13
Transportation, storage and postal service	**418,057**	**11.23**	388,980	11.33
Telecommunications, IT services and software	**13,413**	**0.36**	12,291	0.36
Wholesale and retail	**333,903**	**8.97**	333,003	9.70
Accommodation and catering	**35,070**	**0.94**	30,536	0.89
Financial institutions	**50,832**	**1.37**	45,693	1.33
Real estate	**227,061**	**6.10**	207,566	6.05
Services	**262,750**	**7.06**	233,905	6.82
Water conservancy, environmental and other public utilities	**132,061**	**3.55**	138,903	4.05
Education, science, culture and public health	**71,731**	**1.93**	59,833	1.74
Others	**94,420**	**2.53**	74,806	2.18
Discounted bills	**117,444**	**3.16**	74,548	2.17
Total corporate loans	**2,728,687**	**73.31**	2,563,378	74.69
Mortgage loans	**604,357**	**16.24**	529,871	15.44
Credit card overdraft	**271,542**	**7.30**	223,593	6.52
Others	**117,420**	**3.15**	114,893	3.35
Total individual loans	**993,319**	**26.69**	868,357	25.31
Gross amount of loans and advances to customers before impairment allowances	**3,722,006**	**100.00**	3,431,735	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB165.309 billion, or 6.45% from the beginning of the year to RMB2,728.687 billion. The four most concentrated industries were manufacturing, transportation, storage and postal service and wholesale and retail business and services industries, which accounted for 59.99% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB124.962 billion or 14.39% from the beginning of the year to RMB993.319 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 1.38 percentage points from the beginning of the year to 26.69%.

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 1.59% of the Group's net capital, and the total loans of top 10 customers accounted for 11.51% of the Group's net capital, which were in compliance with the regulatory requirements.

The table below illustrates the loan balances to the top 10 single borrowers of the Group as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2015		
	Type of industry	Loan balances	Percentage of total loans and advances (%)
Customer A	**Manufacturing – petroleum and chemical**	**10,000**	**0.27**
Customer B	**Transportation, storage and postal service**	**8,635**	**0.23**
Customer C	**Transportation, storage and postal service**	**8,553**	**0.23**
Customer D	**Others**	**7,441**	**0.20**
Customer E	**Transportation, storage and postal service**	**7,059**	**0.19**
Customer F	**Manufacturing – other manufacturing**	**6,430**	**0.17**
Customer G	**Transportation, storage and postal service**	**6,326**	**0.17**
Customer H	**Transportation, storage and postal service**	**6,286**	**0.17**
Customer I	**Transportation, storage and postal service**	**5,966**	**0.16**
Customer J	**Electricity, gas and water production and supply**	**5,550**	**0.15**
Total of Top Ten Customers		**72,246**	**1.94**

Loan concentration by geographical locations

The Group's credit customers are mainly located in the Yangtze River Delta, the Bohai Rim Economic Zone and the 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 32.75%, 18.88% and 7.64%, respectively, among which, the loan balance in the Yangtze River Delta and the Pearl River Delta increased by 10.45% and 11.08%, respectively from the beginning of the year, and the loan balance in the Bohai Rim Economic Zone decreased by 2.79% from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.51%, representing an increase of 0.26 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 23.31 percentage points from the beginning of the year to 155.57%.

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

(in millions of RMB unless otherwise stated)

	31 December 2015	31 December 2014
Impaired loans	**56,206**	43,017
Loans overdue by more than 90 days	**91,423**	44,614
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**1.51**	1.25

(2) Investment securities

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB467.683 billion or 40.22% from the beginning of the year to RMB1,630.559 billion. Return on investment securities reached a relatively satisfactory level of 4.05%, which is due to the Group's benefiting from the reasonable allocation and continuous optimisation of the investment structure.

Distribution of the Group's investment securities

The table below illustrates the distribution of the Group's investment securities by financial asset classification for the purpose of holding and by type of issuers as of the dates indicated:

– By financial asset classification for the purpose of holding

(in millions of RMB unless otherwise stated)

	31 December 2015		31 December 2014	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss	**108,458**	**6.65**	105,702	9.09
Investment securities – loans and receivables	**323,679**	**19.85**	211,588	18.20
Investment securities – available-for-sale	**264,739**	**16.24**	210,016	18.06
Investment securities – held-to-maturity	**933,683**	**57.26**	635,570	54.65
Total	**1,630,559**	**100.00**	1,162,876	100.00

– By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2015		31 December 2014	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Governments and central banks	**662,337**	**40.62**	345,199	29.68
Public sector entities	**21,939**	**1.35**	20,119	1.73
Banks and other financial institutions	**496,184**	**30.43**	425,079	36.56
Corporate entities	**450,099**	**27.60**	372,479	32.03
Total	**1,630,559**	**100.00**	1,162,876	100.00

As at the end of 2015, financial bonds held by the Group amounted to RMB496.184 billion, including policy bank bonds of RMB309.010 billion and banks and non-bank financial institutions bonds of RMB187.174 billion, which accounted for 62.28% and 37.72% of the total bonds, respectively.

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond names	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2015 banks and non-bank financial institutions bond	5,910	4.95	19/01/2018	–
2011 banks and non-bank financial institutions bond	5,000	5.50	26/10/2021	–
2014 banks and non-bank financial institutions bond	4,000	5.98	18/08/2029	–
2012 banks and non-bank financial institutions bond	3,800	4.70	29/06/2022	–
2012 banks and non-bank financial institutions bond	3,500	4.30	14/02/2017	–
2013 banks and non-bank financial institutions bond	3,200	4.95	17/06/2023	–
2015 banks and non-bank financial institutions bond	3,000	4.01	30/07/2018	–
2015 banks and non-bank financial institutions bond	3,000	4.21	30/07/2020	–
2012 banks and non-bank financial institutions bond	3,000	4.20	28/02/2017	–
2013 policy bank bond	3,000	3.89	10/01/2016	–

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB822.576 billion or 14.20% from the beginning of the year to RMB6,617.270 billion. Among this balance, customer deposits increased by RMB455.146 billion or 11.29% from the beginning of the year, which accounted for 67.77% of total liabilities and decreased by 1.77 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB232.964 billion or 16.54% from the beginning of the year, which accounted for 24.80% of total liabilities and represented an increase of 0.50 percentage point from the beginning of the year.

Customer deposits

Customer deposits were the Group's main source of capital. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB455.146 billion or 11.29% from the beginning of the year to RMB4,484.814 billion. In terms of the Group's customer structure, the proportion of corporate customer deposit accounted for 67.58%, representing an increase of 1.41 percentage points from the beginning of the year. The proportion of individual deposits was 32.34%, representing a decrease of 1.35 percentage points from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits decreased by 2.86 percentage points from the beginning of the year to 45.23%, while the proportion of time deposits increased by 2.92 percentage points from the beginning of the year to 54.69%.

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

(in millions of RMB)

	2015 31 December	2014 31 December
Corporate deposits	**3,030,408**	2,666,271
Include: Corporate demand deposits	**1,433,773**	1,395,657
Corporate time deposits	**1,596,635**	1,270,614
Individual deposits	**1,450,607**	1,357,902
Include: Individual demand deposits	**594,704**	542,124
Individual time deposits	**855,903**	815,778

3. Analysis on Major Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB16.809 billion from the beginning of the year to RMB330.435 billion.

The net cash inflows from operating activities increased by RMB329.407 billion on a year-on-year basis to RMB379.122 billion, mainly due to the year-on-year increase in the amount of cash inflows related to customer deposits.

The net cash outflows from investing activities increased by RMB421.083 billion on a year-on-year basis to RMB444.389 billion, mainly due to the increase in net cash outflows related to securities investment activities.

The net cash inflows from financing activities increased by RMB33.261 billion on a year-on-year basis to RMB76.959 billion, mainly due to the year-on-year increase in the cash inflow related to the issuance of preference shares, bonds and certificates of deposits during current year.

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)

	2015		2014	
	Profit before tax	Net operating income[1]	Profit before tax	Net operating income[1]
Northern China	11,795	22,859	13,154	22,786
North Eastern China	2,272	6,420	1,794	6,776
Eastern China	24,693	65,835	24,657	63,017
Central and Southern China	17,086	33,725	17,289	32,278
Western China	8,114	17,180	9,599	17,039
Overseas	6,049	10,017	5,182	8,620
Head Office	16,003	38,522	13,252	28,110
Total[2]	86,012	194,558	84,927	178,626

Notes:

1. Includes net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investment, share of result of an associate, insurance business income and other operating income. (Same applies hereinafter)
2. Including profit attributable to non-controlling interest. (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:

(in millions of RMB)

	31 December 2015		31 December 2014	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	707,804	544,823	534,997	524,090
North Eastern China	264,203	190,285	235,562	177,888
Eastern China	1,639,756	1,299,000	1,543,041	1,235,779
Central and Southern China	964,427	687,517	950,701	638,822
Western China	556,443	382,623	469,019	348,089
Overseas	349,764	326,400	293,982	276,983
Head Office	2,417	291,358	2,366	230,084
Total	4,484,814	3,722,006	4,029,668	3,431,735

(3) Operating results by business segments

The Group's four main business segments are: corporate banking, personal banking, treasury business and other business. The corporate banking segment was the primary source of profit for the Group, accounting for 51.70% of the Group's net 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)

	2015		2014	
	Profit before tax	**Net operating income**	Profit before tax	Net operating income
Corporate banking	**44,469**	**98,492**	54,313	100,327
Personal banking	**11,920**	**55,670**	9,490	48,622
Treasury business	**27,946**	**31,114**	19,168	23,443
Other businesses	**1,677**	**9,282**	1,956	6,234
Total	**86,012**	**194,558**	84,927	178,626

5. Capital Adequacy Ratio

The Group calculated the capital adequacy ratios of different tiers pursuant to the "Administrative Measures for the Capital Management of Commercial Banks (Provisional)" issued by the CBRC and the requirements therein. Upon the approval from regulatory authorities, the Group started to use the Advanced Measurement Approach of Capital Management for measurement of capital adequacy ratio from end of June 2014. The Bank adopted primary internal rating-based approach for enterprise risk exposures, internal rating-based approach for retail risk exposures, internal model-based approach for market risks and standard approach for operation risks to measure capital requirements.

The table below sets forth the Group capital adequacy ratios calculated pursuant to the "Administrative Measures for the Capital Management of Commercial Banks (Provisional)" and "Administrative Measures for the Capital Adequacy Ratio of Commercial Banks" issued by the CBRC, respectively. The Bank's capital adequacy ratios have fulfilled the regulatory requirements.

(in millions of RMB unless otherwise stated)

31 December 2015

Pursuant to the "Administrative Measures for the Capital Management of Commercial Banks (Provisional)" issued by the CBRC in calculation of relevant ratio[Note]

Item	The Group	The Bank
Net Core Tier 1 Capital	**518,487**	**492,977**
Net Tier 1 Capital	**533,430**	**507,901**
Net Capital	**627,862**	**602,117**
Core Tier 1 Capital adequacy ratio (%)	**11.14**	**11.00**
Tier 1 Capital adequacy ratio (%)	**11.46**	**11.33**
Capital adequacy ratio (%)	**13.49**	**13.43**

Pursuant to the "Administrative Measures for the Capital Adequacy Ratio of Commercial Banks" issued by the CBRC in calculation of relevant ratio

Item	The Group	The Bank
Core Capital Adequacy Ratio (%)	**10.61**	**10.57**
Capital adequacy ratio (%)	**13.55**	**13.42**

Note: Pursuant to the "Administrative Measures for the Capital Management of Commercial Banks (Provisional)", the above calculation excluded BoCOM Insurance and BoCommlife Insurance.

For further information about the Bank's capital measurement, please refer to the 2015 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd. at the website of Shanghai Stock Exchange, the website of Hong Kong Stock Exchange and the official website of the Bank.

6. Leverage Ratio

The Group calculated the leverage ratio pursuant to the Leverage Ratio Rules for Commercial Banks (Revised) issued by CBRC in January 2015. As at the end of 2015, the leverage ratio of the Group was 6.70%, which fulfill the regulatory requirement.

The Group *(in millions of RMB unless otherwise stated)*

Calculated in accordance with the Leverage Ratio Rules for Commercial Banks (Revised) (2015, No. 1) issued by CBRC[Note]

Item	31 December 2015
Net Tier 1 Capital	533,430
Balance of adjusted on and off-balance sheet assets	7,956,127
Leverage ratio (%)	6.70

Information disclosed according to the requirement of the CBRC Revised Rules on Leverage Ratio of Commercial Banks.

Difference of Items between Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

SN	Item	Balance
1	Total consolidation assets	7,155,362
2	Adjusted item of consolidation	(4,307)
3	Adjusted item of customer's assets	–
4	Adjusted item of derivatives	28,391
5	Adjusted item of securities financing transactions	–
6	Adjusted item of off-balance sheet item	779,834
7	Other adjusted items	(3,153)
8	Balance of adjusted on-and-off-balance sheet assets	7,956,127

Information relating to Leverage Ratio

(in millions of RMB unless otherwise stated)

SN	Item	Balance
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	7,028,593
2	Less: Deduction of Tier 1 Capital	(3,153)
3	**Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	7,025,440
4	Replacement costs of derivatives (less eligible margin)	34,272
5	Potential risk exposure of derivatives	28,212
6	Sum of collaterals that have been deducted from the balance sheet	–
7	Less: Assets receivable from providing eligible margin	–
8	Less: Asset balance of derivatives from transactions with central counterparties in providing clearing services for customers	(470)
9	Notional principal of sold credit derivatives	649
10	Less: Balance of deductible sold credit derivatives	–
11	**Balance of derivatives**	62,663
12	Accounting asset balance of securities financing transactions	88,190
13	Less: Balance of deductible securities financing transaction assets	–
14	Counterparty credit risk exposure of securities financing transactions	–
15	Balance of securities financing transaction assets from acting for securities financing transactions	–
16	**Asset balance of securities financing transactions**	88,190
17	Balance of off-balance sheet items	1,445,115
18	Less: Balance of off-balance sheet items from reduction of credit transfer	(665,281)
19	**Balance of adjusted off-balance sheet items**	779,834
20	Net Tier 1 Capital	533,430
21	Balance of adjusted on-and-off-balance sheet items	7,956,127
22	**Leverage ratio (%)**	6.70

7. Liquidity Coverage Ratio

The liquidity coverage ratio disclosed below is set out pursuant to the relevant requirements of the CBRC.

The regulatory requirement of the liquidity coverage ratio

Pursuant to the Rules on Liquidity Risk Management of Commercial Banks (Provisional), by the end of 2018, the liquidity coverage ratio of Commercial Banks shall reach 100%. During the transition period, the liquidity coverage ratio should reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively. It is also provided that during the transition period, banks are encouraged to meet the requirements ahead of schedule and banks whose liquidity coverage ratio has reached 100% are encouraged to maintain the ratio over 100%.

Liquidity Coverage Ratio

The Group calculate the liquidity coverage ratio pursuant to the regulation of "Rules on Liquidity Risk Management of Commercial Banks (Provisional)" and relative statistics system. The monthly average liquidity coverage ratio of the Group in the fourth quarter in 2015 was 115.60%, with trends of stable at first and growing up thereafter, which was mainly due to the overall stable market liquidity in the fourth quarter. The increase of liquidity coverage ratio of the Group in December was due to the cash inflow from repayment of committed facilities. The qualified high-quality liquid assets mainly include securities issued by sovereignties with zero risk weighted from guaranty, issued by public sectors with 20% risk weighted from guaranty and usable central reserve under stressed situation. The details of average monthly liquidity coverage ratio in the fourth quarter are listed below:

(in millions of RMB unless otherwise stated)

Sequence		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,176,724
Cash Outflow			
2	Retail deposits, small business deposits, including:	1,323,122	113,711
3	Stable deposit	370,355	18,434
4	Less stable deposit	952,767	95,277
5	Unsecured wholesale funding, including:	3,127,211	1,202,347
6	Business relationship deposit (excluding representative business)	2,286,233	569,567
7	Non-business relationship deposit (including all counterparties)	838,271	630,073
8	Unsecured wholesale funding	2,707	2,707
9	Secured funding		4,865
10	Other items, including:	481,877	36,046
11	Cash outflow relates to derivatives and other derivatives and collateral/pledged assets	969	969
12	Cash outflow relates to loss of funding on asset-blocked securities	504	504
13	Committed credit and liquidity facilities	480,404	34,573
14	Other contractual obligation to extend funds	4,495	4,495
15	Contingent funding obligations	625,390	14,578
16	Total expected cash outflow		1,376,042
Cash Inflow			
17	Secured lending, including reverse repos and securities borrowing	33,242	31,815
18	Committed facilities	553,320	315,523
19	Other cash inflow	14,000	7,923
20	Total expected cash inflow	600,562	355,261
Amount after adjustment			
21	The qualified high-quality liquidity assets		1,176,724
22	Net cash outflow		1,020,781
23	Liquidity Coverage Ratio(%)		115.60

8. Other Financial Information

The relevant information disclosed below is set out in accordance with the requirements of the CSRC.

(1) *Fair value measurement related items*

The Group established a market risk management system under the ultimate responsibility and leadership of the Board of Directors. It established an internal control framework based on fair value measurement in order to satisfy the internal management and information disclosure requirements. It also gradually and orderly improved the systematic management of its market risk by connecting all the relevant front, middle and back office departments and encompassing fair value acquisition, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international best practices to further optimise its internal control system in connection with fair value measurement. The Group primarily used quoted market prices as the fair value of financial instruments that are traded in active markets. For financial instruments that are not actively trade in the market, it used valuation models and observable market parameters or comparison to third party quotes, which are reviewed by the relevant risk management departments.

The table below illustrates the fair value measurement related items of the Group in 2015:

(in millions of RMB)

Item	Opening balance	Gains/(Losses) on changes in fair value for the year	Cumulative fair value gains/(losses) recognised in equity	Impairment losses (accrued)/reversed for the year	Closing balance
Financial assets					
1. Financial assets at fair value through profit or loss	123,146	993	–	–	138,999
2. Derivative financial assets	10,656	23,654	–	–	34,310
3. Available-for-sale financial assets	210,016	(172)	2,169	(39)	264,739
Total financial assets	**343,818**	**24,475**	**2,169**	**(39)**	**438,048**
Investment properties	7,276	140	–	–	5,634
Total	**351,094**	**24,615**	**2,169**	**(39)**	**443,682**
Total financial liabilities Note	**(45,991)**	**(24,647)**	**(86)**	**–**	**(75,101)**

Note: Including financial liabilities at fair value through profit or loss and debt securities issued.

(2) Guarantees and related commitments

(in millions of RMB)

	2015 31 December	2014 31 December
Financial guarantees and credit related commitments	**1,308,499**	1,534,527
Include: Loan commitments	**91,247**	228,152
Credit card commitments	**438,608**	388,038
Letters of credit commitments	**150,085**	226,469
Letters of guarantee	**333,725**	310,500
Acceptances bills	**294,834**	381,368
Operating lease commitments	**11,356**	10,189
Capital expenditure commitments	**7,645**	7,456

(3) Restructured loans and overdue loans

(in millions of RMB)

	2015 31 December	2014 31 December
Restructured loans	**32,907**	6,809
Overdue loans	**113,333**	81,247

(4) Others

(1) Information about equity investment obtained during the Reporting Period. On 19 May 2015, the Bank entered into an agreement on acquisition of controlling equity interest in BBM with controlling shareholders of BBM, pursuant to which, the Bank would acquire 80% equity interest in the BBM (excluding treasury stock) at first and the transaction will be settled upon obtaining the approval from relevant regulators of China and Brazil. Upon the completion of the transaction, the Mariani Family, former controlling shareholder, will retain a part of equity interest for joint operation with the Bank. This acquisition was funded by the Bank's own resources. BBM holding multi-functional banking license of Brazil is primarily engaged in businesses such as corporate credit, personal banking and financial market, with branch set up in Bahamas. In accordance with BBM's annual report for the year 2014, total assets of which were approximately BRL3.1 billion as at 31 December 2014.

(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.

(3) The Bank's businesses such as wealth management, unconsolidated custody and trust are set out in Notes 41 and the Bank's asset securitization is set out in Notes 42.3 to the financial statements.

(4) Significant acquisitions and sales. During the Reporting Period, the Group had no significant acquisitions and sales with respect to related subsidiaries, associates and joint ventures.

(5) The Bank's talent training and talent reserve are set out in the section "Directors, Supervisors, Senior Management and Human Resource Management".

IV. BUSINESS INNOVATION AND PROMOTION OF NEW PRODUCTS

In 2015, the Bank's product innovation work was pushed forward continuously and orderly. As led by key product innovation project, innovation played important roles in developing core business, promoting profit growth, deepening transformation and development and expanding market influence of the Bank.

With regard to corporate business, by consolidating the Bank's advantages in "internationalisation" and "integration" and focusing on the utilisation of concepts of "Internet plus" and big data, the Bank promoted the innovation breakthrough of two strategic products of corporate business, i.e., cash management and industrial value chain financial service. With regard to cash management, the Bank focused on developing global cash management, optimising cross-border bi-directional RMB and foreign exchange cash pool; continued to improve features of key products such as notes pool and secondary accounts, introduced multi-deposit mode of notes pool and expanded the functional supporting of secondary accounts to electronic self-service channels; completed the phase 1 functional development of treasury management system of finance companies, created group value and deepened the cooperation among banks and finance companies; innovatively launched products such as Bidding Tong and Reimbursement Tong (updated version) to continuously enrich its cash management product line. With regard to industrial value chain financial service, the Bank vigorously laid out the development planning of on-line industrial value chain financial system business under the "Internet plus", improved electronic supply chain system, focused on developing on-line trading function and successfully handled the first E-bank withdrawal of working capital loan of corporate customer; improved features of platform system of accounts receivable service, accelerated the on-line integration with electronic supply chain system, improved the returned-money management function and promoted the innovation and development of domestic re-factoring business of finance companies; extended the product line of "Express Bill Discounting" and formed a flexible product portfolio featured by "quick discounting of commercial bills + agency discounting", so as to promote the ability to customise personalised bill service for customers and related level.

With regard to retail business, the Bank integrated Internet thought into business development, strengthened research and development of payment products and promoted business development by means of product innovation. The Bank was one of the first batch of banks to launch individual certificate of deposit and innovatively launched a flexible interest-bearing deposit product named “Hui Xiang Cun”; cooperated with SWATCH to launch contactless payment wristwatch – SWATCH BELLAMY; issued Pacific Card before Milan Expo 2015; launched payment products such as Immediate Payment and HCE Cloud Quick Pass together with UnionPay and major commercial banks; optimised on-line payment system to realise new functions of mobile payment, including handset two-dimensional code payment, inter-bank mobile payment and payment-linked wealth management, etc.; introduced innovative businesses such as electronic catering coupons with whole points and “spending to earning” wealth management products, and integrated, upgraded and launched a mobile service platform named “Go Pay” to create new on-line and off-line consumption experience for customers.

The first contactless payment wristwatch launched jointly by BoCom and China Union Pay. The picture shows a guest demonstrating the way to use the payment wristwatch in the event.

With regard to interbank business, the Bank speeded up innovation of transactional business. Firstly, the Bank had new transactional revenue streams by launching Renminbi bond lending business, standard bond forward business and Renminbi bond netting settlement business. Secondly, the Bank successfully launched book-entry crude oil business and promoted the business to all domestic branches; the Bank introduced several new functions of trading businesses such as foreign exchange settlement and sales in international board, use of physical gold as security deposits, spot silver, spot platinum firm bargain, Au (T + N) contract and block trade. Thirdly, the Bank focused on promoting “quasi-discounting” bill business and got through the bill circulation channel of “discounting in branches → ‘quasi-discounting’ (rediscounting) in Clearing House” → bill transferring-out in Clearing House by developing the business. Fourthly, the Bank established financial market centre and asset management centre Hong Kong sub-centre to lay the foundation for cross-border RMB transaction and supporting international businesses.

With regard to cross-border Renminbi business, the Bank followed key strategies such as "Belt and Road Initiatives" and "Going Global" and further integrated and optimised financial service programme for the cross-boarder RMB investment and financing. The Bank strengthened product innovation and made experiments in bank acceptance and domestic L/C forfaiting cross-border transfer business; besides, the Bank launched cross-border Renminbi centralised operation of multi-national enterprises to support enterprise investment and financing, as well as facilitation of trading service in accordance with national policies. In the field of Renminbi cross-boarder liquidation, the Bank became one of the first batch of banks to directly participate in the China International Payment System (CIPS); besides, the Bank cooperated with Korea Securities Depository (KSD) to develop Renminbi bond real-time liquidation system (DVP) to realise system networking and delivery versus payment. In the field of businesses in free trade zone ("**FTZ**"), the Bank launched innovation products such as domestic deposit for domestic borrowing, and overseas deposit for domestic borrowing in Shanghai FTZ, handled the first multi-types comprehensive syndicated loan of free trade account, the first separate accounting of overseas financing business of finance company and the first offshore M & A loan in the FTZ; in addition, the Bank became one of the first batch of local signed banks of cross-border RMB overseas loan in Xiamen and Guangdong.

In the field of wealth management, firstly, by taking improving account service system of private bank and enriching the types of net-value wealth management products as its key breakthrough direction, the Bank took full advantage of resources in both internal and external institutions of the Group to continuously strengthen product innovation, so as to satisfy diversified and personalised demands for investment and wealth management of net-value customers. The Bank successfully launched three product service series including special account services of one-to-one customisation, one-to-many customisation and family trust, and special account service system that was used to customise wealth management products, special fund accounts and trusts. The Bank sold special account products of RMB4.18 billion in the whole year. Meanwhile, the Bank released exclusive net-value wealth management products that focused on different investment strategies such as global asset allocation, overseas preference shares of domestic high-quality companies and selected high-quality dollar assets, including Si Yin Zhi Hang, Si Yin Rui Teng and Si Yin Hai Wai 1#. Secondly, with regard to interbank wealth management business, the Bank innovatively launched "Jin Tai Yang" net-value products and "Jin Yue Liang" rolling-released products. The Bank had an annual average balance of interbank wealth management of RMB95.7 billion, representing an increase of 181%. Average balance of "Jin Tai Yang" (T + 0) products was RMB62.1 billion. Thirdly, the Bank introduced consignment wealth management business in the aspect of interbank collaboration, got through the on-line distribution channel and signed cooperation contracts with 184 banks. Fourthly, the Bank implemented the "one-step signing" system of third party depository at the end of October 2015 and completed testing with 79 securities companies within 2 months, with the number of on-line securities companies reaching 37. Fifthly, the Bank handled "Jin Guan Jia" business. In combination with liquidity of financial market and asset allocation situation, the Bank launched "Jin Guan Jia" special fund accounts business. At the end of 2015, balance of "Jin Guan Jia" management and special account business was RMB39 billion.

In the field of Internet finance, by making full use of Internet advantage, the Bank successfully connected with the cloud platform for Internet account opening of futures led by monitoring centre of Chinese futures market as the unique pilot bank. In July 2015, the Bank became the first commercial bank who successfully connected with the cloud platform for Internet account opening of futures, to provide “one-step” account opening and signing services for investors in cooperation with monitoring centre of Chinese futures market. The cloud platform for Internet account opening of futures, led by monitoring centre of Chinese futures market, satisfied futures investors’ demands for “one-step” account opening and signing, indicating that the account opening of futures had fully stepped into the age of the Internet.

With regard to micro and small businesses, the Bank promoted product innovation and business growth. Firstly, the Bank took the opportunity of Internet hotspots and formally released POS loan. POS loan was a kind of product that gave recyclable short-term working capital loans to customers selected in accordance with certain rules, based on data information such as customers’ flow of transaction in the Bank. POS loan conveniently and quickly satisfied customers’ demands for production and operation funds because it supported on-line operation and borrowing and repayment anytime and anywhere. As at the end of 2015, pilot work of the business had been carried out in 10 branches and credit of RMB487 million had been granted; secondly, the Bank promoted product standardisation through “Quick Mortgage Loan”. As at the end of 2015, loan balance of “Quick Mortgage Loan” was RMB2.724 billion; thirdly, the Bank deepened cooperation with China Unicom to realise better popularisation of “Wo Yi Dai”. The Bank further promoted the optimisation of full on-line process to improve customer experience. As at the end of 2015, the business had been put into use in 11 branches and 1,155 applications were received in total.

V. RISK MANAGEMENT

In 2015, under the complicated and severe risk conditions, the Group continued to focus on “full coverage, whole process, risk management culture and responsibility accountability system” through envisaging carefully, planning in advance and reacting proactively. The Group strengthened its overall risk management in respect to risk appetite, institutional mechanism and system tools in order to control various risks effectively and ensure the smooth implementation of “BoCom Strategy” and transformative development strategy.

1. Risk Appetite

The Board of Directors established “Stability, Balance, Compliance and Innovation” as the overall risk appetite of the Group, defined its four-dimensional risk tolerance in the form of return, capital, quality and risk rating, and further set 21 detailed risk limits indicators against seven major risk areas concerning credit, market, operation, liquidity, interest rate of banking book, information technology and country (economy entity) risk, in order to control the overall risk changes on a regular basis. The actual availability indicator of core business system was included in the risk limits system in order to further strengthen information technology risk management and fulfil regulatory requirements.

During the Reporting Period, the Group adhered to a strong commitment in compliance operation to implement various risk management basic policies and strengthened the constraints from the bottom line of risk compliance. The Bank fully implemented the risk prevention and control responsibility, striving to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In 2015, the implementation of the Bank's overall risk appetite was fair.

2. Risk Management Framework

The Board of Directors bored the ultimate responsibility and was authorised for decision-making authority for the Bank's risk management. The Bank monitored and controlled the Bank-wide risk management matters through its delegation of the Risk Management Committee. The Bank's senior management established a "1+3+2" Risk Management Committee, where the Comprehensive Risk Management Committee was dedicated to implement the Board of Directors' risk management strategy and risk appetites. According to the principle of "Going Horizontal to the Edges, Going Vertical to the Bottom, and Covering all Aspects", the Comprehensive Risk Management Committee was responsible for completing the management system, optimising the working system, standardising the management policies, and performing evaluations on the effectiveness of risk management function in an all-around way. Three sub-committees had been established under the Comprehensive Risk Management Committee, namely the Credit Risk Management Committee, the Market and Liquidity Risk Management Committee, and the Operational Risk Management and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely the Credit/Noncredit Review Committee and the High-risk Assets Review Committee had also been established and performed their respective duties. Each tier-1 branch, overseas branch and subsidiary, while according to the actual operation and management needs, correspondingly established simplified and practical risk management committees referring to the above mentioned framework. The Bank ensured the full implementation of risk management requirements through the mechanism of "Leadership and Execution, Supervision and Reporting" between the Risk Management Committee and sub-committees, and among committees of the Head Office and branches, forming an unified and coordinated risk management system.

During the Reporting Period, the Group further regulated the operation of each Risk Management Committee, continuously strengthened decision-making and supervisory functions, considered and reviewed proposals with wider variety, promoted more effective work deployment and implemented policies timely and precisely. In 2015, the Risk Management Committee and its sub-committees held 19 meetings, and more than 60 proposals were considered and approved.

During the Reporting Period, the Group further optimized and adjusted its risk management framework. By rationalising the segregation of the roles and responsibilities such as the lead of post-loan management and the loan origination center management, the Group improved the assets risk control and mitigation efficiently with combined synergy. The Bank implementated professional and independent coordinational risk management by consolidating risk measurement authority in corporate, retail and banking and financial institutions. The Group continued to promote business risk compliance middle offices development in front offices, small-scale middle offices and direct force of key processes, in order to promote synergetic work and act in concert under significant risk resolution. Moreover, the Bank established the risk management and constraint mechanism with assessment of internal management as a starting point, so as to tighten up risk management responsibility.

3. Risk Management Tool

The Group laid valued great importance to the establishment and application of risk management tools, information systems and econometric models. During the Reporting Period, the Group strengthened the ability to control credit risk by the big data mining technique, and enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk, improved the role of risk management tool in business management, and strengthened real time control over operating risk, fraud risk and money laundering risk through information system so as to continuously improve the effectiveness of risk management.

The Group's innovated data mining and information integration enhanced the quality of risk control over assets. The Bank effectively integrated the great effect of big data on data mining and analysis with the Bank's traditional risk screening. Due to expanded business scope, scattered operation regions and innovated operation mode, the Bank actively changed its risk monitoring mode, comprehensively in control of client's explicit and implicit relationship in respect of equity, interest, control, guarantee, monitored information in enterprises' asset value, investing activities, cash flow and counter-parties from all directions in real-time, in order to achieve more accurate identification, positioning and warning of risks.

The Group had established a comprehensive system in implementation of Advanced Measurement Approach of Capital Management covering areas including, such as policy procedure building, module developing and managing, data accumulation and specification, system design and implementation, business management and assessment application, independent verification and audit, professional training, etc.. With the approval from regulatory authorities, the Bank adopted primary internal rating-based approach for enterprise risk exposures, internal rating-based approach for retail risk exposures, internal model-based approach for market risks and standard approach for operation risks to measure capital requirements.

During the Reporting Period, the Group continued to optimise the econometric models and management systems which covered credit risk, market risk, operational risk, liquidity risk, interest rate risk of banking book and other risks. The Group is consistently implementing operation model in monitoring and analysis optimising model on timely basis, improving and upgrading the research and development of advanced methods. The Group has implemented stress tests, extensively and deeply applied econometric results in customer access, quota management, risk monitoring and control as well as performance appraisal. The Group's operation principle of "Capital Constraint Business and the Balance Between Risk and Return" was further strengthened.

4. Credit Risk Management

Credit risk is one of major risks to which the Group is exposed to. The Group adopted stringent requirements on the management focus in investment guidance, investigation and reporting, business review and approval, fund distribution, duration management, overdue non-performing loans management and other aspects, so that the Bank managed to control credit risk within acceptable range to achieve a balance between risk and return.

The Group pro-actively responded to important strategic deployment of the state and actively served the real economy. The Bank carried out major economic and financial policies of the central government and the decision implementation of the State Council. 33 industrial policies of the Bank's investment guidance covering 58 industries (regions), overall connected with the national significant strategies with forward-look and served the real economy in key fields such as "7631 Projects" The Bank continued to enlarge the scale of social financing, while optimising the structure continuously. The increased volume of main credit was mainly invested to fields in compliance with the characteristics of national economy and the transformation direction throughout the year. The growth rates of loans in the aspect of safeguarding livelihood and upgrading consumption were higher than the average growth rate of all loans.

The Group paid high attention to credit risks in key areas and continuously strengthened duration management. It investigated risks in key credit risk fields such as domestic factoring, overseas loans under domestic guarantees, gold lease, internet financial industry, state-owned enterprise reform, extra large-sized integrated business groups, and thus potential risks were positioned precisely and countermeasures to risk control were taken. The Bank intensified the risky customers list management through enhanced control over the key remind name list, name list of clients of reducing the volume of high risk loans and obtaining sufficient buffer, grey name list, supervision name list and non-performing loan name list.

The Group attached importance to both restructuring and consolidating, and made efforts to improve the effectiveness of settlement and resolution of risks. On one hand, the Bank focused on reducing the volume of high risk loans, obtaining sufficient buffer and restructuring. As a result, credit loans in the instructive name list were reduced by RMB60.8 billion accumulatively, credit loans of RMB60.1 billion were strengthened, risk businesses were restructured actively, and thus asset pledge ratio of credit loans was increased practically throughout the year. On the other hand, the Bank simultaneously took various measures to reduce non-performing loans, so the non-performing loans on-balance sheet were reduced by RMB34.5 billion, of which RMB9.8 billion was collected in cash.

According to the regulatory requirements as stipulated in the Guidelines on Risk-Based Loan Classification issued by the CBRC and the level of risk, the Group implemented a five-category system on credit assets that includes pass, special mention, sub-standard, doubtful and loss, of which, the latter three categories, namely sub-standard, doubtful and loss are regarded as non-performing loan categories, which are based on the judgement on the possibility of repayment on principle and interest in a timely manner. For corporate credit assets, the Bank has relied on the core regulatory definition as a basis and references its internal assessment and individual impairment to define detailed risk attributes and measurement standards of the five categories. The Bank also ensured that sufficient consideration is given to the various factors affecting the quality of credit assets and prudent practices are carried out in risk classification. For retail credit assets (including credit cards), the Bank has adopted a five-category system based on the ageing of overdue status and type of guarantees provided.

The Group adhered to the prudent risk appetite through implementing stringent interest calculation method and stringent risk monitoring activities. It proactively reacted to the risk pressure under "new normal" with the strategy of "early identification, early alert, early solving" and took special action to discover and solve risks in a more active manner in order to reduce the expected loss. As at the end of 2015, the balance of non-performing loans of the Group were RMB56.206 billion/1.51%, increased by RMB13.189 billion/0.26 percentage point from the beginning of the year. As at the end of 2015, the breakdown of the Group's five categories of loan classification stipulated by the CBRC were as follows:

(in millions of RMB unless otherwise stated)

	31 December 2015		31 December 2014		31 December 2013	
Categories	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**3,547,697**	**95.32**	3,296,815	96.07	3,173,011	97.14
Special mention	**118,103**	**3.17**	91,903	2.68	59,047	1.81
Total performing loan balance	**3,665,800**	**98.49**	3,388,718	98.75	3,232,058	98.95
Sub-standard	**22,953**	**0.62**	16,103	0.47	13,778	0.42
Doubtful	**22,521**	**0.61**	18,680	0.54	13,586	0.42
Loss	**10,732**	**0.28**	8,234	0.24	6,946	0.21
Total non-performing loan balance	**56,206**	**1.51**	43,017	1.25	34,310	1.05
Total	**3,722,006**	**100.00**	3,431,735	100.00	3,266,368	100.00

As at the end of 2015, the breakdown of the Group's migration rate stipulated by the Chinese banking regulatory authorities were as follows:

Loan migration rates (%)	**2015**	2014	2013
Pass	**2.52**	2.59	1.58
Special mention	**27.32**	24.43	23.18
Sub-standard	**32.14**	52.64	37.02
Doubtful	**21.78**	18.90	17.96

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

In 2016, influenced by the macro-economic downturn and de-capacity, risks will trend to spread from industrial chain with prominent overcapacity contradiction to upstream and downstream industries, from eastern coastal China to central and western China, from small and micro-enterprises to large and medium enterprises. It is expected that the Group will continue to bear the pressure of asset quality and the situation of risk management and control will still be relatively fierce.

5. Market Risk Management

Market risk refers to the risk of losses of on on and off-balance sheet businesses of the Bank arising from unfavourable changes in market prices (including interest rates, exchange rates, commodity prices and stock prices, etc.). The market risks exposed by the Group primarily included interest rate risk and foreign exchange risk (gold included).

The Group foreign exchange risk and general interest rate risk of trading book were assessed by the internal model approach, and market risk uncovered by the internal model approach was assessed by the standardised approach. In terms of the internal model approach, the Group adopted the historical simulation method to calculate value at risk (VaR) and stressed value at risk (SVaR) which had historical observation period of 1 year, holding period of 10 working days and 99% confidence interval.

The Group established and improved a market risk management framework with clarified duties and responsibilities, sound policies and procedures, enhanced measurement system, and timely analysis and monitoring to control and prevent market risks and heighten the level of market risk management. Based on the risk appetite adopted by the Board of Directors, the Bank proactively identified, measured, monitored, controlled and reported its market risks using a variety of methods such as management of limits, risk hedging, and risk transfer, to control its exposure to market risk within the acceptable range, and maximising risk-adjusted profits on this basis.

During the reporting period, the Group continued to improve its market risk management framework by revising and improving fair value policies for more accurate valuation, continuously optimising market risk information system, allocating valuation models, parameters and market data for new businesses, optimising market risk management models and allocation, independently verifying models newly allocated and reviewing data quality on a regular basis.

During the Reporting Period, the Group continued to improve the application of the results from market risk measurement into management's practice. The Bank were able to obtain the daily capital transaction positions of the entire bank and most updated market data to perform position valuation and sensitivity analysis in a timely manner, quantify market risks and measure (VaR) on a daily basis from different perspective such as different risk factors, different investment portfolios and products, using the historical simulation method, and it were also applied to capital measurement using the internal model, monitoring of limits, performance assessment, risk monitoring and analysis. The Bank were able to perform reverse testing to verify the accuracy of the VaR model and regular stress testing to analyse the risk situation of the investment portfolios under stressed scenarios. The results for 2015 reveal that the market risk measurement model was able to timely capture the financial market changes and objectively reflect market risks which the Bank faced.

The Group actively responded to market changes, and carried out studies on various areas such as the increase in interest rate and currency appreciation of US dollars, the marketisation of Renminbi interest rate and exchange rate, the fluctuations of Renminbi exchange rate and replacement of local municipal bonds, to provide comments and suggestions as references for management's decision. Meanwhile, the Group closely followed the new trend of governance over market risk both domestically and internationally. It actively involved in CBRC's quantitative testing and performed indepth analysis of the feasibility and challenges of the implementation of new market risk regulatory developments, in order to obtain timely feedback on the Bank's comments and recommendations.

6. Liquidity Risk Management and Control

During the Reporting Period, the Group prudently implemented the Rules on Liquidity Risk Management of Commercial Banks (Provisional) issued by the CBRC and continued with enhancement and improvement of liquidity risk management, achieving effective balance among security, liquidity and profitability.

The Group's liquidity risk management was aimed to fully identify, effective measure, continuous monitoring and proper control of the liquidity risks of the entire bank and its products, business lines, business links and institutions at all levels, so as to ensure the Bank maintains sufficient funds to carry out normal operations and perform matured debts and other payment obligations, whether in normal business environment or under stress. The Group's governance structure for liquidity risk management consists of decision-making body comprised of the Board of Directors and its subordinate Risk Management Committee, the Senior Management and its subordinate Market, Liquidity Risk Management Committee, supervisory body composed of the Supervisory Committee, the Audit Supervision Bureau, and executive body comprised of the Asset and Liability Management Department, the Treasury Business Centre, the Risk Management Department, the Asset Management Centre, Operations Management Department, branches, subsidiaries and the Head Office's departments in charge of businesses.

In terms of management model of liquidity risk, the Group has adopted an approach with centralisation and independence integrated. "Centralisation" was reflected in the consolidation management applied to liquidity risk and consideration of overall risk level of the legal person and the Group, while "independence" was reflected in separate reporting and management for liquidation risk situation of affiliates, specific business department or businesses, as well as each operating unit's responsibility for its own liquidity risk.

During the Reporting Period, the Group's businesses were developed in a coordinative manner under an overall stable condition of liquidity risk, and its all liquidity indicators were in line with regulatory requirements. As required by regulatory policies and the Bank's reformation strengthening the Group further intensified on and off-balance sheet liquidity risk management. Firstly, the Group released revised specifications such as Bank of Communication Liquidity Risk Management Measures, Bank of Communication Liquidity Risk Limit Management Measures and Bank of Communication Liquidity Risk Management Measures of off-balance Sheet Wealth Management, to further improve the liquidity management framework. Secondly, the Group constantly strengthened pre-judgements on macro economic situation, monetary policies and market interest rate trend and prediction on liquidity gap, to reinforce integrated scheduling of liquidity management. Thirdly, the Group applied regular stress testing to liquidity risk, provided that stressed scenarios were set in accordance with a prudence principle by taking into account internal relevance between all kinds of risks and liquidity risk and effect of market liquidity on bank liquidity. Fourthly, the Group, based on changes in macro economic situation, further clarified and optimised emergency procedures and measures to improve related units' capability of coping with liquidity risks at an accelerated responding speed.

7. Operational Risk Management

The Group has established a set of unified management policy system for operational risk, which clarified the basis of operational risk management. It ensured and regulated the work process related to operational risks and the control over self-assessment, management of operational risk events and monitoring of key risk indicators.

The Group vigorously promoted the integration of operational risk management and business management. It continued to upgrade the three-level assessment mechanism including the initial risk assessment over business cycles, and the self-assessment over key processes and re-assessment to identify the weak controls and designed corresponding action plans to mitigate risks weak link of management and control. The Group enriched the key indicators of operational risk, forming a multi-level monitoring mechanism that covered the Head Office and branches and enhancing the capacity of warning risks such as external fraud. It improved the completeness of reporting and management of operational risk events, and continued to strengthen and follow up the implementation and rectification. With regard to issues occurred in operational risk events and in risk and control assessment, any problems reflected by changes in key risk indicators, or current important businesses, the Group would continue to investigate the issue through typical cases analysis. The Group aimed to identify any deficiencies in management, and proposed targeted rectification measures and implemented the optimisation of business procedures and management mechanism. The Group continued to enhance monitoring of outsourcing risk in accordance with unified tools, standards and procedures of risk assessment. It updated the business continuity plan with regard to key business products all over the Bank, and performed the emergency drills under a condition that such four resources as system, venue, personnel and external provider are not available, of which the drill for application of emergency payment in an off-site databackup circumstance was conducted for the first time. The Group developed management policy and basic methods to standardise the information technology risk management system.

The Company continued to promote overseas institutions and subsidiaries including Hong Kong Branch, New York Branch, Bank of Communications (UK) Limited and BoCOM International Trust to develop recovery and disposal plan in accordance with the requirements of local and the industry's regulatory authorities under the Group's plan framework, to effectively cope with various requirements of regulatory authorities in the course of cross-industry and cross-border operations, and improve the capacity for risk management and control of consolidated financial statements.

8. Legal Compliance and Anti-money Laundering

The Group strove to establish a sound legal compliance management system that runs smoothly, operates efficiently, manages across industries and borders, and provides a variety of methods and tools and high quality services in a highly compliant environment, and also targeted to achieve a thorough management process of legal compliance including identification, prevention, monitoring, alert, settlement, resolution, inspection and supervision for legal and compliance risks, as well as to provide strong legal support and protection for the "Innovation, Transformation and Development" of the Bank, in order to ensure the compliance of the operation.

The Group continued to improve the legal compliance management system and mechanism. The Bank, in an all-around way, strengthened compliance risk management of overseas institutions by complying with "Volcker Rule" of the United States, moving forward implementation of American "Prudential standards" in an orderly manner and established a communication and coordination mechanism for North American and European compliance risk management with contact persons delegated. The Bank further standardised the thorough management process of policies and procedures by organising clearing of policies and procedures all over the Bank, to develop a scientific and rational system for policies and procedures. It strengthened the seal management by proposing countermeasures against weak points of seal management in major businesses and branches. During the Reporting Period, the Bank was granted the honour of "Pioneer Enterprise of Nationwide Banks on Legal Risk Management" by the China Banking Association.

The Group continued to strengthen the anti-money laundering management. It orderly implemented experimental work on anti-money laundering by optimising the work process and improving effectiveness in terms of anti-money laundering. It carefully investigated risks and assisted in investigation of anti-terrorism funding, the effort was complimented by the Central Bank and the Ministry of Public Security.

9. Reputational Risk

The Group continued to improve the reputational risk management to effectively lower the risk of negative comments from stakeholders on the Group caused by operational management, other behaviours and external events, and properly handled different types of reputational risk events.

The Group continued to improve reputational risk management system and mechanism, strengthened the recognition, warning, and assessment and monitoring of reputational risks, aimed to track and monitor the appearance and changes of the reputational risk factors in real time, promptly adjusts coping strategy and measures to make sure negative public opinions were actively responded and the reputational risk was under control.

10. Cross-industry, Cross-border and Country Risk Management

The Group has established cross-industry, cross-border risk management system with "Unified Management, Clarified Responsibilities, Complete System Tools, IT support, Risk Quantification, and Consolidation Management". The Bank promoted subsidiaries and overseas banking entities, taking into account both the Group's unified requirements and their respective regulatory requirements in order to prevent additional risks generated from cross-industry and cross-border operations.

During the Reporting Period, the Group revised the consolidation management policies in accordance with requirements of the new consolidation regulatory guidance. It prepared comprehensive assessment indicators for risk management of subsidiaries and overseas branches and performed regular assessment. It implemented the full exposure statistics and risk classification to improve the risk classification system within subsidiaries.

The Group enhanced the country risk management. In response to the "Belt and Road Initiatives", a state development strategy, it included relevant countries and regions into the scale of country risk assessment to continuously intensify control over country risk tolerance. As at the end of 2015, country (economy) risk exposure of the Group after risk transfer was RMB501.2 billion. The country (economy) risk exposure accounted for 7% of total assets of the Bank, among which 48.55% were located in Hong Kong region. The country (economy) risks were under control.

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

VI. OPERATIONS OF MAJOR SUBSIDIARIES

1. BoCOM Schroder

Bocom Schroder was set up in August 2005 with a registered capital of RMB0.2 billion. It is jointly owned by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The business scope includes the business of fund raising, fund sales, asset management, and other services approved by the CSRC. At the end of 2015, BoCOM Schroder's total assets were RMB434.141 billion and realised an annual net profit of RMB358 million.

BoCOM Schroder had a total of 231 employees among which 29% are researchers and traders, 30% are marketing staff, and 11% are operations staff. BoCOM Schroder controls BOCOM Schroder Asset Management Company Limited and BOCOM Schroder Asset Management (Hong Kong) Company Limited which have 29 employees in total (excluding part-time employees). BoCOM Schroder implemented a perfect performance appraisal system combined with a scientifically sound remuneration system. The total amount of remuneration comprised of basic salary and performance bonus which shall be determined based on their performance and contribution to the company. BoCOM Schroder has set up an education and training management system concentrated on business development. The training management system is provided to all staff of BoCOM Schroder and annual training plan is customised according to business development. Schroder had no left employee and retiree for whom BoCOM Schroder shall bear any expense.

2. BoCOM International Trust

BoCOM International Trust was set up in October 2007 with a registered capital of RMB3.765 billion.85% of shares are held by the Bank and 15% held by Hubei Province Finance Bureau. The business scope includes an array of trust services; investment and financing, mergers and acquisitions, corporate finance and financial advisory services as a founder of investment fund or fund management company; securities underwriting services entrusted by the State Council; intermediary services, consulting and credit investigation; generation custody business and safe deposit box service, interbank lending and borrowings, loans, leasing, investment based on existing assets; guarantee; interbank lending and borrowings; and other businesses approved by the CBRC. At the end of 2015, the amount of fiduciary trust managed by BoCOM International Trust was RMB486.848 billion, while the amount of AUM reached RMB493.423 billion. The annual net profit was RMB712 million.

As at the end of 2015, Bocom International Trust had a total of 187 employees, of which 61% are business staff and 98.4% hold bachelor degrees or higher academic degree. BoCOM International Trust implemented a performance appraisal and remuneration system which is fair for the staff and attractive to outsiders. In order to accelerate company development and enhance the human resource quality, BoCOM International Trust implemented and conducted the annual training plan. BoCOM International Trust established a perfect and scientific training system which is appropriate to all staff in all levels and beneficial for the company's development and employee individual career goals. Such training system promoted the company stronger through personnel development.

3. BoCOM Leasing

BoCOM Leasing, the Bank's wholly-owned subsidiary, was set up in December 2007 with a registered capital of RMB7 billion. The business scope includes finance leasing business, accepting guaranteed deposit of the lessee, transferring in and out assets under a finance lease, absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders, interbank lending and borrowing, disposal of leased articles, economic consulting, establishing project companies in bonded areas for purpose of finance lease business, and providing guarantees for external financing of subsidiaries and project companies. As at the end of 2015, its total assets were RMB144.383 billion and net profit was RMB1.611 billion.

As at the end of 2015, BoCOM Leasing had a total of 176 employees, including 6 senior executives, 91 front office staff, and 79 back and middle office staff. 90% of total employees held Bachelor's degree or higher academic degree.

4. BoCommlife Insurance

BoCommlife Insurance was set up in January 2010 with a registered capital of RMB2.1 billion.62.5% of shares are held by the Bank and 37.5% held by Commonwealth Bank of Australia. The business scope includes life insurance, health insurance, accidental injury insurance and reinsurance businesses (excluding statutory insurance) in the Shanghai administrative region and in the provinces, autonomous regions and municipalities where the branches of the BoCommlife Insurance were set up. As at the end of 2015, BoCommlife Insurance's total assets were RMB11.306 billion and net assets were RMB2.201 billion and its annual net profit was RMB101 million. Total premium income in 2014 was RMB4.072 billion and premium income from new businesses was RMB3.475 billion.

As at the end of 2015, BoCommlife Insurance had a total of 1,172 employees, including 604 sales staff, 67 finance-related staff. 1,136 employees held college degree or higher academic degree, in which 707 employees held Bachelor's degree and 97 employees held a Master's degree or higher academic degree. In 2015, BoCommlife Insurance further optimised strategic performance management system and gave full play to guidance and motivation of remuneration and performance management, to improve assessment and incentive system encouraging excellent performance in a fair manner. In addition, as required by transformation development strategy, it performed planned and organised trainings for management staff, business lines, comprehensive skill promotion of staff, etc.

5. BoCOM International

BoCOM International was set up in May 2007 with a registered capital of HKD2 billion. It was set up under the business restructuring and integration program of BOCOM International Securities Limited. It has three subsidiaries in Hong Kong, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited, respectively engaged in capital market financing, mergers and acquisitions, financial consulting, securities sales and asset management. It also established wholly-owned Bank of Communications International (Shanghai) Equity Investment Management Limited in Shanghai engaged in Renminbi denominated equity investment management. As at the end of 2015, its total assets were HKD8.772 billion and its total revenue reached HKD1.159 billion, with annual net profit of HKD350 million.

As at the end of 2015, BoCOM International had a total of 261 employees, of which 29% are back office employees and 71% are front and middle office employees. 42% of total employees held a bachelor degree and 49% held a Master's degree or higher academic degree. Total amount of remuneration consists of basic salary and bonus. The amount of bonus is determined by the company performance in the current year, department performance and employee individual performance. In light of requirements of employee development and continuous learning, BoCOM International held employee training to promote business development and increase employees' skills.

6. BoCOM Insurance

As a wholly owned subsidiary of the Bank, BoCOM Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The business scope includes general insurance businesses of all sorts. At the end of 2015, BoCOM Insurance's net profit amounted to HKD12.48 million for the year, and net assets and total insurance assets were HKD626 million and HKD528 million, respectively.

As at the end of 2015 BoCOM Insurance had a total of 39 employees, of which 69% are front office employees. 56% of total employees held bachelor degree or higher academic degree. The salary was paid once a month and the amount of bonus of determined by performance.

7. Four Rural Banks

Dayi BoCOM Rural Bank was set up in September 2008 with a registered capital of RMB60 million and is 61% owned by the Bank. At the end of 2015, its total assets were RMB1.541 billion, total due to customers were RMB892 million, total loans amounted to RMB916 million and its annual net profit reached RMB19.13 million. Dayi BoCOM Rural Bank had a total of 46 employees of which 98% hold college degree or higher academic degree.

Anji BoCOM Rural Bank was set up in April 2010 with a registered capital of RMB180 million and is 51% owned by the Bank. At the end of 2015, its total assets were RMB2.042 billion, total due to customers were RMB1.491 billion and total loans amounted to RMB1.185 billion. Its annual net profit suffers from slightly loss. Anji BoCOM Rural Bank had a total of 86 employees of which 100% hold college degree or higher academic degree, and no one resigned or retired.

Xinjiang Shihezi BoCOM Rural Bank was set up in May 2011 with a registered capital of RMB150 million (paid-in capital of RMB100 million) and is 51% owned by the Bank. At the end of 2015, its total assets were RMB2.930 billion, total due to customers were RMB2.425 billion, total loans amounted to RMB1.951 billion and its annual net profit reached RMB58.06 million. Xinjiang Shihezi BoCOM Rural Bank had a total of 79 employees of which 79.75% hold college degree or higher academic degree.

Qindao Laoshan BoCOM Rural Bank was set up in September 2012 with a registered capital of RMB150 million and is 51% owned by the Bank. At the end of 2015, its total assets were RMB1.190 billion, total due to customers were RMB0.958 billion, total loans amounted to RMB0.766 billion and its annual net profit reached RMB22.35 million. Qindao Laoshan BoCOM Rural Bank had a total of 45 employees of which 88.89% hold college degree or higher academic degree.

VII. STRATEGIC COOPERATION

In 2015, with these past years of strong relationship, BoCOM and HSBC continue to commit to develop a BoCOM-HSBC global strategic co-operation relationship, to create a new era for the "Go Global" strategy.

Through high levels of planning and strengthening the foundation of their cooperation, in 2015, BoCOM's proposal of reformation was approved by the State Council, in which a key point was to strengthen the cooperation with HSBC, to unleash the full potential of their investment strategy. Taking this opportunity, the two banks optimised the comprehensive cooperation mechanism between head offices, branches and overseas branches and strengthen cross-border business cooperation, so as to develop the global strategic cooperation.

There are close communications among top management of both banks to set the direction of the cooperation. In 2015, top management of the two banks continue to communicate closely, by top management meetings, summit conferences, Executive Chairman regular meetings, mail correspondences, ad hoc meetings and exchange visits of overseas branches. The efficient and meaningful communication between the top management of both banks, will not only greatly benefit both to reach a unanimous consensus and share their experiences, but also set the direction and objective for their collaboration in the future. This will become the core driving force to further strengthen the strategic cooperation of the two banks.

Enhancing the motivation of cooperation on successful cooperation history.

– Comprehensively strengthening cooperation overseas. In 2015, under the "1+1 Global Financial Service" scheme, the two banks completed 17 syndicated loans, issuance of 10 offshore bonds and 3 IPO projects in Hong Kong, which amounted to approximately USD25 billion. Furthermore, the two banks developed syndicated cooperation in Macao and Sydney that resulted in substantive breakthrough, and also established a mechanism for the joint conference of European region which laid the foundation of the cooperation.

– Further stabilisation of regular business cooperation. In 2015, BoCOM continuously took advantage of its offshore business; the Bank's transactions of US dollar settlement with HSBC increased by 27% on a year-on-year basis. BoCOM's custody business also increased by 58% as compared to previous financial year, through the internal referral of customers within the two banks. At the end of the year, there are 40 cooperated projects, increased by 7 projects from the beginning of the year. The two banks have been actively seizing opportunities from the capital markets and strengthening their cooperation in the raising of funds. During the financial year, as a fund distributor of HSBC Jintrust, the Bank accomplished total subscription of RMB1.3 billion, representing a year-on-year increase of 58%.

– Vigorous promotion of emerging business cooperation. After cooperating on the first domestic securitisation business on credit assets of foreign bank (HSBC (China)) in 2014, the two banks cooperated once again in 2015 to complete the first securitisation business on credit card assets, amounting to approximately RMB5 billion. The two banks actively explored mutual recognition between domestic and Hong Kong's funds. Growth fund under BoCOM Schroder was approved as "southward" fund (i.e., domestic fund products that are approved to be distributed in Hong Kong), with HSBC as its main distributor.

Realise common development through sharing of experiences. Facing the “New Normal” of economic development, and new regulation environment from both domestic and overseas in year 2015; the two banks shared their experiences on “1+1 Global Financial Service”, domestic and overseas credit authorisation and risk management, international supervision, Internet finance and investment banking. This is for the purpose of implementing BoCom’s internationalisation strategy and HSBC’s Asia strategy. The Bank also, for the first time, conducted conference and training to HSBC’s senior management in Greater China regarding domestic government structure, macro economy, risk management and business cooperation.

Looking in the future, going with the trend of development of opening cooperation, insisting on the concept of “cooperation priority” and seizing the historic opportunity of Chinese enterprises “Going Global”, RMB internationalisation, connectivity of domestic and overseas capital markets, construction of “Belt and Road Initiatives”, the two banks will continue to complete the “1+1 Global Financial Service” mode, explore cooperative mechanism for overseas divisions and domestic tier-1 branches, so as to achieve reciprocity, mutual benefit and win-win cooperation.

VIII. OUTLOOK

Looking ahead to 2016, the world economy will continue to demonstrate unstable tendency and suffer from sluggish recovery and increase of uncertainty, while China’s economy is still under “New Normal” where economic growth momentum gradually transforms, economic structure tends to be optimised and spending is playing a stronger fundamental role in driving the economic growth. Commercial banks will face an unprecedented complicated business environment in 2016, which provides both good opportunities and severe challenges.

On one hand, affected by the sluggish demand of traditional industries, the broadened financing channels of emerging industries as well as the pressure from direct financing, policy-based finance, Internet finance and credit scale show slower growth. Affected by the accelerated interest rate liberalisation and the scarce high-quality asset resources, net interest margin (“**NIM**”) is under downward pressure. With constant profound changes in the ecosystem of industry and more intense pan-finance and crossover more intense competition online and offline, comprehensive supervision becomes more prudent and stringent. Economic operation is facing greater risks and credit risk management and control is an arduous task, setting higher requirements for the management of liquidity risk and market risk. On the other hand, the implementation of national strategies and structural reformation will also bring new opportunities to the banking sector. China will continue with its aggressive fiscal policy, new urbanisation and new rural construction, integration of Beijing-Tianjin-Hebei, construction of Yangtze River Economic Zone and promotion of the “Belt and Road Initiatives”. China’s infrastructure investments will continue to strengthen. The foundation of reformation of interest rate and exchange rate market has been completed, which has substantially improved the breadth, depth and openness of financial market and significantly enhanced the flexibility of Renminbi exchange rate, providing brand-new business opportunities for developing transactional bank business and strengthening financial market business. Sustained growth of average personal income and wealth as well as constant increase of high net-worth customers are beneficial to wealth management business. Renminbi internationalisation, financial reformation and opening of FTZ bring broad prospects for international business.

Amidst the complex and rapidly changing external environment where opportunities and challenges coexist, the Group, oriented by serving the real economy, will proactively follow the implementation of national strategy, accelerate reformation and transformation, implement innovation-driven development, gradually establishing five brand-new development concepts including innovation, marketisation, connotation, coordination and sharing, positioning as a comprehensive financial service provider, to build diversification and light-capital business model, and to fully improve the effectiveness of delicacy, professional and collaborative management. Specifically, we will focus on the following:

The first is to vigorously enlarge the total amount of social financing, so as to grasp the development opportunity in serving the real economy. The Group will closely follows national strategic to support transportation, shantytown renovation, key infrastructure construction, livelihood security, consumption upgrading and new urbanisation, in order to improve the comprehensive financial service level. Under the context of “Mass Entrepreneurship and Innovation”, it will explore and improve the service model of Internet finance and all-inclusive finance. Relying on the financial service system with integration of “equity, loan and bond” and cross-border business network, it will widen corporate financing channels and reduce financing cost. Furthermore, it will adjust and optimise credit structure to boost industrial restructuring and economic transition and upgrading.

The second is to comprehensively strengthen reformation and business model innovation, so as to fully stimulate operating vitality. The Group will accelerate reformation of performance remuneration mechanism, to motivate the staff. It will also continue to strengthen the reformation of divisional structure by improving incentive and restriction mechanisms, to achieve synergy among each divisions to maximise the profits, build branding and uniqueness. Based on the capital adequacy ratio and liquidity index, the Group will establish a comprehensive, balance, dynamic, perspective and precise balance sheet management system, to improve efficiency on resource allocation. In 2016, the Group is expected to achieve a growth of no less than 5% in total assets.

The third is to promote transformative development lead by “BoCom Strategy”, so as to constantly improve operation performance. The Group will accelerate the globalisation, push forward cross-border financial businesses, with equal stress on both old and new businesses as well as both Renmibi and foreign currency businesses, including trade finance, settlement, cross-border investment and financing, cross-border wealth management, cross-border cash management and cross-border transactional business. It will improve integrated operation by promoting mutual benefits, sharing and coordination between the Bank and its subsidiaries in terms of customer information, information system, portfolios and marketing. The Group will establish a business management system based on AUM, to effectively realise value-added circulation of assets management, trust, fund, insurance and custody, to drive its transformative development towards wealth management bank, and to finally enhance its overall operation performance.

The fourth is to strengthen risk management and control, and to stabilise asset quality. The Group will promote risk culture of "lawful and stable operation", so as to improve the comprehensive risk management system and strengthen the adjustments of risk management structure. It will enhance risk management and control in key areas, take strict precautions against risks in emerging fields such as Internet finance and credit-like business, and take careful and solid efforts on post-loan and manage over tenor of loans. Based on the outline of credit and risk policy and the direction of loan investment, the Group will strictly control over credit approval and monitoring from the roots cause giving rise to credit risk. It will strengthen management of market risk, interest rate risk and liquidity risk, improve its cross-industry, cross-border risk management, and enhance the prevention and control of such risks.

The fifth is to drive integration and development of online and offline channels, so as to make the best service bank. It will continue to increase the efficiency of new generation core business system by further exploring customer potential value, promoting product innovation and improving counter service efficiency. Insist on customer-oriented policy and "Trinity" operation model with integration of multiple channels, the Group will improve service chain management and, based on "efficient, seamless and closed loop" principle, make great efforts to promote optimisation and integration of all aspects of service chain including channels, flows and products, in order to become a bank with the least complaints, the highest service efficiency and the most prominently standardised, professional and specialised services.

CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

As at 31 December 2015, the Bank had 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 account for 52.85% and 47.15%, respectively.

1. Changes in capital structure

	1 January 2015		Increase/decrease during the Reporting Period				31 December 2015	
	Number of shares (share)	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	6,541,810,669	8.81	–	–	–	(6,541,810,669)	–	–
II. Shares not subject to sales restrictions	67,720,915,976	91.19	–	–	–	6,541,810,669	74,262,726,645	100.00
1. RMB ordinary shares	32,709,053,346	44.04	–	–	–	6,541,810,669	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**

2. Changes in shares subject to sales restrictions

Name of shareholders	Number of shares subject to sales restrictions at the beginning of the year	Number of shares released from sales restrictions in the current year	Increase in number of shares subject to sales restrictions in the current year	Number of shares subject to sales restrictions at the end of the year	Date of release from sales restrictions
Ministry of Finance	2,530,340,780	2,530,340,780	–	–	24 August 2015
SSF	1,877,513,451	1,877,513,451	–	–	24 August 2015
Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products	705,385,012	705,385,012	–	–	24 August 2015
China FAW Group Corporation	439,560,439	439,560,439	–	–	24 August 2015
Shanghai Haiyan Investment Management Co., Ltd.	439,560,439	439,560,439	–	–	24 August 2015
China National Tobacco Corporation – Zhejiang Branch	329,670,329	329,670,329	–	–	24 August 2015
Yunnan Hongta Group Co., Ltd.	219,780,219	219,780,219	–	–	24 August 2015
Total	6,541,810,669	6,541,810,669	–	–	24 August 2015

Note: the Bank has implemented non-public issuance of A shares and H shares in 2012, where 6,541,810,669 A shares were issued with the issue price of RMB4.55 per share. The Bank completed the registration and sales restriction procedure in respect of the issuance of above-mentioned A shares in Shanghai branch of China Securities Depository and Clearing Company Limited on 23 August 2012. All the A shares subscribed for under such non-public issuance are subject to a lock-up period of 36 months from the completion of the issuance, and are expected to be listed and commence dealing on 24 August 2015.

II. SECURITIES ISSUANCE AND LISTING

During the Reporting Period, the Bank has not issued any ordinary shares. For issuance of preference shares, please refer to the section headed "Issuance of Preference Share".

The Bank has no employee stock.

III. SHAREHOLDINGS OF SHAREHOLDERS

1. Number of shareholders

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 462,486, of which 424,051 were holders of A shares and 38,435 were holders of H shares. As at 29 February 2016, the total number of shareholders of the Bank was 471,495, of which 433,103 were holders of A shares and 38,392 were holders of H shares.

2. Shareholdings of the shareholders (according to the Bank's register of members maintained at its share registrar)

(1) Shareholdings of the Top 10 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 (%)	Number of shares held subject to sales restrictions	Number of shares pledged or frozen[1]	Nature of shareholder
Ministry of Finance	–	19,702,693,828	26.53	–	Nil	State
HKSCC Nominees Limited[2]	25,880,822	14,943,165,063	20.12	–	Unknown	Foreign legal person
HSBC[3]	–	13,886,417,698	18.70	–	Nil	Foreign legal person
SSF[4]	–	3,283,069,006	4.42	–	Nil	State
China Securities Finance Corporation Limited	–	1,477,209,895	1.99	–	Unknown	State-owned legal person
Capital Airports Holding Company	–	1,246,591,087	1.68	–	Unknown	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	–	Unknown	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	–	Unknown	State-owned legal person
Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products	(14,801,578)	705,385,123	0.95	–	Unknown	Domestic non-state-owned legal person
China FAW Group Corporation	–	663,941,711	0.89	–	Unknown	State-owned legal person

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, or the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies.
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 31 December 2015. (Same applies hereinafter)
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at 31 December 2015. In addition, according to the disclosure of interests forms 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 31 December 2015, representing 19.03% of the Bank's total issued ordinary shares. Please refer to "Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong SFO" for details of the H shares that deemed to be beneficially owned by HSBC. (Same applies hereinafter)
4. According to the information provided by SSF to the Bank, as at 31 December 2015, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,027,777,777 H shares of the Bank, representing 9.46% of the Bank's total issued ordinary shares, which had been registered under HKSCC Nominees Limited. As at 31 December 2015, SSF held a total of 10,310,846,783 A shares and H shares of the Bank, representing 13.88% of the Bank's total issued ordinary shares.

(2) Shareholdings of top 10 Ordinary shareholders not subject to sales restrictions

Name of shareholders	Number of shares held not subject to sales restrictions (share)	Class and number of shares: Class	Class and number of shares: Number of shares (share)
Ministry of Finance	15,148,693,829	RMB ordinary shares	15,148,693,829
	4,553,999,999	Overseas-listed foreign shares	4,553,999,999
HKSCC Nominees Limited	14,943,165,063	Overseas-listed foreign shares	14,943,165,063
HSBC	13,886,417,698	Overseas-listed foreign shares	13,886,417,698
SSF	1,877,513,451	RMB ordinary shares	1,877,513,451
	1,405,555,555	Overseas-listed foreign shares	1,405,555,555
China Securities Finance Corporation Limited	1,477,209,895	RMB ordinary shares	1,477,209,895
Capital Airports Holding Company	1,246,591,087	RMB ordinary shares	1,246,591,087
Shanghai Haiyan Investment Management Co., Ltd.	808,145,417	RMB ordinary shares	808,145,417
Wutongshu Investment Platform Co., Ltd.	794,557,920	RMB ordinary shares	794,557,920
Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products	705,385,123	RMB ordinary shares	705,385,123
China FAW Group Corporation	663,941,711	RMB ordinary shares	663,941,711

Note: The Bank is not aware of the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies.

(3) *Details of strategic investors or general legal persons becoming top 10 shareholders for issuing new shares:*

During the non-public issuance of A shares and H shares of the Bank in 2012, Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products became the top 10 shareholders of the Bank by subscribing 705,385,012 A shares of the Bank. The Bank has not agreed the end date of shareholding with Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products.

3. Controlling shareholders/actual controllers

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

4. Shareholders (legal person) holding 10% or more of the issued share capital of the Bank (excluding HKSCC Nominees Limited)

Name of shareholders (legal person)	Person in charge or legal representative	Date of establishment	Organisation code/Business registration No.	Registered capital	Main responsibilities or management activities
Ministry of Finance	Lou Jiwei	October 1949	00001318-6	N/A	Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policy.
HSBC	Stuart Gulliver	1865	00173611-000-01-12-7	N/A[Note]	Primarily provide local and international banking services, and related financial services in the Asia-Pacific region.
SSF	Xie Xuren	August 2000	71780082-2	RMB8 million	Ministry-level institution directly under the State Council, and an independent legal entity responsible for managing and operating national social security fund.

Note: As at 31 December 2015, HSBC issued ordinary share capital of HKD96.0525 billion and preference share capital of 4.703 billion shares, including 1.05 billion cumulative redeemable preference shares, 3.253 billion non-cumulative irredeemable preference shares and 0.4 billion cumulative irredeemable preference shares.

5. Substantial shareholders and holders of interests or short positions required to be disclosed under divisions 2 and 3 of part XV of the Hong Kong Securities and Futures Ordinance

As at 31 December 2015, to the knowledge of the Directors, Supervisors and chief executive of the Bank, the substantial shareholders and other persons (other than 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 Hong Kong Securities and Future Ordinance (the "**SFO**") were as follows:

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

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued ordinary shares (%)
SSF	Beneficial owner	8,433,333,332	Long position	24.09	11.36
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
	Interest of controlled corporations	2,674,232[3]	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interest of controlled corporations	14,138,310,845[4]	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[5]	Long position	0.0002	0.0001
	Total	9,075,250		0.03	0.01
HSBC Holdings plc	Interest of controlled corporations	14,147,386,095[6]	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 31 December 2015, 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 issued ordinary shares of the Bank, respectively.
3. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to be interested in the 2,674,232 H shares held by its wholly-owned subsidiaries. Such 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.
4. HSBC is wholly owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly owned by HSBC Asia Holdings (UK) Limited which is wholly owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is 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 be interested in the 14,138,310,845 H shares held by HSBC.
5. 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, which is in turn owned as to 94.90% 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 be interested in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
6. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5, and the SFO, HSBC Holdings plc is deemed to be interested in 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 31 December 2015, no 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.

ISSUANCE OF PREFERENCE SHARES

I. Issuance and Listing of Preference Shares for the Three Years ended 31 December 2015

As approved under Yin Jian Fu [2015] No. 419 issued by the CBRC and under Zheng Jian Xu Ke [2015] No. 1646 issued by the CSRC, on 29 July 2015, the Bank completed the non-public issuance of overseas preference shares totalling USD2.45 billion. The overseas preference shares, with par value of RMB100 per share and issue price of USD20 per share, were all subscribed for in US dollars. Based on the average exchange rate of Renminbi against the US dollars on 29 July 2015 published by the China Foreign Exchange Trade System, the issuance of overseas preference shares has raised total proceeds of approximately RMB14.98 billion. After deduction of commission and issuance expenses, the issuance of overseas preference shares has raised net proceeds of approximately RMB14.92 billion, which were all used to replenish Other Tier-1 Capital of the Bank so as to increase the capital adequacy ratio.

Code of preference share	Abbreviation of preference share	Issuance date	Issue price (USD/share)	Nominal dividend yield (%)	Number of shares issued (share)	Total amount of shares issued (in USD)	Listing date	Number of shares approved for trading (share)
4605	BOCOM 15USD PREF	29/07/2015	20	5	122,500,000	2,450,000,000	30/07/2015	122,500,000

II. Preference Shareholders

1. Total number of preference shareholders

Total number of preference shareholders as at the end of the Reporting Period	1 shareholder
Total number of preference shareholders as at the end of the month immediately preceding the date of publication of this annual report	1 shareholder

2. Top 10 Preference Shareholders as at the end of the Reporting Period

Unit: Share

Shareholdings of the Top 10 Shareholders							
					Number of shares pledged or frozen		
Name of shareholders (full name)	Increase/ decrease in shares during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Class of shares held	Status of shares	Number of shares	Nature of shareholder
DB Nominees (Hong Kong) Limited	–	122,500,000	100	Overseas preference share	Unknown	–	Foreign legal person

Notes:

1. Shareholdings of preference shareholder are counted according to the Bank's register members of preference shareholders.
2. DB Nominees (Hong Kong) Limited, as a trustee, holds 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 31 December 2015.
3. The Bank is not aware of any existence of any connected relationship among the above shareholders and top 10 ordinary shareholders, or whether they are parties acting in concert.

III. Dividends distribution of preference shares

During the Reporting Period, the Bank made no distribution of dividends for preference shares.

IV. Redemption and conversion of preference shares during the reporting period

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

V. Recovery and exercise of voting rights (if any during the reporting period) required to be disclosed

During the Reporting Period, the Bank had no recovery of voting rights for preference shares.

VI. Accounting policy for preference shares and its rationale

In accordance with 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 issued preference shares met the requirements to be recognized as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

I. PROFILE OF DIRECTORS

As at 31 December 2015, the Bank's 16 directors are as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Niu Ximing	Chairman of the Board of Directors and Executive Director	Male	59	December 2009 – date of 2015 annual general meeting
Peng Chun	Vice Chairman of the Board of Directors, Executive Director and President	Male	54	November 2013 – the same as above
Yu Yali	Executive Director and Executive Vice President	Female	58	August 2012 – the same as above
Hou Weidong	Executive Director, Executive Vice President and Chief Information Officer	Male	56	October 2015 – the same as above
Hu Huating	Non-executive Director	Male	58	September 2004 – the same as above
Wang Taiyin	Non-executive Director	Male	51	August 2013 – the same as above
Liu Changshun	Non-executive Director	Male	57	September 2014 – the same as above
Peter Wong Tung Shun	Non-executive Director	Male	64	August 2005 – the same as above
Ma Qiang	Non-executive Director	Male	57	September 2011 – the same as above
Zhang Yuxia	Non-executive Director	Female	60	August 2013 – the same as above
Peter Hugh Nolan	Independent Non-executive Director	Male	67	November 2010 – the same as above
Chen Zhiwu	Independent Non-executive Director	Male	53	November 2010 – the same as above
Choi Yiu-Kwan	Independent Non-executive Director	Male	61	September 2011 – the same as above
Yu Yongshun	Independent Non-executive Director	Male	65	August 2013 – the same as above
Li Jian	Independent Non-executive Director	Female	62	October 2014 – the same as above
Liu Li	Independent Non-executive Director	Male	60	September 2014 – the same as above

Notes:

1. Term of office of re-elected directors begins from their first appointment date. Independent non-executive directors cannot serve more than 6 years successively.
2. Term of office of Mr. Niu Ximing and Mr. Peng Chun refers to their term of office as executive directors of the Bank.
3. Term of office of Mrs. Yu Yali and Mr. Hou Weidong refers to their term of office as executive directors of the Bank.

Mr. Niu Ximing, age 59, Chairman and Executive Director. Mr. Niu has been the Chairman of the Board of Directors and Executive Director of the Bank since October 2013. From May 2013 to October 2013, Mr. Niu was the Chairman of the Board of Directors, Executive Director and President of the Bank. Mr. Niu was the Vice Chairman, Executive Director and President of the Bank from December 2009 to May 2013. Mr. Niu previously held several positions in Industrial and Commercial Bank of China ("**ICBC**") from July 1986 to December 2009, including Deputy General Manager and General Manager of ICBC's Xining Branch in Qinghai Province, Deputy Director, Director and General Manager of the Public Transportation Credit Department of ICBC, General Manager of ICBC's Beijing Branch, Assistant to the President of ICBC and General Manager of ICBC's Beijing Branch, Executive Vice President of ICBC and Executive Director and Executive Vice President of ICBC. Mr. Niu worked at the PBOC from September 1983 to July 1986 and served as Vice Director of the Industrial and Commercial Credit Department of the PBOC's Qinghai Branch from December 1984 to July 1986. Mr. Niu obtained his Bachelor's Degree in Finance from Central University of Finance and Economics in 1983. Mr. Niu obtained his Master's Degree in Economics from School of Management Harbin Institute of Technology in 1997 and received special government allowances issued by the State Council starting in 1999.

Mr. Peng Chun, age 54, Vice Chairman, Executive Director and President. Mr. Peng has been the Vice Chairman and Executive Director of the Bank since November 2013. He has been the President of the Bank since October 2013. Mr. Peng previously served as Deputy General Manager of China Investment Corporation, and concurrently served as Executive Director and General Manager of Central Huijin Investment Ltd. from April 2010 to September 2013. Mr. Peng served in several positions in the Bank, including Executive Director and Executive Vice President from August 2005 to April 2010, Executive Vice President from September 2004 to August 2005, Director and Assistant to the President of the Bank from June 2004 to September 2004, Assistant to the President of the Bank from September 2001 to June 2004, Deputy Manager and Manager of Urumqi Branch, General Manager of Nanning Branch and General Manager of Guangzhou Branch from 1994 to 2001. Mr. Peng obtained his Master's degree in Economics from PBC School of Finance in 1986.

Ms. Yu Yali, age 58, Executive Director and Vice President. Ms. Yu has been an Executive Director of the Bank since August 2012. Ms. Yu has served as Vice President and Chief Financial Officer of the Bank since August 2007 (no longer served as Chief Financial Officer concurrently since April 2015). Ms. Yu served as Chief Financial Officer of the Bank from August 2004 to August 2007. Ms. Yu was General Manager of the Finance and Accounting Department and Financial Budget Department of the Bank from December 1999 to August 2004. Ms. Yu has previously served in numerous positions, including Head of Finance and Accounting Division and Deputy General Manager of the Bank's Zhengzhou Branch and Deputy General Manager of Finance and Accounting Department of the Head Office from February 1993 to December 1999. Ms. Yu obtained her MBA degree from Fudan University in 2006.

Mr. Hou Weidong, age 56, Executive Director, Vice President and Chief Information Officer. Mr. Hou has been Executive Director of the Bank since October 2015. He has held the positions of Vice President and Chief Information Officer of the Bank since December 2010. He held the position of Chief Information Officer from August 2004 to December 2010 and was the General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and the Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. Before joining the Bank, he served as Deputy General Manager of Technology Security Department and General Manager of Data Centre in ICBC from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

Mr. Hu Huating, age 58, Non-executive Director. Mr.Hu has served as a Non-executive Director of the Bank since September 2004. Mr. Hu served in several positions within the Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials Affairs, Deputy Director of the Economic Construction Department, Assistant Inspector of the Infrastructure Department, Head of the Comprehensive Division and the Second Investment Division, Head of the Second Division of Comprehensive Planning Supplementary Budget Management Department, Deputy Head of the Special Division of Agricultural Taxation Department, Deputy Head of the Central Division of the Supplementary Budget Management Department, Deputy Head of the Wages and Commodity Prices, Division of the Comprehensive Planning Department and Secretary of the General Office. Mr. Hu obtained his Master's degree in Investment Economics from Dongbei University of Finance and Economics in 1998.

Mr. Wang Taiyin, age 51, Non-executive Director. Mr. Wang has been a Non-executive Director since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013 such as Associate Officer and Second Officer of the Technical Expert Division of Human Resource Department and the Grass-root Level Service Department of the Ministry of Finance, First Officer of the Grass-root Level Service Division of Personnel and Education Department, First Officer of the Representative Agency of the Personnel and Education Department (during which served as the governor's assistant of the Municipal Government in Chaoyang County, Liaoning Province from October 1995 to October 1996), Deputy Head and Inspector, Secretary of the Personnel Development Department (enjoy benefit package as Division Chief), Head of the Representative Agency of the Personnel Development Department and Associate Inspector of the Personnel Development Department. Mr. Wang graduated from Zhongnan University of Economics and Law with major in Political Science in 1986.

Mr. Liu Changshun, age 57, Non-executive Director. Mr. Liu has been a Non-executive Director since September 2014. He previously served as Officer of General Office, Deputy Head of Comprehensive Division, Commissioner Assistant, Deputy Commissioner and Commissioner in Commissioner Office of the Ministry of Finance from January 1995 to June 2014, Official, Deputy Director and Officer in Central Enterprise Finance Division of Jilin Province Department of Finance of the Ministry of Finance from April 1987 to January 1995, and Associate Officer and Second Officer from October 1977 and April 1987. Mr. Liu obtained his Master's degree in Management from Business Management School of Jilin University in 2002.

Mr. Peter Wong Tung Shun, age 64, Non-executive Director. Mr. Wong has been a Non-executive Director of the Bank since August 2005. Mr. Wong currently holds the positions as the Executive Vice President and Chief Executive Officer of HSBC, the Bank's substantial shareholder, as well as the Chief Operation Officer of the HSBC Group, member of the Group's Management Committee, Chairman and Non-executive Director of HSBC Bank (China) Company Limited and, Chairman and Non-executive Director of HSBC Bank (Malaysia) Company Limited. He also serves as Non-executive Director for Hang Seng Bank Limited as well as Independent Non-executive Director of Cathay Pacific Airways Limited. Mr. Wong was the Chairman of The Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China include economic consultant for the Governor in the International Consultation Conference on the Future Economic Development of Guangdong Province 2013-2015, member of the 12th Chinese People's Political Consultative Conference ("CPPCC"), Standing Committee and member of the 11th CPPCC in Hubei Province, International Economics Consultant for the Mayor of Chongqing, Council Member of the China Banking Association Council, and Standing Council Member of the Red Cross Society of China. He has been a Visiting Professor at Central University of Finance and Economics since June 2011. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Bachelor's and Master's degree in Computer Science, and MBA in Marketing and Finance from Indiana University in the US in 1976 and 1979 respectively.

Mr. Ma Qiang, age 57, Non-executive Director. Mr. Ma has been a Non-executive Director of the Bank since September 2011. Mr. Ma holds the position of Director of the Equity Management Department (Industrial Investment Department) of National Council for Social Security Fund since December 2010. Mr. Ma previously served as Deputy Chief, Member of the Party Leadership Group, Deputy Chief and Deputy Secretary of the Party Leadership Group (bureau level) of the Tianjin Finance Bureau (the Tianjin Local Tax Bureau) from July 2001 to December 2010. Mr. Ma graduated from Online College of Hunan University in 2004 with major in Finance.

Ms. Zhang Yuxia, age 60, Non-executive Director. Ms. Zhang has been the Non-executive Director of the Bank since August 2013. Ms. Zhang is holding the position of Chief Accountant of the China National Tobacco Corporation since December 2009; Ms. Zhang previously served as the Director of Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration from July 1998 to December 2009. Ms. Zhang also served as the Deputy Manager (at a level equal to the Deputy Head) of Institution Service Agency of the Ministry of Finance from July 1996 to July 1998 and served as Associate Officer, Second Officer, Deputy Director and Director of the Second National Industrial Division of Industrial and Transportation Finance Department of the Ministry of Finance from February 1982 to July 1996. Ms. Zhang, Senior Accountant and CICPA, obtained her bachelor's degree in Accounting of the Department of Industrial Management from Tianjin University of Finance and Economics in 1982.

Mr. Peter Hugh Nolan, age 67, recipient of the Commander of the Most Excellent Order of the British Empire, Independent Non-executive Director. Mr. Nolan has been an Independent Non-executive Director of the Bank since November 2010. Since 2012, Mr. Nolan has been Director and Professor of Centre of Chinese Development and Studies, at Cambridge University. Mr. Nolan was a professor in Judge Business School at Cambridge University from 1997 to 2012 and was a lecturer in the Faculty of Economics and Political Science at Cambridge University from 1979 to 1997. Mr. Nolan obtained his Doctoral degree in Economics from University of London in 1981.

Mr. Chen Zhiwu, age 53, Independent Non-executive Director. Mr. Chen has been an Independent Non-executive Director of the Bank since November 2010. Mr. Chen has been a professor of Finance at School of Management of Yale University since July 1999. He also serves as the Independent Non-executive Director of PetroChina Co Ltd., Lord Abbett China Asset Management Co., Ltd. and Noah Wealth Management Co Ltd., visiting Professor at Tsinghua University, Cheung Kong Chair Professor and Chief Adviser of Permal Group. Mr. Chen was an Assistant Professor and Associate Professor of Business and Finance at Ohio State University from July 1995 to July 1999. Mr. Chen obtained his Doctoral degree in Finance and Economics from Yale University in 1990.

Mr. Choi Yiu Kwan, age 61, Independent Non-executive Director and holder of the Silver Bauhinia Star award by the Hong Kong SAR Government in 2010. He has been an Independent Non-executive Director since September 2011. Mr. Choi currently serves as an Independent Non-executive Director of the Industrial and Commercial Bank of China (Asia) Limited. Mr. Choi joined the Hong Kong Monetary Authority in 1993 and held different positions including the Head of the Banking Policy Department, the Head of Administration, the Assistant Executive Director (Banking Supervision), the Deputy Chief Executive (Monetary Policy and Reserves Management) and the Deputy Chief Executive (Banking Supervision) until retirement in January 2010. Mr. Choi held various positions in the Office of the Commissioner of Banking of the Hong Kong Government between 1974 and 1993, responsible for supervising the Banking industry. Mr. Choi obtained a Higher Certificate in Accounting from the Hong Kong Polytechnic University and he is a Fellow Member of both the Hong Kong Institute of Bankers and the Treasury Markets Association.

Mr. Yu Yongshun, age 65, Independent Non-executive Director. Mr. Yu has been serving as Independent Non-executive Director of the Bank since August 2013 and currently holds the positions as the Chairman of the Supervisory Committee of Huaxin Trust and Independent Director of Cinda Securities Co., Ltd. and Shengjing Bank Co., Ltd. Mr. Yu served as the General Manager of Internal Audit Department and the Chief Audit Executive of CCB from April 1999 to December 2010. Mr. Yu held various positions of the Deputy General Manager of Financial Planning Department, General Manager of Real Estate Credit Department, General Manager of Xinjiang Uygur Autonomous Region Branch and General Manager of the Second Division of Business Department of CCB from October 1990 to April 1999. Mr. Yu graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics) and majored in Infrastructure Financing in 1977 and graduated from Monetary Banking from the Department of Finance and Trade Economics of Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Yu receives special government allowances issued by the State Council.

Ms. Li Jian, age 62, Non-executive Director Ms. Li has been Non-executive Director since October 2014, currently serving as Professor, Doctoral Supervisor of Finance School and Supervisor of Post-doctoral Research Station in Central University of Finance and Economics. Ms. Li has been teaching in Central University of Finance and Economics since 1983, temporarily transferring to Development Research Centre of the State Council to work as an advisor researcher from 1986 to 1987. At present, Ms. Li also holds positions such as Deputy Head of Finance Teaching Steering Committee of the Ministry of Education, Member of China Society for Finance and Banking, Member of China International Finance Society, and Independent Non-executive Director of Bank of Beijing Co., Ltd., Minmetals Securities Co., Ltd., China Life Asset Management Company Limited and Dongxing Securities Co., Ltd. Ms Li obtained her Doctoral degree in Economics from Xi'an Jiaotong University in 1997.

Mr. Liu Li, age 60, Independent Non-executive Director. Mr. Liu has been the Independent Non-executive Director since September 2014, currently holding positions such as Professor in Guanghua School of Management of Peking University and Deputy Head and Doctoral Supervisor in Finance and Securities Research Centre of Peking University. Mr. Liu has been teaching in Guanghua School of Management (formerly known as Business Management Department of Economic School) of Peking University since January 1986. He taught in Beijing University of Iron and Steel Technology from September 1984 to December 1985. At present, Mr. Liu also held positions such as Member of Beijing Society for Finance and Banking and Independent Director of China Machinery Engineering Corporation, Langfang Development Co., Ltd. and China Oil HBP Science & Technology Co., Ltd. Mr. Liu obtained his Master's degree in Physics from Peking University in 1984 and MBA from Catholic University of Louvain in Belgium in 1989.

II. PROFILE OF SUPERVISORS

As at 31 December 2015, the Bank's 13 supervisors are as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Song Shuguang	Chairman of the Supervisory Committee	Male	54	June 2014 – date of 2015 annual general meeting
Lu Jiahui	External Supervisor	Male	62	June 2013 – the same as above
Tang Xinyu	External Supervisor	Female	62	June 2014 – the same as above
Teng Tieqi	Supervisor	Male	58	June 2013 – the same as above
Gu Huizhong	Supervisor	Male	59	August 2010 – the same as above
Dong Wenhua	Supervisor	Male	52	June 2013 – the same as above
Li Jin	Supervisor	Male	49	August 2007 – the same as above
Gao Zhongyuan	Supervisor	Male	52	June 2013 – the same as above
Yan Hong	Supervisor	Male	49	August 2008 – the same as above
Chen Qing	Employee Representative Supervisor	Female	55	November 2004 – the same as above
Shuai Shi	Employee Representative Supervisor	Male	47	August 2008 – the same as above
Du Yarong	Employee Representative Supervisor	Male	52	August 2010 – the same as above
Fan Jun	Employee Representative Supervisor	Male	57	June 2013 – the same as above

Note: term of office of re-elected supervisors begins from their first appointment date.

Mr. Song Shuguang, age 54, the Chairman of the Supervisory Committee. Mr. Song has been the Chairman of the Supervisory Committee since June 2014. He served in China Taiping Insurance Group (formerly known as China Insurance Group) for the period from 2000 to 2014, during which, as Vice Chairman and General Manager of China Taiping Insurance Group Ltd. (China Taiping Insurance (HK) Company Limited) from August 2008 to March 2014, as Vice Chairman of China Taiping Insurance Holdings Company Limited (CTIH, listed in Hong Kong) from November 2008, and as Vice Chairman and President of CTIH from April 2013 to March 2014, as Chairman of Taiping Life Insurance Co., Ltd. from November 2004 to November 2008 and from March 2010 to November 2011. Mr. Song served in State Planning Commission of the People's Republic of China from August 1985 to September 1993, in People's Insurance Company of China from October 1993 to October 1998, and as Head of Finance Accounting Department of China Insurance Regulatory Commission from November 1998 to April 2000. Mr. Song obtained his Master's degree in Economics in 1985 from Jilin University.

Mr. Lu Jiahui, age 62, External Supervisor. Mr. Lu has been an External Supervisor of the Bank since June 2013. He held several positions for National Audit Office of the People's Republic of China, including Special Commissioner and Auditor (Director General Level) of Guangzhou Office from July 2011 to April 2013; Special Commissioner of Shanghai Office from February 2009 to July 2011; Deputy Special Commissioner and Special Commissioner of Wuhan Office from September 2003 to February 2009; Deputy Director of the Audit Department from April 2002 to September 2003; Deputy Special Commissioner of Guangzhou Office from July 2000 to April 2002. Mr. Lu, Senior Accountant and CICPA, graduated as on-the-job graduate from Zhongnan University of Economics and Law in 2000 and majored in Finance and Investment.

Ms. Tang Xinyu, age 62, External Supervisor. Ms. Tang has been an External Supervisor of the Bank since June 2014. She served as the President of Enterprise Annuity Council of Bank of China from January 2011 to July 2013; as Chairman of Bank of China International Securities Limited from February 2007 to January 2011; as General Manager of Human Resource Department of Bank of China (Head Office) from October 2004 to September 2006; as Deputy Party Secretary and Commissioner of Discipline Inspection and Deputy General Manager of Beijing Branch from February 2003 to October 2004; as Deputy General Manager of General Inspection Office and General Manager of Inspection Department of Bank of China from January 1998 to February 2003; as Senior Manager and Assistant General Manager successively of Economic Research Department of Hong Kong and Macao Management Office of Bank of China, Zhejiang Industrial Bank Hong Kong Branch and Bank of China Hong Hong Branch from May 1988 to January 1998, and as Vice Researcher and Deputy Director (1986) of Information Division of International Financial Research Institute of Bank of China from 1981 to May 1988. Ms. Tang graduated from Western Language Department of Peking University with major in English in 1977 and obtained her MBA degree from Chinese University of Hong Kong in 1996.

Mr. Teng Tieqi, age 58, Supervisor. Mr. Teng has been a Supervisor of the Bank since June 2013 and is also the Deputy Director and Chief Accountant of China FAW Group Corporation. Mr. Teng held several positions in China FAW Group Corporation, including Deputy General Manager since August 2000, Director and Head of Finance Department from November 1998 to August 2000, Assistant to the General Manager from February 1994 to November 1998. During the Period, he served as the First Deputy Manager of FAW – Daewoo Automobile Engine Co., Ltd., Vice Director of FAW Car project office in Yantai, Head of Planning and Finance Department of China FAW Group Corporation. Mr. Teng was the Assistant to Director of the International Economics and Trade Department of FAW from September 1991 to February 1994. Mr. Teng currently holds the position of Executive Director of FAW Capital Holdings Ltd. and the Chairman of FAW Finance Ltd., FAW Mobile Banking Ltd. and FAW Asset Management Ltd., Director of FAW Car Co., Ltd. and FAW-Volkswagen Automotive Co., Ltd., Supervisor of Guotai Junan Securities Co., Ltd. and Guosen Securities Co., Ltd., the Secretary of the Board of Directors of China FAW Group Corporation. Mr. Teng obtained his Master's degree in Mechanical Manufacturing from Jilin University of Technology's Department of Mechanical Engineering in 1985 and is a senior engineer of researcher level.

Mr. Gu Huizhong, age 59, Supervisor. Mr. Gu has been a Supervisor of the Bank since August 2010. Mr. Gu holds the position of the Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China since August 2008. Mr. Gu was the Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant starting in February 2005. He also served as Deputy Director of the Finance Department of Technology and Industry Committee for National Defence from July 1998 to December 1998. Mr. Gu obtained his Master's degree in International Finance from the Peking University of Aeronautics and Astronautics in 2000 and his EMBA from Cheung Kong Graduate School of Business in 2008.

Mr. Dong Wenhua, age 52, Supervisor. Mr. Dong has been a Supervisor since June 2013. Mr. Dong currently serves as the Deputy General Manager of State Grid Yingda International Holdings Corporation Ltd. He previously served as Chief Accountant of Luneng Group Co., Ltd. from January 2012 to August 2015, Director of Financial Assets Department of State Grid Energy Development Co., Ltd. from October 2010 to January 2012; Director of Power Management Unit of Luneng Group Co., Ltd. from January 2010 to October 2010; Deputy General Manager and General Manager of Luneng Group Co., Ltd. from February 2009 to October 2010; Deputy General Manager and Chief Accountant of Luneng Group Co., Ltd. from January 2004 to February 2009; Director of Supervision and Auditing Department of Luneng Group Co., Ltd. from February 2003 to January 2004. Mr. Dong, Senior Accountant, graduated from Fudan University with major in Accounting and post graduated from the Central Party School with major in Economics.

Mr. Li Jin, age 49, Supervisor. Mr. Li has been a Supervisor of the Bank since August 2007 and the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. Mr. Li was the President of Alltrust Insurance Company of China Limited from January 2005 to September 2006, Deputy General Manager and General Manager of China Huaneng Finance Corporation Ltd. from December 2000 to January 2005. Mr. Li obtained his Master's degree in Monetary Banking from the Financial Research Institution of the PBOC in 1989.

Mr. Gao Zhongyuan, age 52, Supervisor. Mr. Gao has been a Supervisor of the Bank since June 2013. He currently holds the position of Deputy General Manager of Sinopec Finance Co., Ltd. Mr. Gao previously held several positions in Sinopec Finance Co., Ltd, including Director of its Lanzhou Office from March 2001 to March 2003, Director of the Internal Audit Control Division from November 2001 to March 2003, Deputy Director of the Internal Audit Control Division from December 1998 to November 2001. Mr. Gao served as Deputy Director of Productive Department in the Head Office of Sinopec from July 1997 to December 1998; Deputy Director of Operational Division of Huaxia Audit Corporation of the China Sinopec from May 1996 to July 1997. Mr. Gao has been serving as Deputy General Manager of Sinopec Finance Co., Ltd since March 2003. Mr. Gao, Senior Accountant (Professor-Level), graduated from Zhongnan University of Economics and Law with EMBA degree.

Mr. Yan Hong, age 49, Supervisor. Mr. Yan has been a Supervisor of the Bank since August 2008 and the Chief Accountant of Daqing Oilfield Limited Company and Daqing Petroleum Administration Bureau since March 2008. Mr. Yan was the Deputy Chief Accountant, Head of Finance and Asset Management Department and the Chief Accountant of Daqing Oilfield Limited Company from March 2002 to March 2008 and the Deputy Head and Head of Finance and Assets Management Department in Daqing Oilfield Limited Company from May 2000 to March 2002. He previously served as the Deputy Chief Accountant in Daqing Oilfield Limited Liability Company's oil rig construction subsidiary from January 1999 to May 2000. Mr. Yan graduated from Shanghai University of Finance and Economics with MBA degree in 2003 and from China Europe International Business School with MBA degree in 2008.

Ms. Chen Qing, age 55, Employee Representative Supervisor. Ms. Chen has been an Employee Representative Supervisor of the Bank since November 2004 and the Head of the General Office for the Bank's Supervisory Committee since March 2005. From November 2004, Ms. Chen was appointed as the Supervisor (Deputy Director General-level) of the Bank. Ms. Chen was the Supervisor for the key state-owned financial institution — Agricultural Bank of China, Division Chief Level, from August 2003 to October 2004; the Supervisor of Bank of China serving at Division Chief Level, and then as the Deputy Division Head, Division Head from July 2000 to August 2003. Ms. Chen served as Deputy Division Head of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen obtained her Bachelor's degree in Economics from Renmin University of China in 1984 and a MBA degree from Shanghai University of Finance and Economics in 2009 and she is a senior auditor.

Mr. Shuai Shi, age 47, Employee Representative Supervisor. Mr. Shuai has been an Employee Representative Supervisor of the Bank since August 2008, the General Manager of the Corporate Culture Department since February 2016 and the General Manager of the Employee Work Department from December 2007 to February 2016. He is also the Deputy Director of the Labour Union (since January 2008) and the Deputy Secretary of Party Committee. He has been serving as the leader of discipline inspection group appointed by the Bank's Commission for Discipline Inspection to institutions directly controlled by Head Office since May 2015 and the Standing Vice Chairman of the Bank's Labour Union since August 2015. Mr. Shuai served as the Deputy General Manager of the Bank's Huhhot Branch from July 2006 to December 2007 and the Senior Manager of Private Banking Department in the Shanghai Branch from January 2001 to July 2006 (during which he was the Assistant to the Head of Finance Office within the Provincial Government of the Inner Mongolia Autonomous Region from February 2004 to February 2006). Mr. Shuai obtained his Master's degree in Economic Management from School of Economic Management of the Party School of the CPPCC in July 2010, and he is also a senior political worker and senior enterprise culture teacher.

Mr. Du Yarong, age 52, Employee Representative Supervisor. Mr. Du has been an Employee Representative Supervisor of the Bank since August 2010 and has been serving as Deputy Commissioner of Discipline Investigation, Head of Bureau of Supervision (General Manager) of the Bank since January 2015. He served as the Head of the Office of Discipline Investigation and Supervision from November 2009 to January 2015. He was the Deputy General Manager in Zhejiang Branch from January 2009 to November 2009 and served as the Deputy General Manager in Hangzhou Branch from October 2004 to January 2009. Mr. Du was the Head of the General Office in Hangzhou Branch from April 2004 to October 2004 and was the General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004. He was the Deputy Head of the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004. Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office of the Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.

Mr. Fan Jun, age 57, Employee Representative Supervisor. Mr. Fan has been an Employee Representative Supervisor of the Bank since June 2013 and the General Manager of Audit Department since April 2005. He previously served as the General Manager of the Internal Audit Control Division of the Bank from September 2004 to April 2005. Mr. Fan held several positions in the Bank, including the General Manager of Guangzhou Branch from September 2001 to September 2004, General Manager of Urumqi Branch from January 1998 to September 2001, Deputy General Manager of Urumqi Branch from December 1996 to January 1998 and Deputy Director and Director of International Business Department in Urumqi Branch from June 1994 to December 1996. Mr. Fan served as Researcher (Deputy Director Level) and Deputy Director of Comprehensive Analysis Department of National Party Policy in Xinjiang Uyghur Autonomous Region from April 1992 to June 1994. Mr. Fan, Senior Economist obtained his Master's degree in Economics and Politics from the Department of Economics of Sichuan University.

III. PROFILE OF SENIOR MANAGEMENT

As at 31 December 2015, the Bank's 11 senior managers are as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Peng Chun	President	Male	54	October 2013 – October 2016
Yu Yali	Executive Vice President	Female	58	August 2007 – June 2016
Hou Weidong	Executive Vice President and Chief Information Officer	Male	56	December 2010 – October 2016
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	Male	59	September 2012 – August 2018
Yang Dongping	Chief Risk Officer	Male	59	August 2007 – June 2016
Shen Rujun	Executive Vice President	Male	52	August 2015 – August 2018
Wang Jiang	Executive Vice President	Male	52	August 2015 – August 2018
Du Jianglong	Secretary of the Board of Directors	Male	45	September 2009 – August 2018
Lv Benxian	Director of Corporate Development	Male	49	September 2012 – August 2018
Wu Wei	Chief Financial Officer	Male	46	April 2015 – April 2018
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	Male	62	March 2013 – March 2019

Notes:

1. Term of office of re-elected senior management begins from their first employment date.
2. Term of office of Mr. Peng Chun refers to his term of office as President of the Bank. Term of office of Mr. Hou Weidong and Mr. Shou Meisheng refers to their term of office as Vice President of the Bank.

Mr. Peng Chun (Please refer to details in "Profile of Directors")

Ms. Yu Yali (Please refer to details in "Profile of Directors")

Mr. Hou Weidong (Please refer to details in "Profile of Directors")

Mr. Shou Meisheng, age 59, Executive Vice President and Commissioner of Discipline Inspection. Mr. Shou has been Executive Vice President and Commissioner of Discipline Inspection since September 2012. He was Commissioner of Discipline Inspection from June 2007 to September 2012. He was the General Manager of Human Resources Department of the Bank from May 2005 to June 2007, General Manager of International Banking Department of the Bank from June 1998 to May 2005 and General Manager of Dalian Branch of the Bank from January 2002 to March 2004. Mr. Shou obtained his Doctoral degree in Economics from Dongbei University of Finance and Economics in 2006.

Mr. Yang Dongping, age 59, the Chief Risk Officer. Mr. Yang has been the Chief Risk Officer of the Bank since August 2007. He served as Deputy General Manager and General Manager of Hong Kong Branch from September 2003 to August 2007. He also held several positions in Wuhan Branch, including Deputy Manager of Securities Business Department, Associate Director and Director of Credit and Load Division, General Manager of International Business Division, Deputy General Manager and General Manager, from May 1989 to September 2003. Mr. Yang obtained his Master's degree in International Finance from Wuhan University in 1998.

Mr. Shen Rujun, age 52, Executive Vice President. Mr. Shen has been an Executive Vice Present of the Bank since August 2015. He held several positions in the Industrial and Commercial Bank of China, including General Manager of Shandong Branch from November 2013 to March 2015, General Manager of Finance Accounting Department from July 2008 to November 2013, Deputy General Manager of Beijing Branch from November 2003 to July 2008, Deputy General Manager of Planning and Finance Department from December 1998 to November 2003, and Officer, Vice Chief, Chief and Deputy Director of Accounting Department as well as Deputy Director and Director of Planning Department successively of Jiangsu Branch from January 1985 to December 1998. Mr. Shen obtained his Doctoral degree in Technology and Economics School of Hohai University in 2001.

Mr. Wang Jiang, age 52, Executive Vice President and Researcher. Mr. Wang has been an Executive Vice Present of the Bank since August 2015. He was the General Manager of CCB Shanghai Branch from Feburary 2011 to March 2015, General Manager of CCB Hubei Branch from July 2007 to February 2011, and Deputy Director of Credit Risk Management Department of CCB Shandong Branch, General Manager of Dezhou Branch and Deputy General Manager of Shandong Branch successively from June 1999 to July 2007. Mr. Wang studied in Finance Department of Xiamen University for Doctoral degree in Finance from September 1996 to June 1999, and he was a senior visiting scholar at School of Economics of Xiamen University from August 1995 to September 1996, and a teaching assistant, Deputy Director, Director and lecturer of teaching and research office of Finance, as well as Deputy Director and associate professor of Finance Department at Shandong Economic University successively from July 1984 to August 1995. Mr. Wang obtained his Doctoral degree in Economics from Finance Department of Xiamen University in 1999.

Mr. Du Jianglong, age 45, the Secretary of the Board of Directors and the Director of the Board Office. Mr. Du has been the Secretary of the Board of Directors and the Director of the Board Office since September 2009 (concurrently been the Vice President of the Bank's Shanghai Branch from August 2015 to March 2016). He worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance from 1997 to 2009. While working in these departments, he held various positions as Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. During the period, he also took the positions of Supervisor of The Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained his Master's degree in Economics from the Research Institute for Fiscal Science of Ministry of Finance in 1997 and his Master's degree in Economics from University of Manchester in 2003.

Mr. Lv Benxian, age 49, Director of Corporate Development and President of the Beijing Administrative Department (Group Customer Department). Mr. Lv has been the Director of Corporate Development since September 2012, and he concurrently served as the Executive Vice President of Beijing Administrative Department, the President of the Beijing Administrative Department (Group Customer Department) and the General Manager of the Corporate Business Department (Investment Banking Department). He served as the General Manager of Shanghai Branch from March 2010 to December 2012. His previous positions include General Manager of Shenzhen Branch from February 2007 to March 2010, General Manager of Wuhan Branch from December 2003 to February 2007, Deputy General Manager and General Manager of Harbin Branch from August 2000 to December 2003. Mr. Lv obtained his EMBA degree from Dongbei University of Finance and Economics in 2005.

Mr. Wu Wei, age 46, the Chief Financial Officer and the General Manager of Asset and Liability Management Department. Mr. Wu has been the Chief Financial Officer since April 2015, and he was the General Manager of Investment Banking Department and the President of Investment Banking Business Centre successively from July 2013 to April 2015 (during the period he held the General Manager of Asset and Liability Management Department concurrently from December 2014). Mr. Wu served as the General Manager of Financial Budget Department from October 2011 to July 2013, the General Manager of Liaoning Branch from January 2010 to October 2011, and the Supervisor, Deputy Director and Deputy General Manager of Finance Office of Finance Accounting Department as well as the Deputy General Manager and General Manager of Financial Budget Department successively from July 1998 to January 2010. He also worked at the Audit Control Division of PBOC Wuhan Branch from July 1994 to October 1995. Mr. Wu obtained his Doctoral degree in Economics from Graduate Faculty of Research Institute for Fiscal Science, Ministry of Finance in 1998.

Mr. Ng Siu On, age 62, the HSBC-BoCom Strategic Cooperation Consultant. Mr. Ng has been the HSBC-BoCom Strategic Cooperation Consultant since March 2013 and held various positions including Regional Director of HSBC HK in New Territories, Network-Assistant to the Executive Vice President and the General Manager of Toronto Branch in Canada of HSBC, Deputy General Manager of Chinese business headquarters, Branch Director, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates for HSBC's commercial banking business and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently holds the positions as the member of the Boy's & Girl's Clubs Association of Hong Kong and Honoured Consultant of Hong Kong Institute of Bankers. Mr. Ng obtained his MBA degree from the Chinese University of Hong Kong in 1984.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Beginning and ending dates of term
Newly-appointed			
Hou Weidong	Executive Director	Elected	October 2015 – date of 2015 Annual General Meeting
Helen Wong Pik Kuen	Non-executive Director	Elected	Qualification pending for approval by CBRC
Shen Rujun	Executive Vice President	Appointed	August 2015 – August 2018
Wang Jiang	Executive Vice President	Appointed	August 2015 – August 2018
Wu Wei	Chief Financial Officer	Appointed	April 2015 – April 2018
Resigned			
Qian Wenhui	Executive Director and Executive Vice Present	Resigned (due to reassignment of work)	August 2007 – February 2015
Anita Fung Yuen Mei	Non-executive Director	Resigned (due to personal work arrangement)	November 2010 – January 2015
Lei Jun	Non-executive Director	Resigned (due to personal work arrangement)	December 2008 – December 2015
Zhu Hexin	Executive Vice President	Resigned (due to reassignment of work)	April 2013 – March 2015

Notes:

1. As considered and approved at the 2014 annual general meeting of the Bank, Mr. Hou Weidong was elected as Executive Director and Ms. Helen Wong Pik Kuen as Non-executive Director. Qualification of Mr. Hou Weidong was approved by the CBRC on 10 October 2015.
2. As considered and approved at the Twelfth Meeting of the Seventh Board of Directors of the Bank, the Bank appointed Mr. Shen Rujun and Mr. Wang Jiang as Vice President, and Mr. Wu Wei as Chief Financial Officer. Qualifications of Mr. Shen Rujun and Mr. Wang Jiang were approved by the CBRC on 4 August 2015, while qualification of Mr. Wu Wei was approved by the CBRC on 24 April 2015.
3. Ms. Anita Fung Yuen Mei resigned as Non-executive Director and Member of Personnel and Remuneration Committee under the Board of Directors due to personal work arrangement, with the resignation effective from 30 January 2015. Mr. Qian Wenhui resigned as Executive Director, Executive Vice President, Member of Strategy Committee under the Board of Directors as well as Member and Authorised Representative of Social Responsibility Committee under the Board of Directors due to reassignment of work, with the resignation effective from 10 February 2015. Mr. Zhu Hexin resigned as Executive Vice President due to reassignment of work, with the resignation effective from 25 March 2015. Mr. Lei Jun resigned as Non-executive Director, Member of Risk Management Committee and Member of Social Responsibility Committee due to personal work arrangement, with the resignation effective from 10 December 2015.

V. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

During the Reporting Period, changes in information of directors and supervisors are as below: Mr. Dong Wenhua, Supervisor of the Bank, was appointed as the Deputy General Manager of State Grid Yingda International Holdings Corporation Ltd. Mr. Shuai Shi, Supervisor of the Bank, was appointed as the leader of discipline inspection group appointed by the Bank's Commission for Discipline Inspection to institutions directly controlled by Head Office and the Standing Vice Chairman of the Bank's Labour Union.

VI. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

1. Details of emoluments

Name	Position	Gender	Age	Total taxable emoluments received during the Reporting Period (in RMB 0'000) Emoluments	Other benefits	Total	Emoluments received from related parties or not
Niu Ximing	Executive Director and Chairman	Male	59	44.80	7.77	52.57	–
Peng Chun	Executive Director, Vice Chairman and President	Male	54	44.80	7.77	52.57	–
Yu Yali	Executive Director and Executive Vice Present	Female	58	40.32	7.35	47.67	–
Hou Weidong	Executive Director, Executive Vice Present and Chief Information Officer	Male	56	40.32	7.35	47.67	–
Hu Huating	Non-executive Director	Male	58	67.20	17.19	84.39	–
Wang Taiyin	Non-executive Director	Male	51	67.20	17.19	84.39	–
Liu Changshun	Non-executive Director	Male	57	67.20	17.19	84.39	–
Peter Wong Tung Shun	Non-executive Director	Male	64	0	0	0	Yes
Ma Qiang	Non-executive Director	Male	57	0	0	0	Yes
Zhang Yuxia	Non-executive Director	Female	60	0	0	0	Yes
Peter Hugh Nolan	Independent Non-executive Director	Male	67	25.00	0	25.00	–
Chen Zhiwu	Independent Non-executive Director	Male	53	25.00	0	25.00	–
Choi Yiu Kwan	Independent Non-executive Director	Male	61	25.00	0	25.00	–
Yu Yongshun	Independent Non-executive Director	Male	65	0	0	0	–
Li Jian	Independent Non-executive Director	Female	62	25.00	0	25.00	–
Liu Li	Independent Non-executive Director	Male	60	25.00	0	25.00	–
Song Shuguang	Chairman of the Supervisory Committee	Male	54	44.80	8.55	53.35	–
Lu Jiahui	External Supervisor	Male	62	0	0	0	–
Tang Xinyu	External Supervisor	Female	62	0	0	0	–
Teng Tieqi	Supervisor	Male	58	0	0	0	Yes
Gu Huizhong	Supervisor	Male	59	0	0	0	Yes
Dong Wenhua	Supervisor	Male	52	0	0	0	Yes
Li Jin	Supervisor	Male	49	0	0	0	Yes
Gao Zhongyuan	Supervisor	Male	52	0	0	0	Yes

				Total taxable emoluments received during the Reporting Period (in RMB 0'000)			Emoluments received from related parties
Name	Position	Gender	Age	Emoluments	Other benefits	Total	or not
Yan Hong	Supervisor	Male	49	0	0	0	Yes
Chen Qing	Employee Representative Supervisor	Female	55	70.49	13.42	83.91	–
Shuai Shi	Employee Representative Supervisor	Male	47	69.52	13.42	82.94	–
Du Yarong	Employee Representative Supervisor	Male	52	70.00	13.42	83.42	–
Fan Jun	Employee Representative Supervisor	Male	57	70.86	13.42	84.28	–
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	Male	59	40.32	7.35	47.67	–
Yang Dongping	Chief Risk Officer	Male	59	40.32	7.55	47.87	–
Shen Rujun	Executive Vice President	Male	52	30.24	6.27	36.51	–
Wang Jiang	Executive Vice President	Male	52	30.24	5.66	35.90	–
Du Jianglong	Secretary of the Board of Directors	Male	45	67.20	17.17	84.37	–
Lv Benxian	Director of Corporate Development	Male	49	67.20	17.19	84.39	–
Wu Wei	Chief Financial Officer	Male	46	45.12	10.91	56.03	–
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	Male	62	0	0	0	Yes
Directors, Supervisors Senior management resigned/retired							
Lei Jun	Former Non-executive Director	Male	46	0	0	0	–
Anita Fung Yuen Mei	Former Non-executive Director	Female	55	0	0	0	–
Qian Wenhui	Former Executive Director	Male	54	6.72	1.12	7.84	–
Zhu Hexin	Former Executive Vice President	Male	48	10.08	1.69	11.77	–

Notes:

1. The remuneration of centrally-administered stated-owned enterprises' responsible person was implemented in accordance with the central finance enterprise remuneration measurement specifications for persons in charge in 2015. The 2015 final compensation packages for Directors, Supervisors and senior management of the Bank have not been finalised pursuant to the requirements of the relevant PRC authorities.
2. Mr. Shen Rujun has joined the Bank since March 2015, emoluments in the above table have been calculated from his first employment date.
3. Mr. Wang Jiang has joined the Bank since March 2015, emoluments in the above table have been calculated from his first employment date.
4. Mr. Wu Wei has been appointed as Chief Financial Officer of the Bank since April 2015, emoluments in the above table have been calculated from his first employment date.
5. Mr. Qian Wenhui resigned as Executive Director, Executive Vice President of the Bank due to reassignment of work in February 2015, emoluments in the above table was his emoluments during the assignment as the Executive Vice President of the Bank.
6. Mr. Zhu Hexin resigned as Executive Vice President of the Bank due to reassignment of work in March 2015, emoluments in the above table was his emoluments during the assignment as the Executive Vice President of the Bank.
7. Employee Representative Supervisors of the Bank received emoluments as employees of the Bank, and did not receive any fees from the Bank as the Employee Representative Supervisors.
8. In the above chart, during Reporting Period, Directors, Supervisors and Senior Management (excluding those who were resigned or retired) received compensation before tax in total of RMB13.5929 million.

2. Remuneration Decision-making Process and the Deciding Factors

The remuneration decision-making process for the Bank's Directors, Supervisors and Senior Management: According to the corporate governance procedure, the remuneration plan for Directors and Senior Management is drafted by Personnel and Remuneration Committee and is submitted to the Board for review and consideration, and in which, the Directors' remuneration is required to submit to the General Meeting for the approval. Supervisors' remuneration plan is submitted by Remuneration Committee, which is nominated by the Supervisory Committee. After the approval by Supervisory Committee, such plan is submitted to the General Meeting for its consideration and approval.

It is in accordance with the relevant requirements of the government authorities and the Bank's assessment guidelines on the annual performance-based remuneration for the Senior Management.

VII. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Change in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Way of holding shares
Niu Ximing	Chairman and Executive Director	A share	210,000	0	210,000	Purchased from secondary market
		H share	0	310,000	310,000	Purchased from secondary market
Peng Chun	Vice Chairman, Executive Director and President	A share	150,000	0	150,000	Purchased from secondary market
		H share	0	50,000	50,000	Purchased from secondary market
Song Shuguang	Chairman of the Supervisory Committee	A share	130,000	0	130,000	Purchased from secondary market
		H share	0	50,000	50,000	Purchased from secondary market
Yu Yali	Executive Director and Executive Vice Present	A share	80,000	0	80,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Hou Weidong	Executive Director, Executive Vice Present and Chief Information Officer	A share	80,000	0	80,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Hu Huating	Non-executive Director	A share	80,000	0	80,000	Purchased from secondary market
		H share	0	30,000	30,000	Purchased from secondary market

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Change in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Way of holding shares
Wang Taiyin	Non-executive Director	A share	80,000	0	80,000	Purchased from secondary market
		H share	0	30,000	30,000	Purchased from secondary market
Liu Changshun	Non-executive Director	A share	50,000	0	50,000	Purchased from secondary market
		H share	0	30,000	30,000	Purchased from secondary market
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	A share	79,100	0	79,100	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Yang Dongping	Chief Risk Officer	A share	200,000	(50,000)	150,000	Purchased from/(Sold out) in secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Shen Rujun	Executive Vice President	A share	0	0	0	—
		H share	0	20,000	20,000	Purchased from secondary market
Wang Jiang	Executive Vice President	A share	0	0	0	—
		H share	0	30,000	30,000	Purchased from secondary market
Du Jianglong	Secretary of the Board of Directors	A share	80,000	0	80,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Lv Benxian	Director of Corporate Development	A share	80,000	0	80,000	Purchased from secondary market
		H share	0	40,000	40,000	Purchased from secondary market
Wu Wei	Chief Financial Officer	A share	46,000	0	46,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	A share	0	0	0	—
		H share	0	30,000	30,000	Purchased from secondary market

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Change in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Way of holding shares
Chen Qing	Employee Representative Supervisor	A share	40,000	0	40,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Shuai Shi	Employee Representative Supervisor	A share	40,600	0	40,600	Purchased from secondary market
		H share	0	31,000	31,000	Purchased from secondary market
Du Yarong	Employee Representative Supervisor	A share	60,000	0	60,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Fan Jun	Employee Representative Supervisor	A share	40,000	0	40,000	Purchased from secondary market
		H share	0	20,000	20,000	Purchased from secondary market
Qian Wenhui	Former Executive Director and Executive Vice Present	A share	80,000	0	80,000	Purchased from secondary market
Zhu Hexin	Former Executive Vice President	A share	80,000	0	80,000	Purchased from secondary market

Save as disclosed above, as at 31 December 2015, none of the Directors, Supervisors or the Bank's 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 notified 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 Model Code to be notified to the Bank and the Hong Kong Stock Exchange.

VIII. HUMAN RESOURE MANAGEMENT

1. Basic Information of Employees

As at the end of 2015, the Bank had a total of 91,468 domestic and overseas employees, of which 89,269 employees were based domestically and 2,199 were local employees in overseas branches. The number of employees of the Bank's major subsidiaries was 2,336.

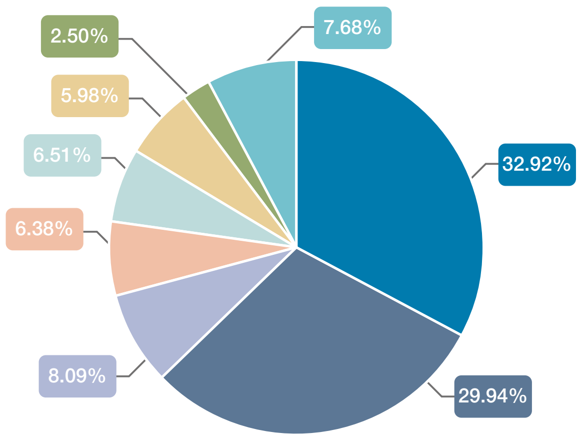
	Head Office	Northern China	Eastern China	Central and Southern China	Western China	North Eastern China	Overseas
Number of employees	2,623	11,417	37,854	18,042	9,992	9,341	2,199
Number of outlets	1	452	1,147	701	455	385	56

Note: The number of employees in head office excludes employees in the Pacific Credit Card Centre.

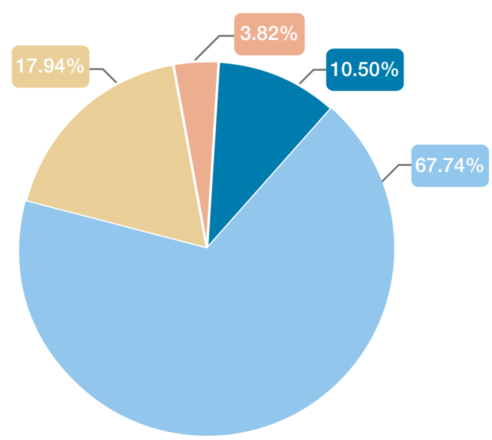
The average age of the Bank's domestic employees was 35 years old, with 37,898 employees under or at the age of 30, accounting for 42.45% of total domestic employees, 25,341 employees between the age of 31 and 40, accounting for 28.39% of total domestic employees, 19,534 employees between the age of 41 and 50, accounting for 21.88% of total domestic employees, and 6,496 employees above the age of 50, accounting for 7.28% of total domestic employees.

Among the domestic employees, 9,375 employees possess postgraduate or higher academic degrees, accounting for 10.50% of total domestic employees; 60,466 employees possess undergraduate degrees, accounting for 67.74% of total domestic employees; 16,018 employees possess college diploma, accounting for 17.94% of total domestic employees, and 3,410 employees possess secondary vocational school certificate or lower qualifications, accounting for 3.82% of total domestic employees.

For the year of 2015, a total of 2,694 retired employees were covered by the Bank's pension scheme.



Employee mix pie chart



Educational level pie chart

2. Remuneration Policy

According to the requirements of the nation's deepened reform, the Group actively carried forward policy reforms in respect of employment, remuneration and performance assessment by constantly improving its remuneration management which is "based on Positions and Integrating Position Value and Performance Value" to optimise the remuneration resources allocation model, emphasise on being performance-oriented, and strengthen the effect on self-discipline and performance incentive. The Group adopted a risk accountability policy and further improved the policy on the deferral of performance reward payments of key personnel within the Group. It used remuneration as a confinement with regards to corporate governance and risk management and control to facilitate a steady operation and sustainable development. The Group cares about its employees' welfare, in addition to the basic social security insurance, and it improved its policy over supplemental corporate benefits.

The remuneration of Directors who receive remuneration from the Bank shall be determined in accordance with the articles of association of the Bank and applicable regulations after taking into consideration of their performance and the result of the annual evaluation.

3. Performance Management

Alongside the requirements in respect of reform of employment, remuneration and performance assessment policy, the Group transmitted strategic development goals and further optimised the framework and procedures of its performance assessment. With the theme of performance-oriented assessment highlighted, the Group reinforced joint-assessment among divisions and applied integrated performance assessment to all operating units. The Group validate the instructive, motivational and restrictive role of performance management by focusing on product pricing assessment, relying on electronic assessment platform, emphasising strategic orientation, clearly recording and showing staff's performance and fully motivating staff.

4. Training Management

Adhering to the core task of reform deepening, transformation development, party self-discipline, the Group attached importance to construction of education and training system, insisted on reform and innovation, spared no efforts in significant training, cemented fundamental construction and promoted training quality. As a result, the Bank made a breakthrough in education and training all over the Bank and contributed to the development of administrative talents and business transformation.

The Bank conducted training by categories which are used to control the management, experts, junior staffs, and new joiners. The Bank had 460,000 persons receiving collective training and more than 740,000 persons receiving remote training. 97% of the total staff was trained, and there were over 3,200 on-line courses. 98% of trainees were satisfied with training courses, and thus the training quality was enhanced once again.

5. Talent Training and Reserve

The Group made much more efforts to develop and utilise expert talents. According to requirements for reform deepening and transformation development, the Bank prepared *BoCom Professional Talent Team Building Plan* for *2014 to 2018* and *BoCom Expert Talent Team Building Plan* to move forward construction of all kinds of professional talent teams headed by expert talents, and it planned to build a team consisting of approximately 2,000 experts in 5 years. In 2014 and 2015, expert talent backup library with over 1,100 experts of many kinds was constructed, and the first batch of more than 520 expert backups was trained.

The Group continued to intensify the talent training and talent reserve in overseas institutions. As required by internationalisation strategy, the Bank prepared BoCom Talent Reserve Plan for Overseas Institutions (2015-2019) to facilitate stratified and categorised international talent projects such as rotation and exchange of management in overseas institution, exchange of trainees in overseas institutions and international trainee, and planned to build a team with about 400 international trainees, of which over 70 international trainees were selected and trained in 2015.

6. Employee Pension Scheme

Details of the Group's employee pension scheme are set out in Note 11 to the Consolidated Financial Statements.

REPORT OF THE BOARD OF DIRECTORS

The Board hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year ended 31 December 2015.

I. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Details of the Group's operating results by business segments for the year are set out in Note 44 to the Consolidated Financial Statements.

II. SUMMARY OF FINANCIAL INFORMATION

Summary of the operating performance, assets and liabilities for the five years ended 31 December 2015 is set out in the section headed "Financial Highlights" of this Annual Report.

III. RESULTS AND PROFIT DISTRIBUTION

1. The operating performance of the Group during the year are set out in Page 175 of the consolidated statement of profit or loss and other comprehensive income.

2. Details on distributable reserves of the Group are set out in Note 34 to the Consolidated Financial Statements.

3. The proposal or plan of the profit distribution of ordinary shares and conversion of capital reserve to share capital in the last three years:

(In millions of RMB unless otherwise stated)

Year of dividend distribution	Number of bonus shares for every 10 shares (share)	Cash dividends per 10 shares (before tax, RMB)	Number of conversion for every 10 shares (share)	Amount of cash dividends (before tax)	Net profit distributable to shareholders of listed companies in the consolidated statements for the year of dividend distribution	Proportion in net profit distributable to shareholders of listed companies in the consolidated statements (%)
2015	**-**	**2.70**	**-**	**20,051**	**66,528**	**30.14**
2014	–	2.70	–	20,051	65,850	30.45
2013	–	2.60	–	19,308	62,295	30.99

Note: The profit distribution plan of the Group for the year of 2015 shall be subject to the consideration and approval of the shareholders at the shareholders' general meeting of the Bank. There was no proposal or plan of the Group regarding conversion of capital reserve to share capital in the last three years.

4. The formulation, implementation or adjustment of the cash dividend policy

The proposal in relation to the Amendments to the Articles of Association of the Bank of Communications Co., Ltd. was approved at the 2012 annual general meeting of the Bank held on 25 June 2013. The amended Articles of Association clearly stated that the Bank may distribute dividends in cash or shares. The Board and the shareholders' general meeting shall fully consider to the opinions of the Independent Directors, the Supervisory Committee and the public investors, through communicating and exchanging views with public investors from a variety of channels, and accept supervisions from the Independent Directors, the Supervisory Committee and public investors on the profit distribution of the Group. The profit distribution of the Bank should focus on the reasonable return to investors, and the profit distribution policy should maintain its continuity and stability; except in special circumstances, the Group shall distribute dividends mainly in the form of cash if it records profit in the year and the accumulated undistributed profit is also positive, and the total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Group for the last three years. The proposal in relation to the Amendments to the Articles of Association of the Bank of Communications Co., Ltd. was approved at the 2015 first extraordinary general meeting of the Bank held on 18 May 2015, which further amended the profit distribution policy. According to the amended Articles of Association, except in special circumstances, if the Group records profit in the year and the accumulated undistributed profit is also positive, the profits distributed in the form of cash each year shall not be less than 10% of the net profit attributable to shareholders of the Bank as according to the Group for that accounting year. For further details, please refer to Article 242 of the Articles of Association. (The Articles of Association has been published on the official website of the Bank at www.bankcomm.com, the website of SSE at www.sse.com.cn and the website of HKEx at www.hkexnews.hk).

The profit distribution policy of the Group is in compliance with the requirements of the Articles of Association as well as the approval procedures. It fully protects the legitimate rights and interests of medium and small investors, has been commented by Independent Directors and has clear standards on dividends distribution and dividends distribution ratio. The conditions and procedures of the adjustment and modification on the profit distribution policy are in compliance with relevant requirements and transparent.

IV. CAPITAL RESERVE

Details on the movement of capital reserve of the Group during the Reporting Period are set out the Consolidated Statement of Changes in Equity on Page 177.

V. CHARITABLE DONATIONS

Charitable donations made by the Group during the year 2015 amounted to RMB 24.4813 million.[1]

Note1: Including donation from the Bank's employees, the same as below.

VI. FIXED ASSETS

Changes in the Group's fixed assets during the year are set out in Note 23 to the Consolidated Financial Statements.

VII. PUBLIC FLOAT

During 2015 and for the period up to the latest practicable date prior to the publication of this Annual Report, the Group has fulfilled the minimum public float requirement in compliance with the Hong Kong Listing Rules, based on the information that is publicly available to and within the knowledge of the Directors.

VIII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank or any of its subsidiaries which would entail compensation if terminated within one year (other than statutory compensation).

IX. INTERESTS OF DIRECTORS AND SUPERVISORS IN TRACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

During the Reporting Period, the Directors or Supervisors, or their related entities did not have any direct or indirect material interest in any significant transaction, arrangement and contract entered into by the Bank or any of its subsidiaries except for service contracts.

X. MANAGEMENT CONTRACT

During the Reporting Period, the Bank neither entered into nor had any subsisting contract concerning the management of the whole or any part of the Bank's business.

XI. CONFLICTING INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS OF THE BANK

During the Reporting Period, none of the Directors or Supervisors of the Bank had any interest in any business that competes or is likely to compete, whether directly or indirectly, with the Bank's business.

XII. REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the Directors, Supervisors and the Bank's senior management was formulated in pursuant to statutory requirements and the Bank's annual performance assessment specifications. For Directors, Supervisors and the Bank's senior management within central management, the remuneration was strictly determined in accordance with central financial enterprise remuneration measurement specifications for persons in change. For Directors, Supervisors and the Bank's senior management that are not within central management but receiving remuneration from the Bank, the remuneration consisted of the basic annual salary, annual performance bonus and other benefits. In order to balance the incentives and risk constraints, certain portion of the annual performance bonus shall be subject to deferred payment in the next three years and the payment proportion each year shall principally be 1/3.

XIII. RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial relationship, business relationship, family relationship or any other significant relationship subject to disclosure among Directors, Supervisors and senior management of the Bank.

XIV. PURCHASE, SALE OR REDEMPTION OF THE BANK'S SHARES

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

XV. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

The shareholders of the Bank do not have pre-emptive rights according to the Articles of Association or relevant PRC laws. Meanwhile, currently the Bank does not have any share option arrangements.

XVI. RIGHTS OF DIRECTORS AND SUPERVISORS TO SUBSCRIBE FOR SHARES OR DEBENTURES

As at 31 December 2015, the Bank has not granted to its Directors or Supervisors any rights to subscribe the shares or debentures of the Bank or any of its subsidiaries, and no such rights to subscribe for the above mentioned shares or debentures have been exercised. The Bank or its subsidiaries also has not entered into any agreement or arrangement which enables the Directors or Supervisors to acquire benefits by means of acquisition of shares or debentures of the Bank or any other relevant companies.

XVII. MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the five largest customers of the Group accounted for less than 30% of the Group's total interest income and other operating income. None of the Bank's Directors, their associates or shareholders (which, to the knowledge of the Directors, owns more than 5% of the Bank's issued share capital), has any beneficial interest in the Bank's five largest customers.

XVIII. CONTINUING CONNECTED TRANSACTIONS

1. The Interbank Transactions Master Agreement

The Bank and its subsidiaries have regularly engaged in various transactions in the normal course of banking business with HSBC and its subsidiaries and associates (the "**HSBC Group**"), including but not limited to purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, and swap and option transactions. To regulate the continuing transactions mentioned above, the Bank has entered into the continuing connected transaction agreement with HSBC in 2005, which was subsequently renewed in 2008.

On 30 June 2011, the Bank further renewed and entered into an interbank transactions master agreement (the "**Interbank Transactions Master Agreement**") with HSBC for a term of three years, commencing from 1 June 2011 to 31 May 2014, and set the relevant caps for the continuing connected transactions contemplated thereunder for the two years ending 31 December 2013, and the period from 1 June 2011 to 31 December 2011 and from 1 January 2014 to 31 May 2014, respectively.

The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include bond transactions, monetary market transactions, foreign currency transactions and swap and option transactions.

There is no fixed price or rate for the transactions under the Interbank Transactions Master Agreement. However, the parties agreed to apply the prevailing market prices or rates normally used by independent counterparties to the particular type of transactions under the Interbank Transactions Master Agreement.

HSBC is a substantial shareholder of the Bank, therefore HSBC, together with its subsidiaries and associates are all connected persons of the Bank. Pursuant to the *Hong Kong Listing Rules*, the transactions contemplated under the Interbank Transactions Master Agreement are only subject to reporting, annual review and announcement requirements, and are exempted from the independent shareholders' approval requirement.

During the period from 1 January 2014 to 31 May 2014, the continuing connected transactions under the Interbank Transactions Master Agreement have not exceeded their respective caps:

(1) Each of the realised gains or losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB2.182 billion.

(2) The fair value of the foreign currency transactions, and swap and option transactions with the HSBC Group (whether recorded as assets or liabilities) has not exceeded RMB4.641 billion.

For further details of the above transactions, please refer to the announcement of the Bank dated 4 July 2011.

2. The Renewal of the Interbank Transactions Master Agreement

Since the Interbank Transactions Master Agreement expired on 31 May 2014, the Bank further renewed the Interbank Transactions Master Agreement on 29 April 2014 with HSBC for a term of three years, commencing from 1 June 2014 to 31 May 2017, and set the annual caps for the continuing connected transactions contemplated thereunder for the two years ending 31 December 2016, and the period from 1 June 2014 to 31 December 2014 and from 1 January 2017 to 31 May 2017, respectively.

The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include interbank loan and borrowing transactions, bond transactions, monetary market transactions, foreign currency transactions and swap and option transactions.

As for the pricing of each of the intended transactions under the Interbank Transactions Master Agreement, the parties agreed to apply the fixed prices or rates specified in the provisions of application laws and regulations and the regulations or notices issued by regulatory authorities (if any), or to apply the market prices or rates normally used by the independent parties in the transaction of the same type in case of no fixed prices or rates.

HSBC is a substantial shareholder of the Bank, therefore HSBC, together with its subsidiaries and associates are all connected persons of the Bank. Pursuant to Rule 14A.87(1) and Rule 14A.90 of the Hong Kong Listing Rules, the interbank loan and borrowing transactions contemplated under the Interbank Transactions Master Agreement are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements. Pursuant to the Hong Kong Listing Rules, the other transactions contemplated under the Interbank Transactions Master Agreement are only subject to reporting, annual review and announcement requirements, and are exempted from the independent shareholders' approval requirement.

During the period from 1 January 2015 to 31 December 2015, the continuing connected transactions under the Interbank Transactions Master Agreement have not exceeded their respective caps:

(1) Each of the realised gains or losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB7.896 billion.

(2) The fair value of the foreign currency transactions, and swap and option transactions with the HSBC Group (whether recorded as assets or liabilities) has not exceeded RMB14.000 billion.

For further details of the above transactions, please refer to the announcement of the Bank dated 29 April 2014.

3. The Independent Non-executive Directors' Annual Review of the Non-exempt Continuing Connected Transactions

Upon careful review of the continuing connected transactions in 2015, each of the Independent Non-executive Directors of the Bank considers that the continuing connected transactions were:

(1) in the ordinary and usual course of business of the Group;

(2) on normal or more favourable commercial terms; and

(3) in accordance with the Interbank Transactions Master Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

4. The Auditors' Annual Review of the Non-exempt Continuing Connected Transactions

The auditors have issued a letter to the Board of the Bank in respect of the continuing connected transactions in 2015 confirming that:

(1) the non-exempt continuing connected transactions were approved by the Board of the Bank;

(2) the non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank;

(3) the non-exempt continuing connected transactions were conducted in accordance with the terms of the Interbank Transactions Master Agreement; and

(4) The actual transaction amount of the non-exempt continuing connected transactions in 2015 had not exceeded their respective caps.

5. During the Reporting Period, the balance of transactions between the Bank and HSBC Group are as follows:

(1) As at 31 December 2015, the aggregate balance of deposits placed in and loans made to the HSBC Group by the Bank amounted to RMB1.976 billion, the aggregate balance of bond investment amounted to RMB512 million. The interest income arising from these deposits and loans, and bond investment was approximately RMB39 million in 2015.

(2) As at 31 December 2015, the aggregate balance of deposits placed in and loans made to the Bank by the HSBC Group amounted to RMB9.706 billion, and the interest expense arising from these deposits and loans was RMB359 million in 2015.

(3) As at 31 December 2015, the aggregate balance of derivative trading with HSBC Group amounted to RMB204.188 billion. The net loss arising from derivative trading during the year was RMB117 million.

Pursuant to Rule 14A.87(1) and Rule 14A.90 of the Hong Kong Listing Rules, the interbank loan and borrowing transactions contemplated under the Interbank Transactions Master Agreement are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements.

The Bank has confirmed that the specific agreements under the continuing connected transactions for the year ended 31 December 2015 mentioned above were entered into and executed in accordance with the pricing principles pertaining thereto.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 43 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction that need to be disclosed under the Hong Kong Listing Rules. Regarding to the connected transaction and continuing connected transactions, the Bank has complied with the disclosure requirements as specified in Chapter 14A of the Hong Kong Listing Rules.

XIX. PERMITTED INDEMNITY PROVISION

Subject to the applicable laws and the coverage of the director liability insurance the Bank placed for the Directors, every Director of the Bank shall be entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto. Such provisions were in force during the course of the financial year ended 31 December 2015 and remained in force as of the date of this report.

XX. ISSUANCE OF SHARES AND DEBT SECURITIES

For the issuance of preference shares by the Bank, please refer to the section "Preference Shares". For the issuance of debt securities by the Bank, please refer to the Note 30 to the Consolidated Financial Statements. Except those disclosed above and in this Annual Report, during the Reporting Period, neither the Bank nor any of its subsidiaries had otherwise issued, repurchased or granted convertible debt securities, options, warrants or other similar rights.

XXI. TAXATION

As stipulated in the *Notice on Issues Relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises* (Guo Shui Han [2008] No. 897) published by the State Administration of Taxation, when Chinese residents enterprises distribute annual dividends for the year 2008 and years thereafter to their H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%. Non-resident enterprises may apply for tax refund in accordance with relevant provisions including taxation agreement (arrangement) after receiving dividends.

In accordance with the *Notice on Issues Relating to Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045* published by the State Administration of Taxation, when foreign individuals holding H shares obtained dividend and/or bonus shares from the non-foreign invested companies incorporated in PRC that issue H shares, the individual income tax is usually withheld at a uniform rate of 10%. The specific rate applied to foreign individuals may be different according to his/her residential status and the tax treaties signed between the country of his/her residence and the PRC.

Shareholders should consult their tax advisers regarding tax consequences of owning and disposing of the H shares of the Bank.

XXII. ENVIRONMENT POLICIES AND PERFORMANCE

The Group has always been sticking to the philosophy of dual emphasis on development and environmental protection. During the Reporting Period, the Bank continued to make greater efforts on implementation of "Green Credit" policy, where number of "green" customers and the relative credit balance remained at high levels. In addition, customers from low-carbon economy, energy-saving and environmental protection industry continued to increase, while loans made to sectors characterised by "heavy pollution, high energy consumption and over-capacity" were effectively suppressed. The Bank is dedicated to promoting "green finance" with strong emphasis on e-banking services in order to provide more efficient, low-cost, and convenient financial products and services with better quality. During the Reporting Period, the e-banking services increased significantly to 88.13%, which helped to protect the environment equivalent to reducing CO_2 emission by nearly 8,502.05 tons, representing a year-on-year increase of 31.37%. For details, please refer to the section headed "Corporate Social Responsibilities" in this report.

XXIII. COMPLIANCE WITH LAWS AND REGULATIONS

To the knowledge of the Bank's Directors, the Group had no violation of related laws and regulations significant to the Group in the year.

XXIV. RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group was devoted to maintaining the long-term sustainable development, continuously creating value for employees and customers while maintaining good relationship with suppliers. The Group clearly understood that employees are valuable assets. For policies regarding the Group's employee training management, talent training and reserve and remuneration, etc., please refer to "Directors, Supervisors, Senior Management and Human Resource Management".

Emphasising on supplier selection, the Group encouraged fair and public competition and intended to establish the long-term cooperation relationship with high quality suppliers based on mutual trust. Based on the core value of integrity, the Group was devoted to providing better financial services and creating a reliable service environment for customers. For the year ended 31 December 2015, the Group had no important and material dispute with its suppliers/or customers.

By order of the Board of Directors
Chairman
Niu Ximing

29 March 2016, Shenzhen, PRC

REPORT OF THE SUPERVISORY COMMITTEE

In 2015, in accordance with the requirements of the *Company Law, Guidelines on Corporate Governance of Commercial Banks*, *Guidelines to Commercial Banks' Supervisory Committee*, and the *Articles of Association* etc., the Bank's Supervisory Committee fully complied with the comprehensive supervisory duties including performance supervision, financial supervision and internal supervision on compliance risks so as to ensure that the interest of shareholders be protected and the value of the Bank be enhanced. Details of supervision activities and responsibilities were as follows:

I. MAIN RESPONSIBILITIES OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee actively carried out its supervisory duties. Through Supervisory Committee regular meetings, interviews, participation in shareholders' general meetings, Board meetings, special committees' meetings, annual working conferences, and meetings with Risk Management Committee, as well as Audit Committee, the Supervisory Committee has developed a communication protocol with various departments and external parties including finance, audit, risk, credit, supervisory committee of subsidiaries and external auditor. The Supervisory Committee also strengthened its supervision, inspection and analysis, both on-site and off-site.

1. Strengthening performance supervision and promoting corporate governance

During the Reporting Period, the Supervisory Committee interviewed 27 Directors and senior management members, evaluated Directors' and Supervisors' opinions on the performance of the Board, interviewed 12 persons in charge of overseas branches (subsidiaries), and reviewed the annual reports of discharge of duties by Directors and senior management, together with its regular inspection, formed its opinion on annual discharge of duties by the Board and senior management, completed its assessment on individual Directors and senior management. The Supervisory Committee suggested that the Board should made in-depth analysis on economic and financial situation to build long-term core competitiveness, enhance risk and internal management to ensure the stability of the business development, further exert its functions of the Board to improve corporate governance. The Supervisory Committee further recommended that senior management should speed up the transformation development through implementing strategies, enhance the vitality of development through strengthening the reformation of performance remuneration mechanism and ensure safe and stable operation through strengthening the risk prevention and control.

The Supervisory Committee supervised the remuneration of discharge of duties and business expenditure of the Board and senior management in accordance with Administrative Rules on the Remuneration and Business Expenditure of the Principals In-Charge of State-owned Financial Enterprises regarding Principals of State-owned Financial Enterprises (Caijin [2015] No. 35), combining with duties of the Supervisory Committee under the Rules for Implementation of Management of Remuneration of Discharge of Duties and Business Expenditure regarding Principals of BoCom; The Supervisory Committee has compiled a self assessment report based on its high requirements. According to the supervisory requirements, the Supervisory Committee completed the economic accountability audit report during the tenure of Zhu Hexin as the vice-president of the Bank.

2. Focus on core work and enhance supervision on risk, internal control and finance

– Strengthening supervision of risk management and internal control to safeguard asset.

1. Supervising quality of new loans. Quality of new loans is the best measurement to determine the completeness of the Bank's risk management structure, the perspectiveness of judgement, the effectiveness of policies and systems, the appropriateness of personnel management and the rationality of business process. The Supervisory Committee analysed the new corporate non-performing loans since 2012, and suggested to conduct pre-loan investigation, to focus on normal overdue loans to effectively preserve assets, to strengthen management of the Head Office and key personnel.

2. Supervising risk management of new branches managed by provinces. New branches managed by provinces are key points to the development strategy of the Board. The institution setting, cost control and competency of employee of these branches directly affect the achievement of the Bank's strategic goals. Based on the special supervision of credit risks in prior year, with regard to asset security requirement of new branches managed by provinces, it was recommended that the Bank should deploy risk managers in accordance with the requirements, prevent cross appointment of key personnel in front, middle and back office and be aware of lacking business development continuity caused by high turnover of key personnel. The "three lines of defence" performed their respective duties to ensure early alert and control of risks.

3. Supervision on management of third-party cooperation institutions. Third-party cooperation institutions provide the second source of repayments for credit funds through effective evaluation of assets, guarantees and supervision on warehoused inventories and movable properties, thus offering security guarantee for smooth repayment. Management of third-party cooperation institutions, which is related both to business development and professional service ability and to risk and cost, is a fundamental strategic task with high importance. The Supervisory Committee suggested further regulating third-party service centralised procurement management and setting up a strict, centralised and unified access evaluation system and dynamic management system, to safeguard assets.

4. Supervision on risks of notes business. At present, banks are facing many challenges including accelerated interest rate marketisation, tightened capital constraint and rapid development of internet finance, which makes it challenging to maintain traditional profit-making model, notes business is an important business to the Bank, where it accelerates transformation of the Bank from asset holding to transactional bank. The Supervisory Committee suggested to actively develop direct discounting business and electronic notes business with low credit risk and low capital consumption, to make greater efforts to recourse from customers for which the Bank has paid advances and companies for which it has provided guarantees, and to obtain sufficient buffer.

– Strengthening financial supervision, to ensure authenticity and accuracy of information disclosure.

1. Analysis of comparative financial data. Based on financial data, the Supervisory Committee has studied and judged the Group's managing and operating situation, compared financial data to other financial institutions to clearly identify the advantages and disadvantages of the Group in market competitions, focused on the Group's strength based on analysis of historical data, in order to ensure the sustainable development.

2. Supervision on management and disposal of vacant property. Relating to disposal of properties, the Supervisory Committee suggested to strengthen responsibilities of auction company and choose the best timing for disposal, refine and improve standards on evaluation and approval of outlet construction and explore approaches to reduce property operation cost through comprehensive management service, in order to improve the efficiency in management.

3. Establishing communication mechanism to ensure smooth communication

1. Regular communication with external auditor. The Supervisory Committee kept up with annual audit plan and quarterly audit progress, with focus on independence and coverage of audit, to improve the audit quality.

2. Close contact with internal relating segments. The Supervisory Committee conducted regular review on internal and external audit reports, which, in combination with debrief on key points of divisional structure reformation, "531" implementation and risk and internal control, enabled it to grasp the issues of importance, generality and early signs. It held meetings with the chairman of the supervisory committees of subsidiaries, to understand the risk management of subsidiaries level.

3. Enhancing interbank communication. The Supervisory Committee attended meetings of the committee of chairman of the Supervisory Committees held by China Association for Public Companies and The Listed Companies Association of Shanghai, at which it shared its experience, expanded its horizons and improved its supervision quality and efficiency.

4. Conducting active discussion and holding successful meetings of the Supervisory Committee

The Supervisory Committee held five meetings in 2015. During the meetings of the Supervisory Committee, 16 resolutions were considered and approved, including the "2014 Report of the Supervisory Committee", a report presented during the annual general meeting. With regard to the monitoring of discharge of duties, the Supervisory Committee considered and approved the "Opinion of the Supervisory Committee on the Discharge of Duty by the Board and Senior Management in 2014", "Opinion of the Supervisory Committee on the Discharge of Duty by the Special Committee of Board in 2014" and "Report of Self-evaluation on Duties Performed by the Supervisory Committee and its Members". With regard to the monitoring of revenue and expenditures, the "2014 Annual Report", "2014 Financial Accounts Report" and "2014 Profit Distribution Plan" were considered and approved. With regard to the improvement of the Supervisory Committee, the "Several Opinions of the Supervisory Committee on Implementation of Construction of a Clean and Honest Administration" and "2015 Work Plan of the Supervisory Committee" were considered and approved. The Supervisory Committee received reports from Senior Management on performance assessment, management of non-performing loans and restructured loans, as well as management of third-party cooperation institutions. All members of the Supervisory Committee offered advice and suggestions from different perspectives, with the average percentage of attendance in person of 80% during the Reporting Period (see the table below for details).

	Attendance at the Supervisory Committee meetings by Supervisory Committee members	
Supervisory Committee Member	**Attendance in person**	**Attendance in person (%)**
Song Shuguang	5/5	100
Lu Jiahui	5/5	100
Tang Xinyu	4/5	80
Teng Tieqi	2/5	40
Gu Huizhong	4/5	80
Dong Wenhua	3/5	60
Li Jin	4/5	80
Gao Zhongyuan	2/5	40
Yan Hong	4/5	80
Chen Qing	5/5	100
Shuai Shi	5/5	100
Du Yarong	4/5	80
Fan Jun	5/5	100
Average attendance in person percentage		80

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS

1. Truthfulness of the Financial Statements

The financial statements truly and fairly present the financial position and financial performance of the Group. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have respectively issued unqualified auditor's report on the Group's financial statements for the year of 2015 and the Supervisory Committee has no objection to the report.

2. Use of Proceeds Raised and Acquisition and Disposal of Assets

In July 2015, the Bank, through overseas issuance of preference shares, has raised a fund of USD2.45 billion which was used to replenish Other Tier-1 Capital after deduction of issuance expenses, so as to increase the capital adequacy ratio. In December, the Bank issued financial bonds of RMB30 billion in interbank bond market in China to increase liability sources and support steady business development.

The Bank injected RMB375 million into BoCommlife Insurance in January 2015 and held 62.5% of shares, injected RMB8.4482 million into Xinjiang Shihezi BoCOM Rural Bank in March and held 51% of shares, strategically injected RMB408 million into Hainan Bank in April and held 10% of shares, and injected RMB1 billion into BoCOM Leasing and held 100% of shares. The Supervisory Committee is not aware of any acquisition or disposal of assets by the Bank which may conflict the interest of the shareholder or which may cause impairment to the assets.

3. Implementation of Information Disclosure

During the Reporting Period, the Supervisory Committee was not aware of any related party transactions that would damage the interest of the Group or its shareholders, and the Group proactively invite the supervision from the public. The Supervisory Committee had not identified false records, misleading statements or material omissions.

4. Related Deliberations

The Supervisory Committee has no objection to the proposals submitted to the shareholders' general meetings and considered that the Board well performed the resolutions of the shareholders' general meetings.

The Group values the development of its internal control system, with continuous enhancement made to perfect its internal control systems. The Supervisory Committee has no objection to the *Internal Control Self-Appraisal Report for 2015 of the Group*.

The Bank vigorously fulfilled its corporate social responsibility. The Supervisory Committee has no objection to the "Corporate Social Responsibility Report for 2015" of the Bank.

During the Reporting Period, all Directors and senior management were diligent, hard-working, proactive, prudent and practical, and were aware of no instances of any significant breach of laws or regulations which would damage the interests of the Group and shareholders have been identified. As at the end of 2015, there were 24 incumbent Directors and senior management at the Bank. Their evaluation is divided into three categories, namely "competent", "basically competent" and "not competent". The Supervisory Committee evaluated 22 Directors and Senior Management as competent and 2 Directors as basically competent.

In 2015, the Group implemented all policies introduced by the state. Insist on reformation strengthening and transformation development, taking "promoting deposit, stabilising profit and controlling risks" as a main line, focusing on supporting the real economy and actively exploring the governance mechanism of commercial banks with Chinese characteristics. Besides, the Bank continuously carried forward "BoCom Strategy" by further reforming internal operation mechanism, attaching great importance to risk management and control in key fields, so as to smoothly realise the operation performance and achieve the goals of operation management. Facing the "New Normal" of China's economy, it is necessary for the Group to accelerate the reformation and innovation and continuously improving the comprehensive risk management system, to further intensify capability of stable development and to improve market competitiveness.

By order of the Supervisory Committee
Chairman
Song Shuguang
29 March 2016, Shenzhen, PRC

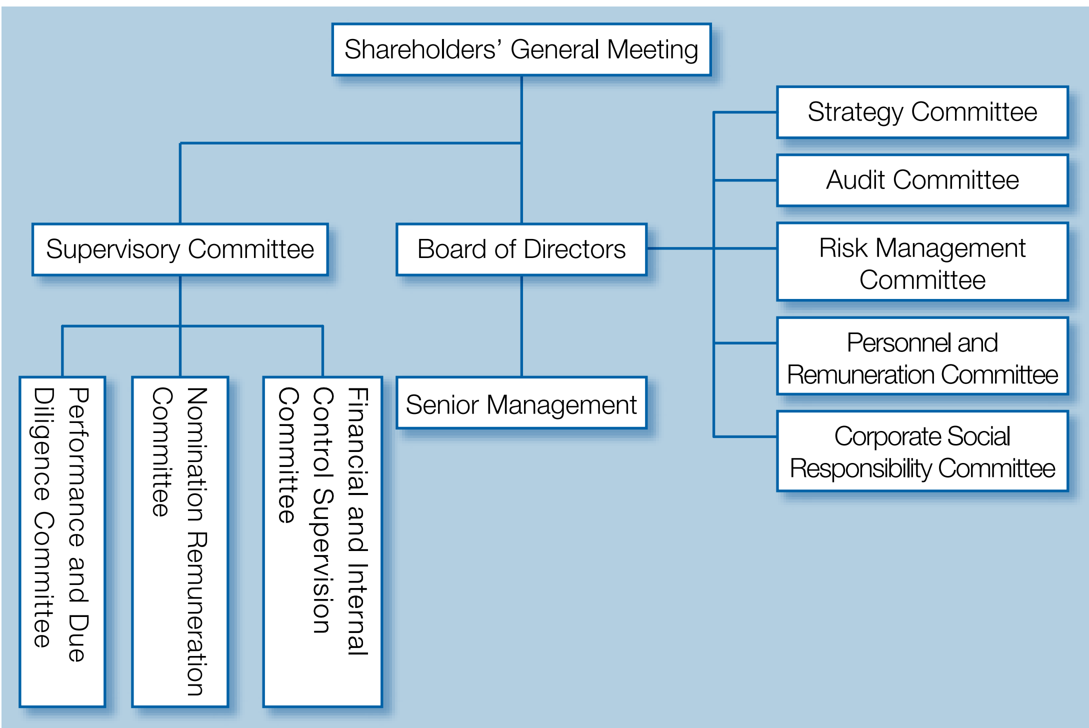
CORPORATE GOVERNANCE REPORT

Sound corporate governance is the institutional guarantee for sustainable development and the key for prudent operation of a commercial bank. Targeting at becoming the "Bank with the Best Corporate Governance", the Bank always adheres to the key initiative of enhancing the standardisation and efficiency of its corporate governance in order to promote in-depth reform and transformation development and to protect the legitimate rights and interests of shareholders and other stakeholders.

The corporate governance of the Bank strictly abides by the *Company Law*, the *Securities Law* and the requirements stipulated by the China Securities Regulatory Commission. For the year ended 31 December 2015, the Board of the Bank confirmed that the Bank has fully complied with the principles and code provisions under the Corporate Governance Code as set out in Appendix 14 to *Hong Kong Listing Rules*, and had followed most of the recommended best practices contained in the Corporate Governance Code.

I. CORPORATE GOVERNANCE STRUCTURE

The Bank has established a corporate governance structure comprising the shareholders' general meetings, Board, Supervisory Committee and senior management, with clearly segregation of authorities and responsibilities, effective check and balance, and coordinated and independent operation.



Note: The chart shows the corporate governance structure of the Bank as at the end of the Reporting Period.

II. ESTABLISHMENT OF CORPORATE GOVERNANCE

During the Reporting Period, the Bank's Board and Strategic Committee of the Board had actively fulfilled the responsibility of corporate governance, cautiously examined and evaluated the execution of corporate governance and continuously pushed forward the establishment of the corporate governance mechanism. During the Reporting period, the Bank amended its Articles of Association according to provisions in *Guidelines for the Articles of Association of Listed Companies* (revised) and requirements for issuance of preference shares, and the amended Articles of Association were approved at the 2015 first extraordinary shareholders' general meeting. For details of this amendment, please refer to the resolution announcement of 2015 first extraordinary general meeting.

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

As at 31 December 2015, the total issued share capital of the Bank was 74,262,726,645 shares, consisting of 52.85% A shares and 47.15% H shares. There is no controlling shareholder of the Bank. The largest shareholder, the Ministry of Finance, and the second largest shareholder, HSBC, held 26.53% and 19.03% of the total issued shares of the Bank respectively. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possesses the capacity of independent and complete autonomy over its business and operations. The Bank is a listed company in its entirety. Therefore, horizontal competition or connected transactions arising from partial restructuring and other causes do not exist.

Pursuant to the Articles of Association, shareholders have the right to obtain relevant information, including the Articles of Association, status of the share capital, records of the shareholders' general meeting, resolutions of meetings of the Board, and resolutions of meetings of the Supervisory Committee. Shareholders can also put forward enquiries to the Board using the contact information set out on page 4 under the "CONTACT DETAILS" section in this Annual Report.

The shareholders' general meeting is the highest authority of the Bank. Shareholders individually or jointly holding more than 10% of the voting shares of the Bank have the right to request in written form to convene an extraordinary general meeting. Shareholders individually or jointly holding more than 3% of the voting shares of the Bank have the right to put forward written proposals to the shareholders' general meeting. The Bank adopts various voting methods with priority to online voting, to facilitate shareholders' participation and ensure that shareholders can exercise their rights. Each matter which is independent in itself will be put forward to the shareholders' general meeting as a separate proposal and voted on by way of poll.

During the Reporting Period, the Bank held one annual general meeting and one extraordinary general meeting. All resolutions passed at shareholders' general meetings have been fully executed. The resolution announcements for all shareholders' general meetings have been disclosed on the websites of SSE, HKEx and the Bank, and published in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*.

On 18 May 2015, the Bank held 2015 first extraordinary general meeting in Shanghai, at which *Proposal in Relation to the Amendments to the Articles of Association of Bank of Communications Co., Ltd.*, *Proposal on Submittal to Shareholders' General Meeting for Granting General Mandate for Issuance of Shares to Board of Directors*, *Proposals on the Plan for Private Placement of Domestic Preference Shares by Bank of Communications Co., Ltd.*, *Proposals on the Plan for Private Placement of Offshore Preference Shares by Bank of Communications Co., Ltd.*, *Dilution of Current Returns on Preference Shares Issued by Bank of Communications Co., Ltd. and Remedial Measures*, *Proposals on the Amendments to 2012-2015 Capital Management Scheme of Bank of Communications Co., Ltd.*, *2015-2017 Return Programme for Shareholders of Bank of Communications Co., Ltd.*, *2014 Financial Account of Report of Bank of Communications Co., Ltd.* and *2014 Profit Distribution Plan of Bank of Communications Co., Ltd.* were considered and approved.

On 29 June 2015, the Bank held the 2014 annual general meeting in Shanghai, at which *2014 Work Report of the Board of Directors of Bank of Communications Co., Ltd.*, *2014 Report of the Supervisory Committee of Bank of Communications Co., Ltd.*, *Resolution in relation to the Appointment of Auditors for the Year of 2015*, *2015 Fixed Assets Investments Plan of Bank of Communications Co., Ltd.*, *2014 Remuneration Plan for Directors of Bank of Communications Co., Ltd.*, *2014 Remuneration Plan for Supervisors of Bank of Communications Co., Ltd.*, *Proposal in respect of the Appointment of Mr. Hou Weidong as an Executive Director of Bank of Communication Co., Ltd., Proposal in respect of the Appointment of Ms. Helen Wong Pik Kuen as an Non-executive Director of Bank of Communication Co., Ltd.*, *Proposals on the Amendments to Authorisation of Bank of Communication Co., Ltd. to Board of Directors at Shareholders' General Meetings* and *Proposal on Submittal to Shareholders' General Meeting for Granting General Mandate for Issuance of Shares to Board of Directors* were considered and approved.

Summary of Shareholders' General Meetings

Session	Date	Proposal	Resolution	Website designated for Publishing Resolution
2015 first extraordinary general meeting	18 May 2015	9 proposals including *Proposal on Submittal to Shareholders' General Meeting for Granting General Mandate for Issuance of Shares to Board of Directors*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, SSE website at www.sse.com.cn and HKEx HKExnews website at www.hkexnews.hk
2014 annual general meeting	29 June 2015	10 proposals including "Work Report of the Board of Directors for 2014"	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, SSE website at www.sse.com.cn and HKEx HKExnews website at www.hkexnews.hk

Attendance of members of the Board of Directors at Shareholders' General Meetings during the Reporting Period:

	Attendance	Attendance Percentage (%)
Executive Directors		
Niu Ximing	1/2	50%
Peng Chun	2/2	100%
Yu Yali	2/2	100%
Hou Weidong	—	—
Non-executive Directors		
Hu Huating	2/2	100%
Wang Taiyin	2/2	100%
Liu Changshun	2/2	100%
Peter Wong Tung Shun	0/2	0%
Ma Qiang	0/2	0%
Zhang Yuxia	0/2	0%
Independent Non-executive Directors		
Peter Hugh Nolan	0/2	0%
Chen Zhiwu	0/2	0%
Choi Yiu Kwan	0/2	0%
Yu Yongshun	2/2	100%
Li Jian	0/2	0%
Liu Li	0/2	0%
Directors resigned/retired		
Anita Fung Yuen Mei	—	—
Qian Wenhui	—	—
Lei Jun	0/2	0%

Notes:

1. Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for details on changes in Directors (same applies hereinafter).
2. Mr. Hou Weidong was appointed as Executive Director on 10 October 2015. During his tenure in 2015, the Bank did not convene any shareholders' general meeting.
3. On 10 February 2015, Mr. Qian Wenhui resigned as Executive Director due to re-designation of work. On 30 January 2015, Ms. Anita Fung Yuen Mei resigned as Non-executive Director due to personal work arrangement. On 10 December 2015, Mr. Lei Jun resigned as Non-executive Director due to personal work arrangement.

IV. BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

The Bank understands and recognises the importance of diversity of members of the Board, which the Bank regards as a vital supporting factor for improving the corporate governance and achieving the sustainable development of the Bank. Hence, the Bank has adopted the "Policy on Diversity of Members of the Board of the Bank", according to which the Bank shall set the membership composition of the Board by considering the issue of diversity of members of the Board from perspectives including gender, age, nationality, academic background, professional qualification, industry expertise and other factors. During the process of selecting and appointing members of the Board, adequate consideration should be given to diversity, and a comprehensive assessment of the capabilities, skills, experience and background of the candidates is required to make an objective evaluation of their potential contributions to the Bank, so as to ensure that the Board can benefit from various perspectives and opinions in discharging its duties, and that the best membership composition of the Board that is compatible with the development strategy of the Bank will take shape.

As at 31 December 2015, the Board comprised of 16 members, including four Executive Directors, namely Mr. Niu Ximing, Mr. Peng Chun, Ms. Yu Yali and Mr. Hou Weidong; six Non-executive Directors, namely Mr. Hu Huating, Mr. Wang Taiyin, Mr. Liu Changshun, Mr. Peter Wong Tung Shun, Mr. Ma Qiang, and Ms. Zhang Yuxia; and six Independent Non-executive Directors, namely Mr. Peter Hugh Nolan, Mr. Chen Zhiwu, Mr. Choi Yiu Kwan, Mr. Yu Yongshun, Ms. Li Jian and Mr. Liu Li. The number of Independent Non-executive Directors of the Bank exceeded one-third of the total number of Directors, which met the relevant regulatory requirements. Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for the changes of the members of the Board and their biographical details, as well as the term of office of Directors.

Mr. Niu Ximing is the Chairman of the Board. Mr. Peng Chun is the Vice Chairman of the Board and President of the Bank. The roles and responsibilities of the Chairman and President are independent and clearly defined.

2. Responsibilities of the Board of Directors

The Board is the strategic decision-making body of the Bank and responsible to the shareholders' general meeting. Moreover, it exercises its powers and performs its duties within the terms of reference as stipulated under the laws, regulations and the Articles of Association, and as authorised by the shareholders' general meetings so as to protect the legitimate interests of the Bank and its shareholders. Its main responsibilities include convening and reporting to shareholders' general meetings, executing resolutions of shareholders' general meetings, determining the Bank's business plans and investment proposals, receives reports from the President and monitors the performance of Senior Management.

In 2015, with the support of shareholders and the supervision of the Supervisory Committee, the Board enabled the Bank to realise good performance and continuously create good returns for shareholders by uniting and leading senior management, actively adapting to "New Normal" of economic development, driven by reform deepening and emphasising transformation development. During the Reporting Period, focusing on core responsibilities including strategic management, corporate governance, capital and risk management, the Board carried out the following major tasks: firstly, it actively promoted the implementation of deepening reform projects and made positive achievements in the reform of institutional mechanisms; secondly, it continued to strengthen cross-border, cross-industry and cross-market service capabilities by adopting the "BoCom Strategy" to guide transformation development; thirdly, it strived to improve its abilities to serve for real economy by earnestly implementing the national macroeconomic regulation and control requirements; fourthly, it continued to strengthen the management of investor relationship and information disclosure to improve the guarantee system for shareholders' interest; fifthly, it ensured the basic stability of asset quality under multiple pressure by strengthening construction of the comprehensive risk management system; sixthly, it implemented the capital supplementation and strengthened capital restraint, further laying a solid capital foundation for operation development; seventhly, it actively performed the corporate social responsibility, continuously improving the service capability and brand image.

3. Meetings of the Board

The Bank has developed the *Rules of Procedures of the Board* to strictly regulate matters including the requirements for convening and giving notice for a meeting, and the procedures, agenda and records of the meeting. During the Reporting Period, the Board held seven meetings (including five on-site meetings and two meetings via communications), and considered and passed 58 resolutions and reports, including the annual work report of the Board, work report of the President, financial accounts report and profit distribution plan. The five special committees under the Board held 16 meetings during the Reporting Period, and considered and passed 62 resolutions and reports. All the above meetings were held in compliance with the requirements of the Articles of Association, the *Rules of Procedures of the Board* and provisions of the *Corporate Governance Code*.

Attendance of Directors of the Bank at meetings of the Board of Directors during the Reporting Period is set out as follows:

	Attendance at Meetings	Attendance Percentage (%)	Attendance at Meetings in Person	Attendance in Person Percentage (%)
Executive Directors				
Niu Ximing	7/7	100.00%	7/7	100.00%
Peng Chun	7/7	100.00%	6/7	85.71%
Yu Yali	7/7	100.00%	7/7	100.00%
Hou Weidong	1/1	100.00%	1/1	100.00%
Non-executive Directors				
Hu Huating	7/7	100.00%	7/7	100.00%
Wang Taiyin	7/7	100.00%	7/7	100.00%
Liu Changshun	7/7	100.00%	7/7	100.00%
Peter Wong Tung Shun	7/7	100.00%	4/7	57.14%
Ma Qiang	7/7	100.00%	4/7	57.14%
Zhang Yuxia	7/7	100.00%	6/7	85.71%
Independent Non-executive Directors				
Peter Hugh Nolan	7/7	100.00%	7/7	100.00%
Chen Zhiwu	7/7	100.00%	6/7	85.71%
Choi Yiu Kwan	7/7	100.00%	7/7	100.00%
Yu Yongshun	7/7	100.00%	7/7	100.00%
Li Jian	7/7	100.00%	7/7	100.00%
Liu Li	7/7	100.00%	7/7	100.00%
Directors resigned/retired				
Qian Wenhui	1/1	100.00%	1/1	100.00%
Anita Fung Yuen Mei	1/1	100.00%	0/1	0%
Lei Jun	7/7	100.00%	7/7	100.00%
Average Attendance/Attendance in Person Percentage		100.00%		91.30%

Notes:

1. Mr. Hou Weidong was appointed as Executive Director on 10 October 2015. During his tenure in 2015, the Board held one meeting.
2. On 10 February 2015, Mr. Qian Wenhui resigned as Executive Director due to re-designation of work. On 30 January 2015, Ms. Anita Fung Yuen Mei resigned as Non-executive Director due to personal work arrangement. On 10 December 2015, Mr. Lei Jun resigned as Non-executive Director due to personal work arrangement.

4. Special Committees under the Board of Directors

The Board has set up five special committees, namely the Strategy Committee, the Audit Committee, the Risk Management Committee, the Personnel and Remuneration Committee and the Social Responsibility Committee. The discharge of duties by the respective special committees during the Reporting Period is summarised as follows:

(1) Strategy Committee. The Strategy Committee is primarily responsible for formulating the operation and management objectives as well as long-term development strategies of the Group, supervising and inspecting the implementation of the annual business plan and investment plan, inspecting and assessing the implementation of the corporate governance system, and making recommendations to the Board for developing and improving the corporate governance policies and system.

As at the end of 2015, the Strategy Committee under the Board comprised eight members including Mr. Niu Ximing, Mr. Peng Chun, Ms. Yu Yali, Mr. Hou Weidong, Mr. Peter Wong Tung Shun, Mr. Ma Qiang, Ms. Zhang Yuxia and Mr. Choi Yiu Kwan, with Mr. Niu Ximing serving as chairman. During the Reporting Period, the Strategy Committee held four meetings, considered and passed 13 resolutions and reports including the Plan on Private Placement of Preference Shares in Domestic and Overseas Markets, Internal Assessment Report on Capital Adequacy for 2015-2017, subscription of shares issued by OTC Clearing Hong Kong Limited and extension of the periods of validity and mandate for Decision of Plan on Transition of Hong Kong Branch, and presented its recommendations to the Board.

(2) Audit Committee. The Audit Committee is mainly responsible for proposing the appointment, change or removal of the Group's auditors, monitoring the Group's internal audit system and its implementation, acting as the communication channel between the Group's internal and external auditors, reviewing the Bank's financial information and its disclosure, examining the Group's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Group's internal control.

As at the end of 2015, the Audit Committee under the Board comprised seven members, including Mr. Yu Yongshun, Mr. Wang Taiyin, Mr. Liu Changshun, Ms. Zhang Yuxia, Mr. Choi Yiu Kwan, Ms. Li Jian and Mr. Liu Li, with Mr. Yu Yongshun, an Independent Non-executive Director, serving as the Chairman. During the Reporting Period, the Audit Committee held four meetings, and considered and passed 20 resolutions and reports, including 2014 financial accounts report, 2014 profit distribution plan, 2014 annual report and results announcement, fixed asset investment plan for 2015 and appointment of auditors for 2015, and presented its recommendations to the Board.

(3) Risk Management Committee. The Risk Management Committee is mainly responsible for monitoring and evaluating the risk management and control of the Group in areas including credit, market, operation and compliance, performing periodic assessment on the Group's risks, management status, and risk tolerance capabilities and level, reviewing significant fixed asset investments, asset disposals, asset pledges or external guarantees, reviewing significant related party transactions, and making recommendations to the Board on improving the Group's risk management and internal control.

As at the end of 2015, the Risk Management Committee under the Board comprised six members, including Ms. Li Jian, Mr. Hu Huating, Mr. Ma Qiang, Mr. Peter Hugh Nolan, Mr. Chen Zhiwu and Mr. Yu Yongshun, with Ms. Li Jian, serving as chairman. During the Reporting Period, the Risk Management Committee held four meetings, considered and passed 11 resolutions and reports, including the overall risk management assessment report for 2014, risk appetite and risk policies for 2015, related party transactions report for 2014 and increase of market risk capital limitation for 2015, and presented its recommendations to the Board.

(4) Personnel and Remuneration Committee. The Personnel and Remuneration Committee is primarily responsible for formulating the concrete remuneration and incentive plans for Directors and senior management according to the strategic plan and operational targets approved by the Board, presenting its proposals on remuneration plans to the Board and monitoring the implementation of such plans, developing the criteria and procedures for election and appointment of Directors and senior management and performing initial assessments, as well as approving and amending the policy on diversity of members of the Board and assessing its implementation. The Personnel and Remuneration Committee performs the functions of both a nomination committee and a remuneration committee to optimise the Bank's corporate governance structure and improve the efficiency of the Bank's operation.

As at the end of 2015, the Personnel and Remuneration Committee under the Board comprised four members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu, with Mr. Liu Li, an Independent Non-executive Director, serving as chairman. During the Reporting Period, the Personnel and Remuneration Committee held three meetings, and considered and passed 12 resolutions, including the nomination of Mr. Hou Weidong as an Executive Director and the nomination of Ms. Helen Wong Pik Kuen as Non-executive Director, and presented its recommendations to the Board.

(5) Social Responsibility Committee. The Social Responsibility Committee is primarily responsible for conducting research and formulating the Group's social responsibility strategy and policy, monitoring, inspecting and evaluating the fulfilment of social responsibility by the Group, approving external donations according to the authorisation of the Board, reviewing the strategy, policy and goals on protecting the consumers' rights in banking business, as well as reviewing credit policy relating to environment and sustainable development.

As at the year end of 2015, the Social Responsibility Committee under the Board comprised four members, including Mr. Peng Chun, Ms. Yu Yali, Mr. Hu Huating and Mr. Liu Changshun, with Mr. Peng Chun, the Vice Chairman, serving as chairman. During the Reporting Period, the Social Responsibility Committee held one meeting and considered 6 resolutions and reports, including the corporate social responsibility report and working report on "Green Credit Policy", report on protecting the consumers' rights, report on "caring for employees" work, and presented its recommendations to the Board.

During the Reporting Period, the procedure, voting method and approved resolutions of all the above meetings of the special committees of the Board were in compliance with the requirements of relevant laws, regulations, the Articles of Association and rules of work of the committees. The summary of attendance of members at the meetings (including written opinions) is set out as follows:

	Strategy Committee	Audit Committee	Risk Management Committee	Personnel and Remuneration Committee	Social Responsibility Committee
Niu Ximing	4/4				
Peng Chun	4/4				1/1
Yu Yali	4/4				0/0
Hou Weidong	1/1				
Hu Huating			4/4		1/1
Wang Taiyin		4/4		3/3	
Liu Changshun		4/4			1/1
Peter Wong Tung Shun	4/4				
Ma Qiang	4/4		4/4		
Zhang Yuxia	4/4	4/4			
Peter Hugh Nolan			4/4	3/3	
Chen Zhiwu			4/4	3/3	
Choi Yiu Kwan	4/4	4/4			
Li Jian		4/4	4/4		
Liu Li		4/4		3/3	
Yu Yongshun		4/4	4/4		
Qian Wenhui					
Anita Fung Yuen Mei					
Lei Jun			4/4		1/1

Note: Ms. Yu Yali was appointed as a member of the Social Responsibility Committee on 28 April 2015. During her tenure in the Reporting Period, no meeting was held by the Social Responsibility Committee of the Bank.

5. Independent Non-Executive Directors

As at the end of the Reporting Period, the Bank had 6 Independent Non-executive Directors, and their qualifications are in compliance with the domestic regulatory regulations, as well as Rule 3.10(1) and (2) of the Hong Kong Listing Rules. The independence of the Bank's Independent Non-executive Directors is effectively safeguarded as they do not have any business or financial interests in the Bank or its subsidiaries and they do not assume any executive positions in the Bank. In addition, the Bank has received annual independence confirmation letters from all Independent Non-executive Directors and considers that each of the Independent Non-executive Directors is independent.

During the Reporting Period, the time that each Independent Non-executive Directors devoted to the work of the Bank was in compliance with the requirements of the *Working Specification of Independent Directors* of the Bank. Currently, three of the special committees under the Board, namely the Audit Committee, the Risk Management Committee and the Personnel and Remuneration Committee, are chaired by Independent Non-executive Directors. These Independent Non-executive Directors actively participated in discussions during meetings of the Board, thereby promoting objectivity in the decision-making process of the Board. The Board attaches great importance to the comments or suggestions of Independent Non-executive Directors, and requires senior management to study and implement them and give feedback. In addition to attending meetings, each Independent Non-executive Director communicates with senior management regularly through various channels including on-site research and discussion sessions. During the Reporting Period, the Independent Non-executive Directors gave independent opinions on significant matters including nomination of Directors, profit distribution and appointment of senior management. During the Reporting Period, Independent Non-executive Directors had no objection to any resolution.

6. Participation in Training and Research by Directors during the Report Period

During the Reporting Period, the Bank constantly emphasized improving the professional capabilities of the Directors. The Bank actively organised all the Directors to attend different training sessions, provided opportunities for the Directors to participate in continuous career development plans. The Bank also provided timely information on commercial banks, regulations and capital market through weekly newsletter and monthly director's handbook. Some of the Directors have participated in grass-root research aiming at improving duty abilities.

During the Reporting Period, the main training and research projects the Directors attended include:

(1) Mr. Wang Taiyin and Mr. Liu Changshun, Non-executive Directors, participated in "2015 Phase I Training Course for Directors and Supervisors of Listing Companies in Shanghai" held by CSRC Shanghai Supervision Bureau.

(2) Mr. Hu Huating, Mr. Wang Taiyin and Mr. Liu Changshun, Non-executive Directors, participated in the Special Training on "Background of Replacing Business Tax with VAT in Bank Industry and Issues in Implementation of Reform" organised by the Bank's Supervisory Committee.

(3) Mr. Hu Huating, Mr Wang Taiyin and Mr. Liu Changshun, Non-executive Directors, conducted research on the operation and management of subsidiaries.

(4) Mr. Peter Hugh Nolan and Mr. Choi Yiu Kwan, Independent Non-executive Directors, conducted research on management architecture, operation, risk, audit and employee remuneration and benefits of overseas subsidiaries and branches.

(5) Ms. Li Jian, Independent Non-executive Director, conducted research on the risk management of branches.

(6) Mr. Liu Li, Independent Non-executive Director, conducted research on the management of provincial branches and the risk management of branches managed by provinces.

7. Responsibility of the Board of Directors for the Financial Statements

The Directors are responsible for monitoring the preparation of financial statements of every year to ensure a true and fair view of the Group's business condition, operating results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2015, the Group has selected and consistently applied appropriate accounting policies and has made reasonable and prudent judgements and estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's statement of reporting responsibility for their report is set out in the Auditor's Report on page 173 of the Annual Report.

8. Specific Notification and Independent Opinion of the Independent Non-Executive Directors on External Guarantees Provided by the Bank

The Independent Non-executive Directors of the Bank consider that the provision of external guarantees is in the ordinary course of the Bank's business as approved by the banking regulatory authorities in China. The Bank has developed prudent risk management and control policies, including stringent requirements on the standard of credit standing of the guarantees, as well as operational and credit approval procedures, so as to effectively control the risks of its guarantee business.

V. SUPERVISORY COMMITTEE AND SPECIAL COMMITTEES UNDER THE SUPERVISORY COMMITTEE

Supervisory Committee is the Bank's supervisory body and responsible to the shareholders' general meeting. Its main responsibilities include but not limited to checking the Bank's financial affairs, supervising operational behaviours of Directors and senior management and reviewing financial statements contemplated to be submitted to the shareholders' general meeting by the Board and profit distribution plan of the Bank.

The Supervisory Committee defines their responsibilities as "to establish a good corporate governance, to focus on financial supervision, to emphasize fulfilling supervision responsibility, based on operation compliant with laws and regulations and directed by overall risk management and internal control supervision." All the Supervisors have fulfilled their duties diligently by sticking to the principles of compliance with laws and regulations, fairness and objectiveness as well as scientificness and effectiveness.

There are 13 members on the Supervisory Committee, including the Chairman, 2 External Supervisors, 6 Shareholder Representative Supervisors, and 4 Employee Representative Supervisors. Mr. Song Shuguang serves as the Chairman of the Supervisory Committee. The 2 External Supervisors were the responsible personnel of national audit institutions and a peer bank before their retirement, respectively. The 6 Shareholder Representative Supervisors are senior management of state-owned companies such as FAW Group, AVIC, Luneng Group, Huaneng Group, Sinopec and PetroChina. The 4 Employee Representative Supervisors are the responsible personnel of the Supervisory Committee Office, employee union, inspection and internal audit department. The Supervisory Committee has three Special Committees: The Performance and Due Diligence Supervision Committee has 4 members including the Chairman of the Supervisory Committee as the Chairman, 2 External Supervisors and 1 Employee Representative Supervisor. They are responsible for the supervision of the performance of the Board and Senior Management and its members. The Nomination and Remuneration Committee has 5 members including the External Supervisor as the Chairman, 1 External Supervisor, 1 Shareholder Representative Supervisor, and 2 Employee Representative Supervisors. They are responsible for setting Supervisor's election and appointment procedures and standards, assessment of the qualification of the elected and appointed Supervisors, the remuneration of the Supervisors and the evaluation of their annual performance. The Finance and Internal Control Supervision Committee has 7 members, including the External Supervisor as the Chairman, 1 External Supervisor, 3 Shareholder Representative Supervisors and 2 Employee Representative Supervisors. They are responsible for the supervision of financial management, internal controls and risk management of the Group.

The Supervisory Committee agreed on the matters under supervision during the Reporting Period.

VI. SENIOR MANAGEMENT

The Bank's Senior Management comprises the President, Executive Vice President, Chief Information Officer, Chief Risk Officer, Secretary of the Board, Corporate Business Director, Chief Financial Officer and BoCom-HSBC Strategic Cooperation Consultant. The Bank adheres to a system under which the President, as the ultimate responsible officer, reports to the Board. All functional departments, branch offices and other senior management report to President. The President has the authority to conduct the Bank's business operations in compliance with the relevant laws and regulations, the Articles of Association and authorisation from the Board, with primary responsibilities including but not limited to managing day-to-day business operations of the Bank, implementing the resolutions of shareholders' general meetings and meetings of Board, drafting annual business plans and investment strategy plans, and implementing such plans upon approval by shareholders' general meeting or meetings of the Board.

During the Reporting Period, Senior Management conducted business operations within the scope authorised by the Articles of Association and the Board, and achieved the business targets determined by the Board as required. The Board was satisfied with the work of senior management for the year 2015.

VII. RISK MANAGEMENT

The Board has the ultimate responsibility and supreme decision-making authority for the Bank's risk management and monitors and evaluates the Bank-wide risk management matters through the Risk Management Committee under it. The Supervisory Committee monitors the risk management work led and implemented by the Board and the senior management. The Bank's senior management established a "1+3+2" Risk Management Committee, which the Enterprise Risk Management Committee is dedicated to implementing the Board's risk management strategy and risk appetites, to perfect the management system, to standardise the management policies, and to perform evaluations on the effectiveness of risk management work in an all-around way. Please refer to the "Risk Management" under "Management Discussion and Analysis" section in this Annual Report for the Bank's risk management.

Senior management is required to submit risk management reports to the Board and Risk Management Committee on a quarterly basis. The Board and Risk Management Committee consider the reports and evaluate risks and management of the Group. The contents of evaluation include comprehensiveness and effectiveness of risk management, as well as performance of senior management in the aspect of risk management.

During the Reporting Period, facing a complex and austere risk situation, the Bank kept the stability of overall level of asset quality. All the risk management work achieved positive results. The Board confirmed the risk management system of the Bank and its subsidiaries to be stable and effective.

VIII. INTERNAL CONTROL

1. Statement of the Board of Directors on Internal Control Responsibility

Establishing, improving and effectively implementing internal control of the Bank pursuant to the provisions of the *Guidelines on Internal Control for Commercial Banks* issued by the CBRC, *The Basic Standard for Enterprise Internal Control* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal control, assessing its effectiveness and disclosing the internal control assessment report truthfully are the responsibility of the Board. The Supervisory Committee supervises the establishment and implementation of internal control by the Board, and senior management is responsible for organising and leading the day-to-day operation of internal control within the enterprise. The Board has set up the Audit Committee and Risk Management Committee to perform the corresponding internal control functions, and senior management has set up the Internal Control Management Committee to take charge of work including coordination of planning, formulation of basic polices, organisation of implementation, review and assessment of the internal control system.

The Group's internal control aims to ensure compliance of the Group's business activities with the provisions of national laws and the Group's internal regulations and rules, truthfulness and completeness of information in the financial reports, effectiveness of the risk management system and safety of assets; improve operation efficiency and effectiveness, and facilitate the achievement of operation objectives and development strategies ultimately.

2. Statement of Effectiveness of Internal Control

With a focus on its internal control objectives, the Group has established a stringent internal control system for financial reporting pursuant to the *Guidelines on Internal Control for Commercial Banks* issued by the CBRC and the *Basic Standard for Enterprise Internal Control* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal control. During the Reporting Period, the Board of Directors reviewed the risk management and internal control systems of the Bank and its subsidiaries, and found them stable and effective.

3. Assessment Report on Internal Control and Audit Report on Internal Control

The Group disclosed the assessment report on internal control and audit report on internal control along with the Annual Report. The Board conducted assessment on the effectiveness of internal control of the Group as at 31 December 2015 (reference date) in accordance with the *Guidelines on Internal Control for Commercial Banks*, the *Basic Standard for Enterprise Internal Control*, and relevant guidelines, as well as other regulatory requirements on internal control. Based on the identification of material deficiencies in the Group's internal control, there were no material deficiencies in internal control over financial reporting as at the reference date of the assessment report on internal control, and the Group maintained effective internal control over financial reporting in all material respects, and there were no material deficiencies in internal control over non-financial reporting. Individual items requiring improvement have no substantial effects on the integrity and effectiveness of the Group's internal control system and the reliability of the Bank's financial reporting. The Group has identified and taken positive improvement and control measures. No events affecting the assessment conclusion of the effectiveness of internal control took place from the reference date of the assessment report on internal control to the date when the assessment report on internal control was issued.

PricewaterhouseCoopers Zhong Tian LLP engaged by the Group had audited the effectiveness of internal control related to the Group's financial reporting and considered that the Group maintained effective internal control over financial reporting in all material respects in accordance with the *Basic Standard for Enterprise Internal Control* and related requirements.

In 2015, the Group maintained the overall stability and effectiveness of its internal control system. In 2016, the Group will continue to operate prudently in compliance with laws and regulations, maintain a reasonable growth in business, and continue to constantly enhance the standards of internal control.

Information about the Self Assessment Report of the Internal Control of the Bank is set out in the "2015 Internal Control Assessment Report of Bank of Communications Co., Ltd." on the SSE website at www.sse.com.cn, HKEX HKExnews website at www.hkexnews.hk. and official website of the Bank at www.bankcomm.com.

IX. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank requires 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 of Listed Companies and the Changes of Such Shares* issued by the CSRC and the Model Code. In additional, the Bank has adopted the Model Code as the code for securities transactions by its Directors, Supervisors and senior management. After specific enquiries, all the Directors, Supervisors and senior management of the Bank had complied with the above rules in 2015.

X. AUDITOR'S REMUNERATION

The Group's financial statements for the year ended 31 December 2015 prepared in accordance with China Accounting Standards have been audited by PricewaterhouseCoopers Zhong Tian LLP, and those prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers, with total audit fee of approximately RMB32.25 million. PricewaterhouseCoopers Zhong Tian LLP also provides the Group with internal control audit service at an audit fee of RMB2.23 million.

During the Reporting Period, the non-audit services provided by PwC and its member firms to the Group mainly included assurance services for the report on corporate social responsibilities, translation services and professional services for bond issue projects. The Group paid fees of approximately RMB3.226 million in total for such non-audit services. The Audit Committee was satisfied that such services had not impaired the independence of PwC.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have provided the Group with audit service for two years.

XI. ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The performance assessment of the Bank's senior management is conducted in accordance with relevant national requirements and the Bank's assessment method for annual business performance of senior management.

During the Reporting Period, the Bank did not implement any share incentive scheme.

XII. INVESTOR RELATIONS (IR)

Adhering to the philosophy of maximising investor value, the Group took "being the best bank to communicate with market" as its goal and continued to strengthen investor relations, in order to actively promote market value management. In 2015, the Bank obtained level A evaluation on information disclosure of listing companies from Shanghai Stock Exchange. The Bank's secretary of the Board was awarded the title of the Most Respectable Secretary of the Board of Listing Companies in 2015 by China Associations for Public Companies.

– The Bank continued to keep "zero-distance" communication with the market. The Bank enriched the communication and exchange channels. It represented its business development to the market through various activities including analyst meeting, roadshow, receiving visitors and participating in investment forum. In 2015, the Group held 4 results release press conferences in Hong Kong and Shanghai and 1 Europe-USA global roadshow; the investor relation team received 57 batches of daily institutional investors and analysts visits and participated in 13 domestic and overseas investors' forums.

– The Bank actively expanded the on-line market communication platform. It innovated the communication and exchange methods. The Bank transferred important information such as operation and management of the Group to the market via investor service mailbox, hotline, investor relations website, SSE e-interaction Platform and WeChat public number, etc., and answered investor-concerned problems, in order to effectively strengthen the market interaction.

– Again the Bank implemented shareholding by core management. Based on the successful implementation of increase of A share held by core management of the Bank in 2014, the Bank implemented shareholding by core management once again in 2015, and expanded the scope of shareholding to H share. As at the end of 2015, the number of Directors, Supervisors, senior management and middle management of the Bank summed to approximately 400. They bought 15 million and 9.85 million A shares and H shares with personal funds, respectively, representing core management's confidence in the operation and development of the Group and their recognition to investment value of the Group.

CORPORATE SOCIAL RESPONSIBILITIES

Based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing hand in hand with the society", the Bank earnestly implements the national macro-economic policy, continues to carry forward the "BoCom Strategy" focusing on supporting real economy, proactively performs its corporate social responsibilities and strives to achieve synchronous economic, environmental and social benefits in the "New Normal" of economic development.

I. ENHANCEMENT ON RESPONSIBILITY MANAGEMENT

The Group is the first among domestic listed companies to establish the Corporate Social Responsibility Committee under the Board of Directors. During the Reporting Period, Board of Directors of the Bank achieved positive results on promoting the implementation of corporate social responsibility, improvement of internal promotion and external communication of social responsibility activities, implementation of "Green Credit" policy, actively donation, promoting employees bonding, protection of legitimate rights and interests of consumers and further development of the Corporate Social Responsibility Committee. Some members of the Committee conducted researches in branches emphasising on social responsibility, improving services and implementation of "Green Credit" policy, and giving advices and suggestions around the topics.

During the Reporting Period, pursuant to the *BoCom Guidance on Corporate Social Responsibility*, the Group defined the measurement and functions of different units on the implementation of corporate social responsibilities, and took concrete actions in four key areas, including "enhancement of responsibility management, serving real economy, promotion of "Green Credit" policy, and achievement of mutual benefits", which is in line with the predetermined measures outlined in the "Key Improvements on Corporate Social Responsibility for 2015".

The Group has been emphasising on the communication with stakeholders. During the Reporting Period, based on the expectations and requirements of the eight major stakeholders identified, i.e., customers, shareholders, government agencies, employees, environment, communities, partners and social organisations, the Group continue to commit itself to corporate social responsibilities and set targets to be achieved. The Group's efforts in social responsibilities are well-recognised by the stakeholders, media and professional institutes.

During the Reporting Period, social contribution value per share of the Group reached RMB3.86, representing a year-on-year increase of 3.49%.

II. SUPPORT TO REAL ECONOMY

During the Reporting Period, the Group implemented national macro-economic policy, using the support given by the government on demand of services in real economy and industry financing policy as its core principle, actively adhered to major national strategies, served key fields of real economy, actively seized the strategic thinking of the country's economic transformation and upgrading, optimised credit structure and guided credit resources of the Bank to invest in fields that conformed to the transformation and upgrading of real economy, so as to continuously improve economy benefits on finance-supported real economy.

(in 100 millions of RMB)

	2013	2014	2015
Total loan balance	32,663.68	34,317.35	37,220.06
Central and western China	8,440.64	9,211.45	10,031.51
Medium, small and micro enterprises	12,551.60	12,591.51	12,302.28
Agriculture related enterprises	5,407.85	5,602.07	5,992.70

Note: Central and western China includes Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hunan Province, Hubei Province, Guangxi Zhuang Autonomous Region, Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uyghur Autonomous Region and Inner Mongolia Autonomous Region.

III. IMPROVEMENT OF PEOPLE'S LIVELIHOOD

During the Reporting Period, the Bank granted credit to individual customers to meet their reasonable financing demands, with an aim of supporting people's livelihood, promoting consumption, facilitating payments and improving the living conditions of people. As at the end of the Reporting Period, the balance of loans made to individuals, the science, education, culture and public health sectors grew at a faster pace than the average growth rate of the total loan balance.

(in 100 millions of RMB)

	2013	2014	2015
Loans to affordable housing projects	332.60	352.25	353.27
Loans to the science, education, culture and public health sectors	491.74	598.33	717.31
Loans to individuals	7,513.10	8,683.57	9,933.19

IV. GREEN CREDIT

During the Reporting Period, the Bank continued to make greater efforts on implementation of "Green Credit" policy, where the proportion of number of "green" customers and the relative outstanding balance remained at high levels. In addition, loans made to enterprises in low-carbon economy, energy-saving and environmental protection fields continued to grow, while loans made to sectors characterised by "heavy pollution, high energy consumption and over-capacity" were effectively suppressed.

(in 100 millions of RMB unless otherwise stated)

	2013	2014	2015
The proportion of "green" customers (%)	99.56	99.58	99.64
The proportion of loan balance made to "green" customers (%)	99.80	99.78	99.79
The proportion of loan balance made to sectors characterised by "heavy pollution, high energy consumption and over-capacity" (%)	2.52	2.15	1.83
Loan balance made to energy-saving and emission reduction sectors	1,658.36	1,524.31	2,047.95

V. GREEN SERVICE

The Bank is dedicated to "green finance" with strong emphasis on e-banking services, in order to provide more efficient, low-cost, and convenient financial products and services with better quality. During the Reporting Period, the channel diversion rate of e-banking services increased significantly to 88.13%, which helped to protect the environment equivalent to reducing CO2 emission of nearly 8,502.05 tons, representing a year-on-year increase of 31.37%.

	2013	2014	2015
Channel diversion rate of e-banking services (%)	78.33	83.13	88.13

VI. GREEN OPERATION

The Bank is dedicated to becoming an environmentally friendly enterprise through promoting the norm of green operation. During the Reporting Period, it made further progress in energy-saving and emission reduction, recycling, green procurement and green construction. The Head Office of the Bank devoted great efforts to energy-saving and emission reduction through using energy-saving technologies, promoting energy-saving measures and increasing energy-saving awareness. While the Bank continue to grow and develop, the Head Office has decreased energy consumption on year-on-year basis, further expanded paperless office and effectively improved utilisation of intelligent communication equipment. As at the end of the Reporting Period, the Bank's electricity, water and natural gas consumptions per capita has been stable and declined, its total paper consumption decreased by 14.5% and number of video conferences increased substantially by 43.2% on a year-on-year basis. Suppliers of the Bank are encouraged to follow green procurement standards and to build energy efficient buildings in order to protect the environment. Furthermore, the Bank is devoted to environmental protection through organising activities for energy saving and consumption reducing, voluntary tree planting, low-carbon transportation and environmental propaganda such as "Blue Sky Credits" public benefit activity and "BoCom Youth Tree-planting" project, as part of its efforts to implement green concept and improve the ecological system.

VII. CUSTOMER SERVICE

Customer satisfaction has always been the top priority of the Bank. The Bank provides customers with convenient products and services with high quality and affinity, with the aim of maximising the common value between the bank and its customers. The Bank ranked number one in the China Retail Banking Satisfaction Study conducted by J.D. Power, with a score of 837. The Bank actively participated in the 2015 "Top 100" model unit assessment organised by the China Banking Association and 20 branch outlets were awarded the 2015 "Top 100", making the Bank top the table in terms of number of branches receiving such award. Besides, 5 branches were awarded the excellence award for building "Top 100". In the China Corporate Integrity & Competitiveness Forum Summit 2015 held by media and institutions including the Economy magazine, the Bank was awarded the "Best Public Satisfaction Model Brand".

The Bank highly values the protection of consumers' rights and interests through various measures, officially setting up BoCom Customer Rights Protection Department (which works with Personal Banking Business Department), leveraging from efforts across the bank on customer rights protection, incorporating customer rights protection efforts in performance appraisal system, establishing "Proposal for Customer Rights Protection" as an assessment tool, constant enhancing of staff training on customer rights protection and promoting excellent cases of customer rights protection across the Bank. During the Reporting Period, the Bank was awarded the "Advanced Group" in the network contest of customer rights protection held by the China Banking Association.

VIII. CARES ABOUT EMPLOYEES

As at the end of the Reporting Period, the Bank had a total of 89,269 domestic employees, of which about 52.81% are female employees, while the overseas local employees amounted to 2,199, of which about 49.70% are female employees. During the Reporting Period, the Bank did not hire any part-time staff.

	2013	2014	2015
Total number of employees	99,919	93,658	**91,468**
Number of female employees served as medium-to-top management	2,360	2,419	**2,474**
Number of ethnic minority employees	3,205	3,240	**3,658**

During the Reporting Period, the number of newly created job opportunities amounted to more than 13,000, of which 4,244 positions were opened towards fresh graduates, and the Bank was awarded the China Best Employer Award again.

During the Reporting Period, the Bank improved the caring about employee system. For the first time, it incorporated the promotion of “Happiness BoCom” into appraisal system of the Party Committees (Party groups) at all levels. The Bank create a three-party cooperation union for “Care about Employees”, to launch the “Happy Life” health financial guarantee program, to set up the BoCom health service platform with “eight characteristics”’ and to develop the “Benefits for All People” preferential group-buying project. Meanwhile, the Bank continued with the employee mutual aid committee and the caring project, carried out a rich variety of cultural, sports and art activities, in order to build the “family” culture by continuously enhancing employee’s sense of happiness, belonging and honour. During the Reporting Period, the Bank developed the *Plan on Happiness Enterprise Construction of BoCom (2015-2017)*, which realised standardised and long-effecting management of its happiness enterprise construction.

IX. DEVOTION TO PUBLIC WELFARE

Dedicated to public charity, the Bank made numerous donations for disaster recovery, disabled persons support and poverty alleviation during the Reporting Period. It gave greater support to district-targeted poverty alleviation. This is the 13th year of the Bank' special aids to Tianzhu county, Gansu Province, and during these years the Bank has donated an accumulative amount of more than RMB32 million, benefiting 0.128 million people and effectively promoting the poverty alleviation and development of Tianzhu. "Gateway to Tomorrow – an academic grant for disabled teenagers" launched in 2007, with an accumulative donation of RMB100 million, of which RMB91.9838 million has been executed. Over the past 8 years of implementation, 32,000 poor or disabled students were funded, 126 special education schools were subsidised, 1,199 distinguished special education instructors and 143 distinguished disabled college students were awarded, 5,280 special education instructors benefited from training and 582 disabled students won prizes in skills competition. Devoted to disaster recovery and reconstruction, the Bank opened up the "green finance" service channel for disaster relief and actively organised donations of money and materials. It donated RMB2 million to the earthquake stricken area in Tibet and TWD3 million to victims of the dust explosion in Taiwan. Furthermore, employees of the Bank also proactively participated in various volunteering activities such as care for the elderly and children, supporting and helping the poor, promoting financial literacy and environmental protection.

(in RMB 0'000)

2015 total donation		**2,448.13**	
Poverty alleviation	**Disabled person support**	**Disaster recovery**	**Others**
1,097.49	800.00	289.00	261.64

For further information about the fulfilment of corporate social responsibilities by the Bank, please refer to the Corporate Social Responsibility Report 2015 of Bank of Communications Co., Ltd. at the Bank's website, the website of SSE, and the website of HKEx.

SIGNIFICANT EVENTS

I. MATERIAL LITIGATION AND ARBITRATION AND ISSUES QUESTIONED BY THE MEDIA GENERALLY

During the Reporting Period, the Group had not been involved in any material litigation and arbitration, or issues questioned by the media generally.

As at 31 December 2015, the Group had been involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB1.397 billion. The Group is of the view that these litigations will not have any significant impact on the financial position of the Group.

II. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Group and its related parties were ordinary operating capital flows at arms-length. No significant related party transaction occurred during the Reporting Period.

As at the end of the Reporting Period, details of continuing related party transactions of the Group are disclosed in Note 43 to the Consolidated Financial Statements set out in this Annual Report. No outstanding loan balance of Directors, Supervisors and senior management of the Bank as at 31 December 2015.

III. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

1. Material Trust, Sub-contract and Lease

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

2. Material Guarantees

The provision of guarantees is one of the off-balance-sheet businesses carried out by the Group in its ordinary and usual 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 had not entered into any other material contracts.

IV. IMPLEMENTATION OF UNDERTAKINGS

The Bank received a notice on 8 July 2015 from the Ministry of Finance, the largest shareholder, in which the Ministry of Finance committed to not reducing its stock holdings in the Bank during the period of abnormal stock market volatility. The Ministry of Finance has kept its commitment and it did not reduce its holdings in the period from the date of commitment to the date of this report.

V. OVERVIEW OF SHARE INCENTIVE PLAN

As part of the incentive scheme, the Bank has granted to members of Senior Management share appreciation rights in 2005 and 2006, respectively. These share appreciation rights issued do not involve any issue of new shares or dilution of the shareholding of the existing shareholders. As at 31 December 2015, the 7.588 million share appreciation rights granted in 2005 have expired, and no one exercised any rights in the expiry period. Details of the share appreciation rights are set out in Note 12 to the Financial Statements.

VI. DISCIPLINARY ACTIONS AGAINST THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLERS AND ACQUIRERS

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors or Senior Management was subject to any investigation, administrative penalty, prohibition from access to market or circulation of criticism by CSRC or public reprimand by the stock exchanges. None of them was subject to enforcement measure by judicial authorities or discipline inspection departments or material administrative penalty by administrative departments including environmental and tax departments.

VII. INTEGRITY OF THE LISTED COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLERS

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.

VIII. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

During the Reporting Period, the Bank has appointed PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Group in accordance with CAS and to provide other related professional services, and appointed PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Group in accordance with IFRS and to provide other related professional services.

Change of accounting firm or not:	No
Name of domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration[1]	RMB23.831 million
Audit period[2]	2 years
Name of overseas accounting firm	PricewaterhouseCoopers
Remuneration[1]	RMB8.419 million
Audit period[2]	2 years
Accounting firm for audit on internal control	PricewaterhouseCoopers Zhong Tian LLP
Remuneration	RMB2.23 million

Notes:

1. The remuneration of accounting firm excludes the internal control audit fee and non-audit service fee.
2. The term of audit refers to the period in which the audit firm provides audit service for the Group continuously.

ORGANISATION CHART OF BANK OF COMMUNICATIONS GROUP (2015)

Shareholders' General Meetings

Board of Directors

Senior Management

Office of Board of Directors

Audit Supervision Bureau

Branches of Audit Supervision Bureau Wuhan, Chengdu, Shenyang, Beijing, Shanghai and Guangzhou

Headquarters & Domestic Subsidiaries

Corporate & Business Module
Corporate Business Department
(Investment Bank Department)
International Banking Department
Small Enterprise Finance Department
Beijing Administrative Department
(Group Customer Department)
Asset Custody Business Centre
(Asset Custody Department)
Offshore Finance Business Centre
Bank of Communications Trustee Limited
Bank of Communications Financial Leasing Co., Ltd.

Retail and Private Business Module (Internet Finance Business Module)
Personal Banking Business Department
(Consumer Right Protection Department)
Internet Channels Department
Private Banking Business Centre
(Private Banking Department)
Pacific Credit Card Centre
Internet Finance Business Centre
Bank of Communications Schroder Fund Management Co., Ltd.
BoCommlife Insurance Company,Ltd.

Interbank and Market Business Module
Financial Institution Department
Financial Market Business Centre
Asset Management Business Centre
Precious Metal Business Centre
Bills Business Centre

Risk Control Module
Risk Management Department
(Asset Preservation Department)
Credit Authorisation Department
Legal Compliance Department

Offices
(Office of Party Committee, Security Department)

Human Resources Department
(Organisation Department of Party Committee)
[Education and Training Department]

Asset and Liability Management Department

Financial Budget Department
[Management Information Centre]

Strategic Investment Department

Operations Management Department
(Business Integration Department)

Information and Technology Management Department

Supervision Bureau
(Anti-fraud Department)

Corporate Culture Department
(Publicity Department of the Party Committee)

Employee Work Department
(Labour Union, Youth League Committee and Party Committee)

Department of General Affairs

Development and Research Department
(Financial Research Centre)

Training Centre (Party School)

Financial Service Centre (Business Department)
[International Clearing Centre]
[Wuhan Financial Service Centre]
[Nanning Financial Service Centre]
[Hefei Financial Service Centre]

Software Development Centre
[R&D Centre (Beijing)]
[R&D Centre (Shenzhen)]

Data Centre

Test Centre

Supervisory Committee

Office of Supervisory Committee

Domestic Branches

- 37 Provincial Branches Directly Managed by the Headquarters
  - 193 Branches Managed by Provinces
- 3,141 Banking Outlets

Overseas Branches, Subsidiaries

- Hong Kong Branch
- New York Branch
  - San Francisco Branch
- Tokyo Branch
- Singapore Branch
- Seoul Branch
- Frankfurt Branch
- Macau Branch
- Ho Chi Minh City Branch
- Sydney Branch
  - Brisbane Branch
- Taipei Branch
- BoCom (UK)
- BoCom (Luxembourg)
- Toronto Representative Office

Other Subsidiaries

- BOCOM International
- BOCOM Insurance
- BoComm Service

Rural Banks

- Dayi Rural Bank
- Anji Rural Bank
- Shihezi Rural Bank
- Laoshan Rural Bank

LIST OF DOMESTIC AND OVERSEAS BRANCHES, MAJOR SUBSIDIARIES AND RURAL BANKS

List of Domestic Provincial Branches and Branches Directly Managed by the Head Office

SN	Name of Branch	Address
1	Bank of Communications Beijing Branch	No. 22 Financial Street, Xicheng District, Beijing
2	Bank of Communications Tianjin Branch	No. 7 Youyi Road, Hexi District, Tianjin City
3	Bank of Communications Hebei Provincial Branch	No. 26 Ziqiang Road, Qiaoxi District, Shijiazhuang City, Hebei Province
4	Bank of Communications Shanxi Provincial Branch	No. 35 Jiefang Road, Yingze District, Taiyuan City, Shanxi Province
5	Bank of Communications Inner Mongolia Region Branch	No. 18 Xinhua East Street, Saihan District, Hohhot, Inner Mongolia Autonomous Region
6	Bank of Communications Liaoning Provincial Branch	No. 258-1 Shifu Road, Shenhe District, Shenyang City. Liaoning Province
7	Bank of Communications Dalian Branch	No. 6 Zhongshan Square, Zhongshan District, Dalian City, Liaoning Province
8	Bank of Communications Jilin Provincial Branch	No. 3515 Renmin Street, Chaoyang District, Changchun City, Jilin Province
9	Bank of Communications Heilongjiang Provincial Branch	No. 428 Youyi Road, Daoli District, Harbin City, Heilongjiang Province
10	Bank of Communications Shanghai Branch	No. 200 Jiangxi Middle Road, Huangpu District, Shanghai
11	Bank of Communications Jiangsu Provincial Branch	No. 218 Lushan Road, Jianye District, Nanjing City, Jiangsu Province
12	Bank of Communications Suzhou Branch	No. 28 Suhui Road, Suzhou Industrial Park, Suzhou City, Jiangsu Province
13	Bank of Communications Wuxi Branch	No. 198 Renmin Middle Road, Chong'an District, Wuxi City, Jiangsu Province
14	Bank of Communications Zhejiang Provincial Branch	No. 1-39 Juyuan Road, Jianggan District, Hangzhou City, Zhejiang Province
15	Bank of Communications Ningbo Branch	No. 55 Zhongshan East Road, Haishu District, Ningbo City, Zhejiang Province
16	Bank of Communications Anhui Provincial Branch	No. 38 Huayuan Street, Luyang District, Hefei City, Anhui Province
17	Bank of Communications Fujian Provincial Branch	No. 116 Hudong Road, Gulou District, Fuzhou City, Fujian Province
18	Bank of Communications Xiamen Branch	Bank of Communications Building, No. 9 Hubin Middle Road, Siming District, Xiamen City, Fujian Province
19	Bank of Communications Jiangxi Provincial Branch	No. 199 Huizhan Road, Honggutan New District, Nanchang City, Jiangxi Province
20	Bank of Communications Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province

SN	Name of Branch	Address
21	Bank of Communications Qingdao Branch	No. 6 Zhongshan Road, Shinan District, Qingdao City, Shandong Province
22	Bank of Communications Henan Provincial Branch	No. 11 Zhenghua Road, Jinshui District, Zhengzhou City, Henan Province
23	Bank of Communications Hubei Provincial Branch	No. 847 Jianshe Avenue, Jianghan District, Wuhan City, Hubei Province
24	Bank of Communications Hunan Provincial Branch	No. 37 Shaoshan Middle Road, Yuhua District, Changsha City, Hunan Province
25	Bank of Communications Guangdong Provincial Branch	No. 11 Xiancun Road, Tianhe District, Guangzhou City, Guangdong Province
26	Bank of Communications Shenzhen Branch	Huaneng Building, No. 2066-A Shennan Middle Road, Futian District, Shenzhen City, Guangdong Province
27	Bank of Communications Guangxi Zhuang Autonomous Region Branch	No. 228 Renmin East Road, Xingning District, Nanning City, Guangxi Zhuang Autonomous Region
28	Bank of Communications Hainan Provincial Branch	Yintong International Centre, Longhua District, Haikou City, Hainan Province
29	Bank of Communications Chongqing Branch	No. 158 Zhongshan Third Road, Yuzhong District, Chongqing City
30	Bank of Communications Sichuan Provincial Branch	Bank of Communications Building, No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province
31	Bank of Communications Guizhou Provincial Branch	No. 4 Shengfu Road, Yunyan District, Guiyang City, Guizhou Province
32	Bank of Communications Yunnan Provincial Branch	Bank of Communications Building, No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
33	Bank of Communications Shaanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi'an City, Shaanxi Province
34	Bank of Communications Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
35	Bank of Communications Ningxia Hui Autonomous Region Branch	No. 296 Minzu North Street, Xingqing District, YinChuan City, NingXia Hui Autonomous Region
36	Bank of Communications Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
37	Bank of Communications Qinghai Provincial Branch	No. 29 Wusi West Road, Chengxi District, Xining City, Qinghai Province

LIST OF DOMESTIC AND OVERSEAS BRANCHES, MAJOR SUBSIDIARIES AND RURAL BANKS (CONTINUED)

List of Overseas Banking Institutions

SN	Name	Address of Banking Outlet
1	Bank of Communications Hong Kong Branch	20 Pedder Street, Central, Hong Kong
2	Bank of Communications New York Branch	ONE EXCHANGE PLAZA 55 BROADWAY, 31ST & 32ND FLOOR, NEW YORK NY 10006-3008, U.S.A.
3	Bank of Communications San Francisco Branch	575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105 U.S.A.
4	Bank of Communications Tokyo Branch	SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
5	Bank of Communications Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower
6	Bank of Communications Seoul Branch	6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea
7	Bank of Communications Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
8	Bank of Communications Macau Branch	16th Floor, AIA Tower, No. 251A–301, Avenida Commercial De Macau
9	Bank of Communications Ho Chi Minh City Branch	17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN
10	Bank of Communications Sydney Branch	Level 27, 363 George Street Sydney NSW 2000 Australia
11	Bank of Communications Brisbane Branch	Level 35, 71 Eagle Street, Brisbane, Australia
12	Bank of Communications Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan
13	Bank of Communications (UK) Limited.	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
14	Bank of communications (Luxemburg) Limited.	7 Ruede la Chapelle, Luxembourg, L-1325
15	Bank of Communications Toronto Office	130 King Street West Suite 2125, Toronto, Ontario, Canada, M5X 1C8

List of Major Subsidiaries and Rural Banks

SN	Name	Address
1	BOCOM International Holdings Company Limited	Man Yee Building, No. 68 Des Voeux Road Central, Central, Hong Kong
2	China BOCOM Insurance Co., Ltd.	Fairmont House, No. 8 Cotton Tree Drive, Central, Hong Kong
3	Bank of Communications Schroder Fund Management Co., Ltd.	International Finance Centre, No. 8 Century Avenue, Pudong New District, Shanghai
4	Bank of Communications International Trust Co., Ltd.	Jinming Tower, No. 18 Xianxia Road, Shanghai Ruitong Square, No. 847 Jianshe Avenue, Wuhan
5	Bank of Communications Financial Leasing Co., Ltd.	Jinming Tower, No. 18 Xianxia Road, Shanghai
6	BoCommlife Insurance Company Limited	Jinming Tower, No. 18 Xianxia Road, Shanghai
7	Dayi Bocomm Xingmin Rural Bank Ltd.	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province
8	Zhejiang Anji BoCOM Rural Bank Ltd.	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou city, Zhejiang Province
9	Xinjiang Shihezi BoCOM Rural Bank Ltd.	No. 127 Dongyi Road, Shihezi City, Xinjiang Uygur Autonomous Region
10	Qingdao Laoshan BoCOM Rural Bank Ltd.	No. 458 Xianggang East Road, Laoshan District, Qingdao City, Shandong Province

羅兵咸永道

To the shareholders of Bank of Communications Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries set out on pages 175 to 309, which comprise the consolidated statements of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Notes	Year ended 31 December 2015	2014
Interest income		**305,126**	288,509
Interest expense		**(160,954)**	(153,733)
Net interest income	4	**144,172**	134,776
Fee and commission income	5	**38,231**	32,914
Fee and commission expense	6	**(3,204)**	(3,310)
Net fee and commission income		**35,027**	29,604
Net gains arising from trading activities	7	**2,642**	6,246
Net gains arising from financial investments		**1,567**	275
Share of profit of associates		**76**	90
Insurance business income		**4,051**	2,547
Other operating income	8	**7,023**	5,088
Impairment losses on loans and advances to customers	9	**(27,160)**	(20,439)
Insurance business expense		**(4,482)**	(2,528)
Other operating expense	10	**(76,904)**	(70,732)
Profit before tax		**86,012**	84,927
Income tax	13	**(19,181)**	(18,892)
Net profit for the year		**66,831**	66,035
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Changes in fair value recorded in equity		**2,371**	5,649
Changes in fair value reclassified from equity to profit or loss		**(808)**	(148)
Cash flow hedge reserve		**(64)**	–
Translation difference on foreign operations		**1,116**	(205)
		2,615	5,296
Item that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on pension benefits		**6**	(15)
Other comprehensive income for the year	38	**2,621**	5,281
Comprehensive income for the year		**69,452**	71,316
Net profit attributable to:			
Shareholders of the Bank		**66,528**	65,850
Non-controlling interests		**303**	185
		66,831	66,035
Total comprehensive income attributable to:			
Shareholders of the Bank		**69,063**	70,689
Non-controlling interests		**389**	627
		69,452	71,316
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	**0.90**	0.89

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	**As at 31 December 2015**	As at 31 December 2014
ASSETS			
Cash and balances with central banks	15	**920,228**	938,055
Due from banks and other financial institutions	16	**611,191**	525,033
Financial assets at fair value through profit or loss	17	**173,309**	133,802
Loans and advances to customers	19	**3,634,568**	3,354,787
Financial investments – loans and receivables	20	**323,679**	211,588
Financial investments – available-for-sale	20	**264,739**	210,016
Financial investments – held-to-maturity	20	**933,683**	635,570
Investment in associates	22	**577**	547
Property and equipment	23	**90,393**	69,767
Deferred income tax assets	24	**16,684**	16,077
Other assets	25	**186,311**	173,057
Total assets		**7,155,362**	6,268,299
LIABILITIES			
Due to banks and other financial institutions	26	**1,641,239**	1,408,275
Financial liabilities at fair value through profit or loss	27	**62,461**	38,580
Due to customers	28	**4,484,814**	4,029,668
Certificates of deposits issued	29	**89,265**	38,601
Current tax liabilities		**8,604**	7,852
Deferred income tax liabilities	24	**119**	32
Debt securities issued	30	**170,106**	129,547
Other liabilities	31	**160,662**	142,139
Total liabilities		**6,617,270**	5,794,694
EQUITY			
Share capital	32	**74,263**	74,263
Preference shares	33	**14,924**	–
Capital surplus	32	**113,392**	113,496
Other reserves		**259,208**	211,471
Retained earnings		**73,098**	71,825
Equity attributable to shareholders of the bank		**534,885**	471,055
Non-controlling interests		**3,207**	2,550
Total equity		**538,092**	473,605
Total equity and liabilities		**7,155,362**	6,268,299

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2016 and signed on its behalf by:

Chairman and Executive Director: Niu Ximing *Vice Chairman, Executive Director and President: Peng Chun*

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

				Other reserves										
	Share capital Note 32	Preference Shares Note 33	Capital surplus Note 32	Statutory reserve Note 34	Discretionary reserve Note 34	Statutory general reserve Note 34	Revaluation reserve for available-for-sale financial assets Note 35	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Retained earnings Note 35	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2015	**74,263**	**-**	**113,496**	**37,522**	**105,242**	**71,549**	**131**	**-**	**(2,984)**	**11**	**71,825**	**471,055**	**2,550**	**473,605**
Net profit for the year	-	-	-	-	-	-	-	-	-	-	66,528	66,528	303	66,831
Other comprehensive income	-	-	-	-	-	-	1,477	(64)	1,116	6	-	2,535	86	2,621
Total comprehensive income	-	-	-	-	-	-	1,477	(64)	1,116	6	66,528	69,063	389	69,452
Issuance of preference shares	-	14,924	-	-	-	-	-	-	-	-	-	14,924	-	14,924
Capital increase in a subsidiary	-	-	(12)	-	-	-	-	-	-	-	-	(12)	277	265
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)	(9)	(20,060)
Transfer to reserves	-	-	-	6,578	34,522	4,104	-	-	-	-	(45,204)	-	-	-
Capital increase in an associate	-	-	(97)	-	-	-	-	-	-	-	-	(97)	-	(97)
Others	-	-	5	(2)	-	-	-	-	-	-	-	3	-	3
Balance at 31 December 2015	**74,263**	**14,924**	**113,392**	**44,098**	**139,764**	**75,653**	**1,608**	**(64)**	**(1,868)**	**17**	**73,098**	**534,885**	**3,207**	**538,092**
Balance at 1 January 2014	74,263	–	113,383	30,999	78,510	62,757	(4,928)	–	(2,779)	26	67,330	419,561	1,923	421,484
Net profit for the year	–	–	–	–	–	–	–	–	–	–	65,850	65,850	185	66,035
Other comprehensive income	–	–	–	–	–	–	5,059	–	(205)	(15)	–	4,839	442	5,281
Total comprehensive income	–	–	–	–	–	–	5,059	–	(205)	(15)	65,850	70,689	627	71,316
Capital increase in an associate	–	–	113	–	–	–	–	–	–	–	–	113	–	113
Dividends paid to ordinary shares	–	–	–	–	–	–	–	–	–	–	(19,308)	(19,308)	–	(19,308)
Transfer to reserves	–	–	–	6,523	26,732	8,792	–	–	–	–	(42,047)	–	–	–
Balance at 31 December 2014	74,263	–	113,496	37,522	105,242	71,549	131	–	(2,984)	11	71,825	471,055	2,550	473,605

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	Year ended 31 December 2015	2014
Cash flows from operating activities:			
Profit before tax:		**86,012**	84,927
Adjustments for:			
Impairment allowances on loans and advances to customers		**27,160**	20,439
Impairment of finance lease receivables		**558**	274
Impairment of financial investments		**1,151**	1,947
(Reversal of)/Provision for impairment of other receivables		**(18)**	200
Provision for impairment losses on property and equipment		**2**	–
Provision for impairment losses on foreclosed assets		**61**	5
Impairment allowances on repossessed assets		**–**	1
Insurance contracts reserve		**1,999**	2,008
Depreciations and amortisations		**7,200**	5,753
Provision for/(reversal of) outstanding litigation and unsettled obligation		**179**	(189)
Net gains on disposal of property and equipment		**(26)**	(93)
Net gains on disposal of foreclosed assets		**(127)**	–
Interest income from financial investments		**(50,049)**	(41,631)
Unwind of discount on allowances during the year		**(1,971)**	(1,502)
Fair value gains/(losses)		**32**	(4,063)
Share of profit of associates		**(76)**	(90)
Net gains arising from financial investments		**(1,567)**	(275)
Interest expense on debt securities issued		**6,213**	4,568
Interest expense on certificates of deposits issued		**1,786**	998
Operating cash flows before movements in Operating assets and liabilities		**78,519**	73,277
Net decrease/(increase) in mandatory reserve deposits		**10,758**	(31,288)
Net (increase)/decrease in due from banks and other financial institutions		**(62,280)**	101,417
Net increase in financial assets at fair value through profit or loss		**(16,577)**	(62,910)
Net increase in loans and advances to customers		**(304,970)**	(180,659)
Net increase in other assets		**(8,459)**	(33,029)
Net increase in due to banks and other financial institutions		**232,964**	281,712
Net increase in financial liabilities at fair value through profit or loss		**2,657**	10,073
Net increase/(decrease) in due to customers		**455,146**	(128,165)
Net increase in other liabilities		**10,581**	37,368
Net increase/(decrease) in business tax payable		**842**	(266)
Income tax paid		**(20,059)**	(17,815)
Net cash from operating activities		**379,122**	49,715

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

		Year ended 31 December	
	Notes	**2015**	2014
Cash flows from investing activities:			
Purchase of financial investments		**(795,491)**	(507,836)
Disposal or redemption of financial investments		**330,052**	468,432
Dividends received		**489**	78
Interest received from financial investments		**46,758**	41,380
Acquisition of intangible assets and other assets		**(1,056)**	(8,066)
Disposal of intangible assets and other assets		**11**	269
Purchase and construction of property and equipment		**(25,711)**	(17,793)
Disposal of property and equipment		**559**	185
Net cash used in investing activities		**(444,389)**	(23,351)
Cash flows from financing activities:			
Proceeds from issuance of preference shares		**14,982**	–
Cash payments for transaction cost of preferences shares issued		**(58)**	–
Proceeds from debt securities and certificates of deposits issued		**163,666**	131,543
Interest paid on debt securities and certificates of deposits issued		**(8,334)**	(4,685)
Dividends paid to ordinary shareholders of the Bank		**(20,051)**	(19,375)
Capital contribution by non-controlling interests		**277**	–
Repayment the principals of debts securities and certificates of deposits issued		**(73,514)**	(63,785)
Dividends paid to non-controlling interests		**(9)**	–
Net cash from financing activities		**76,959**	43,698
Effect of exchange rate changes on cash and cash equivalents		**5,117**	170
Net increase in cash and cash equivalents		**16,809**	70,232
Cash and cash equivalents at the beginning of the year		**313,626**	243,394
Cash and cash equivalents at the end of the year	39	**330,435**	313,626
Net cash flows from operating activities include:			
Interest received		**250,732**	240,843
Interest paid		**(149,890)**	(137,968)

The accompanying Notes form a part of these consolidated financial statements.

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

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 230 city-level and above branches in the Mainland China and 15 overseas institutions including branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, San Francisco, Taipei, Brisbane, Bank of Communications (UK) Co., Ltd. Bank of Communications (Luxembourg) Co., Ltd.and representative office of Toronto. The Bank's A shares are listed on Shanghai Stock Exchange and its H shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustees, insurance, finance lease and other financial services.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the new Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

2.1.1 Application of new and revised IFRSs

(a) *New and revised IFRSs issued and applied*

In the current year, the Group has adopted the following amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2015 and the relevant impact is set out below:

Amendment to IAS 19 (as revised in 2011)	Employee Benefits – To Plans that Require Employees or Third Parties to Contribute Towards the Cost of Benefits
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle
Amendments to IAS 27	Equity method in separate financial statements

Amendment to IAS 19 (as revised in 2011)

The amendment to IAS 19 (as revised in 2011) – Employee Benefits will affect the defined benefit plans where employees or third parties are required to bear some of the cost of the plan. The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service period will be required to recognize the benefit of those contributions over employees' service period.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 Application of new and revised IFRSs *(Continued)*

(a) New and revised IFRSs issued and applied (Continued)

Amendments to IFRSs: Annual Improvements to IFRSs 2010 – 2012 Cycle

The annual improvements to IFRSs 2010 – 2012 Cycle include a number of amendments to various IFRSs including the amendments to IFRS 2 – Share-Based Payment, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 8 – Operating Segments, the amendments to IFRS 13 – Fair Value Measurement, the amendments to IAS 24 – Related Party Disclosures, the amendments to IAS 16 – Property, Plant and Equipment, and the amendments to IAS 38 – Intangible Assets.

Amendments to IFRSs: Annual Improvements to IFRSs 2011 – 2013 Cycle

The annual improvements to IFRSs 2011 – 2013 Cycle include a number of amendments to various IFRSs including the amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 13 – Fair Value Measurement, and the amendments to IAS 40 – Investment Property.

Amendments to IAS 27

The amendments allow entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The adoption of these amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 Application of new and revised IFRSs *(Continued)*

(b) New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

		Effective for annual period beginning on or after
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operation	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception	1 January 2016
Amendments to IAS 1	Disclosure initiative	1 January 2016
Amendments to IAS 7	Statement of cash flows	1 January 2017
Amendments to IAS 12	Income taxes	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Lease	1 January 2019

Amendments to IFRS 11

The amendments require an investor to apply the principles of business combination accounting when they acquire an interest in a joint operation that constitutes a 'business' (as defined in IFRS 3, Business combinations). Specifically, an investor will need to:

- measure identifiable assets and liabilities at fair value;
- expense acquisition-related costs;
- recognize deferred tax; and
- recognize the residual as goodwill.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 Application of new and revised IFRSs *(Continued)*

(b) *New and revised IFRSs issued but not yet effective* *(Continued)*

Amendments to IFRS 11 *(Continued)*

All other principles of business combination accounting apply unless they conflict with IFRS 11.

The amendments are applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

IFRS 14

IFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

IFRS 14 permits eligible first- time adopters of IFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes. IFRS 14 requires separate presentation of regulatory deferral account balances in the balance sheet and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

Amendments to IAS 16 and IAS 38

The amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 Application of new and revised IFRSs *(Continued)*

(b) *New and revised IFRSs issued but not yet effective (Continued)*

Amendments to IFRSs: Annual Improvements to IFRSs 2012 – 2014 Cycle

The Annual Improvements to IFRSs 2012 – 2014 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations regarding methods of disposal, the amendments to IFRS 7 -Financial Instruments: Disclosures regarding servicing contracts, the amendments to IAS 19 – Employee Benefits regarding discount rates, the amendments to IAS 34 Interim Financial Reporting regarding disclosure of information.

Amendments to IFRS 10, IFRS 12 and IAS 28

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10.

The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to IAS 28 allow an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture for their subsidiaries when applying the equity method.

Amendments to IAS 1

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

The key areas addressed by the changes are as follows:

- Materiality: an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;

- Disaggregation and subtotals: the amendments clarify what additional subtotals are acceptable and how they should be presented;

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 Application of new and revised IFRSs *(Continued)*

(b) *New and revised IFRSs issued but not yet effective* (Continued)

Amendments to IAS 1 *(Continued)*

- Notes: an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;

- Accounting policies: how to identify a significant accounting policy that should be disclosed;

- Other comprehensive income from equity accounted investments: other comprehensive income of associates and joint ventures should be separated into the share of items that will subsequently be reclassified to profit or loss and those that will not.

Amendments to IAS 7

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments to IAS 12

The IASB has issued amendments to IAS 12,'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings process to an asset-liability approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition:

IFRIC13 Customer Loyalty Programmes, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 Application of new and revised IFRSs *(Continued)*

(b) New and revised IFRSs issued but not yet effective *(Continued)*

IFRS 9

IFRS 9 (2014), "Financial instruments" replaces the whole of IAS 39.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.

IFRS 16

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

2.1.1 *Application of new and revised IFRSs* *(Continued)*

(b) *New and revised IFRSs issued but not yet effective* (Continued)

IFRS 16 *(Continued)*

The Group is considering the impact of IFRS 9, IFRS 16 and amendments to IAS 7 on the consolidated financial statements.

Except the above mentioned impact of IFRS 9, IFRS 16 and amendments to IAS 7, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.1.2 *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2.2 Consolidation

2.2.1 *Subsidiary undertakings*

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive are reclassified to profit or loss.

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 40 and 41.

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognized immediately in profit or loss.

At each period end, the Group assesses whether these is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.4 Investment in an associate (Continued)

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized only to the extent of interests in the associate that are not related to the Group.

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognized in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

2.4 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognized as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognized, the unamortised carrying value adjustment is recognized immediately in the profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Hedge accounting *(Continued)*

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in equity in the "capital reserve". The ineffective portion is recognized immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

2.5 Financial assets

The Group's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39— Financial Instruments: Recognition and Measurement permits the entire combined contract(asset or liability) to be designated at financial assets at fair value through profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Financial assets *(Continued)*

(a) ***Financial assets at fair value through profit or loss*** *(Continued)*

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

(b) ***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(c) ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in other comprehensive income accumulated in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognized in profit or loss.

(d) ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

(e) ***De-recognition of financial assets***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Financial assets *(Continued)*

(f) Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and other subordinated tranche notes investors. The Group derecognizes the transferred assets in full or in part based on the extent of the risks and rewards retained.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- The financial asset is derecognized when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

- The financial asset is continued to recognize when the Group retains substantially all the risks and rewards of ownership of the financial asset.

- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control, it derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract, such as a default or delinquency in interest or principal payments;

(3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(5) The disappearance of an active market for that financial asset because of financial difficulties;

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group;

(7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

(8) A significant or prolonged decline in the fair value of equity instrument investments; and

(9) Other objective evidence indicating impairment of the financial asset.

(a) Impairment of financial assets carried at amortised cost

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Impairment of financial assets *(Continued)*

(a) *Impairment of financial assets carried at amortised cost* *(Continued)*

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

(b) *Impairment of available-for-sale financial assets*

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in other comprehensive income is reclassified to profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognized in profit or loss.

(c) *Impairment of financial assets measured at cost*

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

2.7 Financial liabilities/Equity instruments

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Financial liabilities/Equity instruments *(Continued)*

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognized in profit or loss.

(b) Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from derecognition or amortisation recognized in profit or loss.

(c) De-recognition of financial liabilities

The Group derecognizes a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Financial liabilities/Equity instruments *(Continued)*

(d) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

(f) Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Interest income and expense

Interest income and expense are recognized in profit or loss for interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognized using the original interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognized when the services are rendered.

2.10 Dividend income

Dividends are recognized when the right to receive the dividends is established.

2.11 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognized in the statement of financial position. The proceeds from selling such assets are presented under "due to banks and other financial institutions" in the statement of financial position. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets purchased under reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognized in the statement of financial position. The cost of purchasing such assets is presented under "due from banks and other financial institutions" in the statement of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

2.12 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognized at fair value, with changes in fair value arising from re-measurement recognized directly in profit or loss in the period in which they arise.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	**Estimated useful lives**	**Estimated residual value rate**	**Depreciation rate**
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the shorter of the economic useful lives and remaining lease terms	–	–

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 15 to 25 years.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Foreclosed assets

Foreclosed assets are initially recognized at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognized in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognized in profit or loss.

2.15 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.16 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecongnised.

2.17 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.18 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Impairment of non-financial assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

2.19 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognized as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognized as unearned finance income. Unearned finance income is recognized as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term.

2.20 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Provisions

Provisions are recognized when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

2.22 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income taxes *(Continued)*

(b) ***Deferred income tax*** *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income, in which case the current and deferred tax are also recognized in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.23 Share capital

(a) ***Share capital***

Share capital comprises ordinary shares issued.

(b) ***Share issue costs***

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2.24 Dividend

(a) ***Dividends on ordinary shares***

Dividends on ordinary shares are recognized in the period in which they are declared and approved by the Bank's shareholders.

(b) ***Dividends on preference shares***

Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

2.25 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognizes the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognizes all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the “Annuity Plan”) by the Group. The Group contributes a certain portion of the employees’ gross salaries to the Annuity Plan. Related expenses are recognized in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognized in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognized in profit or loss.

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group’s share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

The value of share appreciation rights (“SARs”) granted by the Group is determined by applying the Binomial Option Pricing Model.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiary choose its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognized in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognized as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognized in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.28 Contingent liabilities and contingencies

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Insurance contracts

(a) Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

(b) Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.30 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with IAS 18 Revenue.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and not providing funding for the corresponding entrusted funds, the entrusted loans are not recognized as assets and liabilities of the Group.

2.32 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.33 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.34 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) *Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio and objective evidence of impairment. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data that reflects current economic conditions are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) *Income taxes*

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

(d) *Held-to-maturity investments*

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling or reclassifying an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value, not at amortised cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.34 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(e) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial condition and near-term business outlook of the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

Objective evidence of impairment for a debt investment exists when one or more events have occurred after the initial recognition of the available-for-sale debt investment that reduces the estimated future cash flows to be recoverable from the debt investment. The Group recognizes an impairment loss for the debt investment when there is objective evidence that the debt investment is impaired.

(f) Consolidation of structured entities

During the evaluation, the Group considers many factors to assess whether it takes the role as the agent or the trustee, such as: the scope of asset manager's decision-making power, rights held by other parties, commission levels as management service provider, and any other arrangements (such as direct investment) which could affect the exposure to variable returns from its involvement.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and the latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors, including policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at Head Office undertakes the overall risk management functions of the Group. The risk management division in each operation department at Head Office, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Group are credit risk, liquidity risk and market risk which also includes foreign exchange risk, interest rate risk and other price risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or is unwilling to meet its obligations under a contract. Significant changes in the economy, credit quality of a particular industry segment in the Group's portfolio, could result in a loss amount different from the loss provision at the end of the reporting date. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally from loans and advances, financial investments, derivative instruments and due from banks and other financial institutions. There is also credit risk in off-balance sheet financing arrangements such as loan commitments, financial guarantees, acceptances and letters of credit. The majority of the Group's operation is located within Mainland China, where different regions in China have their own unique characteristics in economic development. For example, the economic development in the eastern provinces is better than that in the western provinces. The Risk Management Department at Head Office is responsible for the overall management of the Group's credit risk, and reports to the Group's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a particular borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

3.1.1 Credit risk assessment

(a) *Loans and advances to customers and off-balance sheet commitments*

In assessing credit risk of corporate and retail customers in respect of its on-balance sheet and off-balance sheet exposures, the Group considers three factors (i) the "probability of default" by debtors; (ii) the "exposure at default" to be recognized by the Group based on the current net exposure and the future potential development of debtors; (iii) the extent of loss from risk exposure in the event of default (the "loss given default").

Probability of default is the probability of occurrence of default event in a given period of time in future.

Exposure at default represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilized credit limit, interest receivable, the anticipated usage of unutilized credit facilities as well as the related expenses to be incurred.

Loss given default represents the percentage of amount of loss to be occurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of counter party, type and seniority of claim and the availability of collaterals or other credit enhancements.

These credit risk measurements, which reflect expected loss (the expected loss model), are in accordance with the banking regulations and requirements of regulatory measures of the Basel Committee on Banking Supervision (the "Basel Committee"), and are applied in the daily operations of the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 *Credit risk assessment* *(Continued)*

(a) *Loans and advances to customers and off-balance sheet commitments* *(Continued)*

The Group has implemented an internal rating system based on the requirements of the Basel New Capital Accord and the requirements of supervisory guidelines issued by China Banking Regulatory Commission ("CBRC") on internal rating system. The Group summarized a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which is used for determination of the borrower's credit ranking within the internal rating system. In order to improve the model's accuracy and stability, the Group performs evaluation of the model at least every six months and monitors the results by performing back testing and comparing the results from model using the default data from customers. In practice, the monitoring and back testing has been performed quarterly.

The Group has issued credit commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by industry, geography and customer type. This information is monitored regularly by senior management.

In accordance with the "Guideline for Loan Credit Risk Classification" issued by the CBRC, the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss. The allowance for impairment losses is assessed collectively or individually, as appropriate.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-mention Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.

Loss Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(b) *Debt securities*

For debt securities and other bills, external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk. The investment in those securities and bills is to have better credit quality assets while maintaining readily available funding sources.

(c) *Financial Investments – loans and receivables*

The Group established a risk evaluation system for financial investments in loans and receivables. The Group assesses the credit risk of counter parties, including consideration of credit rating and reputation of fund management companies, trust companies and securities companies. Also, credit limits have been imposed and monitored by the Group to ensure there is no concentration of credit risk for transactions with a particular entity.

(d) *Derivative instruments*

The Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

(e) *Due from banks and other financial institutions*

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position and the external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation measures

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or groups of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below:

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation measures *(Continued)*

(a) Collateral (Continued)

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collateral for corporate loans and individual loans are as follows:

Collateral	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

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

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement is affected by credit risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Impairment and provision policies

The internal rating system described in Note 3.1.1 focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances recognized for financial reporting purposes are the losses that have been incurred at the end of the reporting date based on objective evidence of impairment.

The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions (e.g. equity ratio, profit margin);
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group periodically identifies potential risks in the corporate loan assets through the asset risk management system, and applies discounted cash flow model to assess the expected losses on loan-by-loan basis to identify impaired loan assets. With regard to the impaired loan assets, the Group develops customer-based action plan, appoints certain employees for further clearing, retrieval and disposal of the loan assets, and provides impairment allowance in accordance with the estimated actual losses. With regard to the loan assets not impaired, the Group performs collective assessment based on its migration model.

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed financial assets are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated cash flows from that individual asset.

Collectively assessed impairment allowances are provided for: losses that have been incurred but have not yet been identified, by using the available historical experience, judgment and statistical techniques.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December 2015	As at 31 December 2014
Assets		
Balances with central banks	902,581	918,794
Due from banks and other financial institutions	611,191	525,033
Financial assets at fair value through profit or loss (debt securities and derivatives)	133,328	116,117
Loans and advances to customers		
– Loans to corporate entities	2,658,147	2,500,515
– Loans to individuals	976,421	854,272
Financial investments – loans and receivables	323,679	211,588
Financial investments – available-for-sale (debt securities)	259,322	207,003
Financial investments – held-to-maturity	933,683	635,570
Other financial assets	164,682	153,331
Total	6,963,034	6,122,223
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	778,644	918,337
Other credit related commitments	529,855	616,190
Total	1,308,499	1,534,527

The above table represents a worst case scenario of credit risk exposure to the Group as at 31 December 2015 and 2014, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 52% of the total on-balance sheet exposure is derived from loans and advances to customers (2014: 55%).

Management is confident in its ability to continuously control and sustain a minimal exposure to credit risk to the Group based on the following performance of its loans and advances portfolio:

- Mortgage loans, which represent the biggest portion in the individual portfolio, are backed by collaterals;
- 96.94% of the loans and advances portfolio are neither past due nor impaired (2014: 97.59%);
- The impaired loans to total loans and advances to customers are 1.51%. (2014: 1.25%).

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers

	As at 31 December 2015		As at 31 December 2014	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,608,277	611,191	3,349,165	525,033
Past due but not impaired	57,523	–	39,553	–
Individually impaired	56,206	–	43,017	–
Gross	3,722,006	611,191	3,431,735	525,033
Less: allowance for collectively assessed impairment losses	(64,004)	–	(58,908)	–
Less: allowance for individually assessed impairment losses	(23,434)	–	(18,040)	–
Net	3,634,568	611,191	3,354,787	525,033

As at 31 December 2015, the Group's total impairment allowances for loans and advances to customers are RMB87,438 million (31 December 2014: RMB76,948 million) of which RMB23,434 million (31 December 2014: RMB18,040 million) represents those for individually assessed impaired loans and the remaining amount of RMB64,004 million (31 December 2014: RMB58,908 million) represents those for collectively assessed impaired loans. Further information of the impairment allowances for loans and advances to customers is provided in Note 19.

As at 31 December 2015, the Group's total loans and advances to customers increased by 8.46% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimize the potential risk of increased credit risk exposure.

(a) Loans and advances neither past due nor impaired

	As at 31 December 2015		
	Normal	Special-mention	Total
Corporate loans and advances	2,569,127	67,563	2,636,690
Individual loans and advances	971,555	32	971,587
Total	3,540,682	67,595	3,608,277

	As at 31 December 2014		
	Normal	Special-mention	Total
Corporate loans and advances	2,444,469	53,371	2,497,840
Individual loans and advances	849,867	1,458	851,325
Total	3,294,336	54,829	3,349,165

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

	As at 31 December 2015					
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
– Commercial loans	5,465	3,828	3,380	35,041	47,714	28,994
Individual						
– Mortgages	2,172	933	523	142	3,770	3,610
– Credit Cards	2,852	709	481	–	4,042	–
– Other	566	427	378	626	1,997	1,913
Total	11,055	5,897	4,762	35,809	57,523	34,517
Due from banks and other financial institutions	–	–	–	–	–	–

	As at 31 December 2014					
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
– Commercial loans	6,735	6,306	12,881	5,576	31,498	19,963
Individual						
– Mortgages	1,324	361	258	34	1,977	2,717
– Credit Cards	3,741	851	472	–	5,064	–
– Other	434	270	208	102	1,014	1,462
Total	12,234	7,788	13,819	5,712	39,553	24,142
Due from banks and other financial institutions	–	–	–	–	–	–

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(c) *Loans and advances individually impaired*

As at 31 December 2015, impaired loans and advances to customers before taking into consideration the collaterals held is RMB56,206 million (2014: RMB43,017 million).

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collaterals held by the Group as security, are as follows:

	As at 31 December 2015	As at 31 December 2014
Corporate entities	44,284	34,040
Individual	11,922	8,977
Impaired loans	56,206	43,017
Fair value of collaterals		
– Corporate entities	13,782	9,998
– Individual	7,577	5,690
Impaired loans	21,359	15,688

No individually impaired due from banks and other financial institutions are held by the Group as at 31 December 2015 and 2014.

(d) *Loans and advances to customers analysed by security type*

	As at 31 December 2015	As at 31 December 2014
Unsecured loans	1,064,595	982,829
Guaranteed loans	799,315	826,994
Collateralised and other secured loans	1,858,096	1,621,912
– *Loans secured by collateral*	*1,427,607*	*1,288,485*
– *Pledged loans*	*430,489*	*333,427*
Gross amount of loans and advances before impairment allowances	3,722,006	3,431,735

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(e) Geographical risk concentration for loans and advances to customers

	As at 31 December 2015		As at 31 December 2014	
		%		%
North of China[(1)]	544,823	14.64	524,090	15.27
Northeast[(2)]	190,285	5.11	177,888	5.18
East of China[(3)]	1,590,358	42.73	1,465,863	42.72
South and middle of China[(4)]	687,517	18.47	638,822	18.62
West of China[(5)]	382,623	10.28	348,089	10.14
Overseas[(6)]	326,400	8.77	276,983	8.07
Gross amount of loans and advances	3,722,006	100.00	3,431,735	100.00

Note:

(1) Including Beijing, Tianjin, Hebei province, Shanxi province and Inner Mongolia;

(2) Including Liaoning province, Jilin province and Heilongjiang province;

(3) Including Shanghai, Jiangsu province, Zhejiang province, Anhui province, Fujian province, Jiangxi province and Shandong province;

(4) Including Henan province, Hunan province, Hubei province, Guangdong province, Guangxi province and Hainan province;

(5) Including Chongqing, Sichuan province, Guizhou province, Yunnan province, Shanxi province, Gansu province, Qinghai province, Xinjiang province and Ningxia province;

(6) Including Hong Kong, New York, Tokyo, Singapore, Souel, Frankfurt, Macau, Ho Chi Minh City, Sydney, London, San Francisco Luxembourg, Taiwan, Toronto and Brisbane.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(f) Industry analysis

	As at 31 December 2015		As at 31 December 2014	
		%		%
Corporate loans				
Mining	101,647	2.73	98,886	2.88
Manufacturing				
– Petroleum and chemical	125,952	3.38	120,727	3.52
– Electronics	75,424	2.03	77,856	2.27
– Steel	36,879	0.99	38,760	1.13
– Machinery	105,187	2.83	110,486	3.22
– Textile and clothing	40,680	1.09	39,389	1.15
– Other manufacturing	238,027	6.40	237,455	6.92
Electricity, gas and water production and supply	138,256	3.71	132,234	3.85
Construction	109,893	2.95	107,521	3.13
Transportation, storage and postal service	418,057	11.23	388,980	11.33
Telecommunication, IT service and software	13,413	0.36	12,291	0.36
Wholesale and retail	333,903	8.97	333,003	9.70
Accommodation and catering	35,070	0.94	30,536	0.89
Financial institutions	50,832	1.37	45,693	1.33
Real estate	227,061	6.10	207,566	6.05
Services	262,750	7.06	233,905	6.82
Water conservancy, environmental and other public services	132,061	3.55	138,903	4.05
Education, science, culture and public health	71,731	1.93	59,833	1.74
Others	94,420	2.53	74,806	2.18
Discounted bills	117,444	3.16	74,548	2.17
Total corporate loans	2,728,687	73.31	2,563,378	74.69
Individual loans				
Mortgage	604,357	16.24	529,871	15.44
Credit cards	271,542	7.30	223,593	6.52
Others	117,420	3.15	114,893	3.35
Total individual loans	993,319	26.69	868,357	25.31
Gross amount of loans and advances before impairment allowance	3,722,006	100.00	3,431,735	100.00

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Debt investments

		As at 31 December 2015	As at 31 December 2014
Neither past due nor impaired	(a)	**1,618,254**	1,161,628
Past due but not impaired		**–**	–
Impaired	(b)	**1,661**	1,005
Gross		**1,619,915**	1,162,633
Less:	(c)		
Collective impairment		**(2,691)**	(2,006)
Individual impairment		**(1,522)**	(1,005)
Net		**1,615,702**	1,159,622

(a) *The table below presents an analysis of debt investments that are neither past due nor impaired by independent rating agencies designation as at 31 December 2015 and 2014*

	As at 31 December 2015				
	Financial investments – loans and receivables	Financial investments – available-for-sale (debt securities)	Financial investments – held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	20,575	56,060	283,848	52,734	413,217
AA- to AA+	7,219	11,568	5,409	21,511	45,707
A- to A+	–	1,002	435	323	1,760
BBB- to BBB+	–	233	7	–	240
Unrated[(1)]	297,018	93,571	638,326	10,667	1,039,582
Sub-total	324,812	162,434	928,025	85,235	1,500,506
Foreign currency securities					
AAA	–	9,502	31	486	10,019
AA- to AA+	–	22,466	235	2,878	25,579
A- to A+	–	23,263	3,895	6,041	33,199
BBB- to BBB+	–	11,966	664	885	13,515
Unrated[(1)]	1,419	29,691	833	3,493	35,436
Sub-total	1,419	96,888	5,658	13,783	117,748
Total	326,231	259,322	933,683	99,018	1,618,254

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Debt investments *(Continued)*

(a) The table below presents an analysis of debt investments that are neither past due nor impaired by independent rating agencies designation as at 31 December 2015 and 2014 (Continued)

	As at 31 December 2014				
	Financial investments – loans and receivables	Financial investments – available-for-sale (debt securities)	Financial investments – held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	21,075	40,881	139,222	61,312	262,490
AA- to AA+	7,619	6,054	9,524	16,074	39,271
A- to A+	–	222	250	220	692
BBB- to BBB+	–	–	–	–	–
Unrated[(1)]	183,992	105,072	484,917	16,801	790,782
Sub-total	212,686	152,229	633,913	94,407	1,093,235
Foreign currency securities					
AAA	–	3,985	85	3,362	7,432
AA- to AA+	–	14,378	598	2,320	17,296
A- to A+	–	12,521	692	1,715	14,928
BBB- to BBB+	–	2,257	51	–	2,308
Unrated[(1)]	908	21,633	231	3,657	26,429
Sub-total	908	54,774	1,657	11,054	68,393
Total	213,594	207,003	635,570	105,461	1,161,628

(1) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks as well as investments in trustees and asset management products which are not rated by independent agencies.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Debt investments *(Continued)*

(b) *Impaired debt investments*

	As at 31 December 2015				
	Financial assets at fair value through profit or loss	Financial investments – available-for-sale	Financial investments – held-to-maturity	Financial investments – loans and receivables	Total
A- to A+	–	–	–	–	–
Below A-	–	30	339	–	369
Unrated(1)	–	1,053	–	239	1,292
Total	–	1,083	339	239	1,661

	As at 31 December 2014				
	Financial assets at fair value through profit or loss	Financial investments – available-for-sale	Financial investments – held-to-maturity	Financial investments – loans and receivables	Total
A- to A+	–	–	–	–	–
Below A-	–	–	–	–	–
Unrated(1)	–	1,005	–	–	1,005
Total	–	1,005	–	–	1,005

(1) The unrated impaired debt investments were foreign currency denominated bonds and loans and receivables.

(c) *Impairment allowance for debt investments*

	As at 31 December 2015	As at 31 December 2014
Allowance for collectively assessed impairment losses	2,691	2,006
Allowance for individually assessed impairment losses	1,522	1,005
	4,213	3,011

The impaired debt investments were individual impaired loans and receivables, held to maturity and available for sales bond investments. As at 31 December 2015 (as at 31 December 2014), no collateral was held by the Group against these debt investments.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Derivative instruments

The Group undertakes its transactions in foreign exchange and interest rate derivative contracts and others with other financial institutions and customers. Management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

	As at 31 December 2015	As at 31 December 2014
Derivatives		
– Exchange rate contracts	16,553	3,516
– Interest rate contracts and others	2,417	753
	18,970	4,269

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the CBRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk weighted amounts stated above have not taken the effects of netting arrangements into account.

3.1.8 Foreclosed assets

	As at 31 December 2015	As at 31 December 2014
Buildings	756	407
Land use rights	154	139
Equipment	–	–
Others	15	27
Gross	925	573
Impairment allowance	(138)	(117)
Net	787	456

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2015				
Financial assets				
Balances with central banks	832,370	22,182	48,029	902,581
Due from banks and other financial institutions	492,728	47,762	70,701	611,191
Financial assets at fair value through profit or loss (debt securities and derivatives)	107,488	12,285	13,555	133,328
Loans and advances to customers	3,310,035	130,002	194,531	3,634,568
Financial investments – loans and receivables	322,285	–	1,394	323,679
Financial investments – available-for-sale (debt securities)	140,801	13,436	105,085	259,322
Financial investments – held-to-maturity	927,610	224	5,849	933,683
Other financial assets	152,516	7,670	4,496	164,682
	6,285,833	233,561	443,640	6,963,034
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	759,568	8,607	10,469	778,644
Other credit related commitments	475,775	21,998	32,082	529,855
	1,235,343	30,605	42,551	1,308,499

	Mainland China	Hong Kong	Others	Total
As at 31 December 2014				
Financial assets				
Balances with central banks	863,485	18,912	36,397	918,794
Due from banks and other financial institutions	474,478	8,302	42,253	525,033
Financial assets at fair value through profit or loss (debt securities and derivatives)	101,945	10,119	4,053	116,117
Loans and advances to customers	3,079,519	189,096	86,172	3,354,787
Financial investments – loans and receivables	210,680	–	908	211,588
Financial investments – available-for-sale (debt securities)	165,691	10,111	31,201	207,003
Financial investments – held-to-maturity	633,903	88	1,579	635,570
Other financial assets	140,657	10,913	1,761	153,331
	5,670,358	247,541	204,324	6,122,223
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	903,594	9,939	4,804	918,337
Other credit related commitments	573,578	11,164	31,448	616,190
	1,477,172	21,103	36,252	1,534,527

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the CBRC, the Group categorizes its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either for trading intent or economic hedging for other elements of the trading book. The banking book consists of the investments purchased by the Group with excess funds and other financial instruments that are not captured in trading book.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Supervisors and senior management. The asset liability management department takes the lead in the Group's market risk management, while business units such as financial markets department and domestic and overseas branches are the execution units of the Bank's market risk management. The risk management department and the internal audit department are responsible for the independent verification of the market risk management system, as well as the internal audit of the Bank.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. With regard to the exchange rate risks and the interest rate risks of trading book, the Group established an effective limit management system by implementing Value at Risk (VaR). Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

The Group continuously improved the management system of market risk in 2015. The Board of Directors continues its implementation of the "Stress Testing Plan of Market Risk for Trading Accounts of 2012". The Group conducted the stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group implemented the daily automatic collection system of trading data and market data. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

Items	31 December 2015	Year ended 31 December 2015 Average	Maximum	Minimum
VaR	167	160	244	118
– Interest rate risk	150	133	244	100
– Foreign exchange risk	145	100	199	31

Items	31 December 2014	Year ended 31 December 2014 Average	Maximum	Minimum
VaR	181	189	300	107
– Interest rate risk	143	127	174	93
– Foreign exchange risk	135	144	269	36

3.2.3 Sensitivity tests

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net interest income and other comprehensive income for the Group by measuring the impact of a change in net interest income of financial assets and liabilities, not taking customer behavior and repayment option into consideration. On an assumption of a parallel shift of 100 basis points in RMB, USD and HKD interest rates, the Group calculates the change in net interest income and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact to net interest income of coming year of the Group based on the structure of interest bearing assets and liabilities as at 31 December 2015 and 2014, caused by a parallel shift of 100 basis point of RMB, USD and HKD interest rates.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 ***Sensitivity tests*** *(Continued)*

Interest rate sensitivity test (Continued)

	Expected changes in net interest income	
	Year ended 31 December 2015	Year ended 31 December 2014
+100 basis points parallel shift in yield curves	**12,652**	14,521
-100 basis points parallel shift in yield curves	**(12,652)**	(14,521)

The table below illustrates the impact on other comprehensive income of the Group by the parallel shift of 100 basis point of RMB, USD and HKD interest rate structure.

	Change of other comprehensive income	
	As at 31 December 2015	As at 31 December 2014
-100 basis points parallel shift in yield curves	**(3,402)**	(2,339)
+100 basis points parallel shift in yield curves	**3,586**	2,166

The results of the interest rate sensitivity tests set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net interest income and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities denominated in different currencies. On an assumption of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5%, the Group calculates the change in net profit and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Expected change in net profit/(loss)	
	Year ended 31 December 2015	Year ended 31 December 2014
5% appreciation of RMB	**(2,768)**	(334)
5% depreciation of RMB	**2,768**	289

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 *Sensitivity tests* *(Continued)*

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rate against HKD and USD by 5% on the Group's other comprehensive income:

	Change of other comprehensive income	
	Year ended 31 December 2015	Year ended 31 December 2014
5% appreciation of RMB	**(825)**	(667)
5% depreciation of RMB	**825**	667

3.2.4 *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. The PBOC established RMB benchmark interest rates for loans with a floor and such policy was eliminated with effect 20 July 2013 whereby financial institutions are in a position to price their loans based on commercial and market factors. Since 24 October 2015, the PBOC has cancelled the upper limit of floating of benchmark interest rate for deposit. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the published PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of the financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with the same maturity term.

The tables below summarize the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2015							
Assets							
Cash and balances with central banks	871,110	–	–	–	–	49,118	920,228
Due from banks and other financial institutions	310,216	80,483	201,436	19,054	2	–	611,191
Financial assets at fair value through profit or loss	9,693	16,251	29,585	61,166	12,482	44,132	173,309
Loans and advances to customers	1,766,034	473,967	1,269,312	88,457	36,798	–	3,634,568
Financial investments – loans and receivables	17,576	29,866	74,366	149,217	52,654	–	323,679
Financial investments – available-for-sale	45,294	57,479	50,305	75,952	30,292	5,417	264,739
Financial investments – held-to-maturity	15,616	35,834	70,307	514,536	297,390	–	933,683
Other assets	4,737	5,336	22,018	66,321	15,442	180,111	293,965
Total assets	3,040,276	699,216	1,717,329	974,703	445,060	278,778	7,155,362
Liabilities							
Due to banks and other financial institutions	(719,350)	(227,026)	(481,053)	(206,126)	(7,684)	–	(1,641,239)
Financial liabilities at fair value through profit or loss	(5,730)	(7,266)	(11,769)	(4,188)	–	(33,508)	(62,461)
Due to customers	(2,503,580)	(662,883)	(877,084)	(426,956)	(4)	(14,307)	(4,484,814)
Other liabilities	(9,844)	(24,716)	(49,541)	(82,924)	(103,734)	(157,997)	(428,756)
Total liabilities	(3,238,504)	(921,891)	(1,419,447)	(720,194)	(111,422)	(205,812)	(6,617,270)
Total interest sensitivity gap	(198,228)	(222,675)	297,882	254,509	333,638	72,966	538,092

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2014							
Assets							
Cash and balances with central banks	909,943	–	–	–	–	28,112	938,055
Due from banks and other financial institutions	310,217	107,070	91,472	16,274	–	–	525,033
Financial assets at fair value through profit or loss	8,466	12,233	38,296	50,383	13,206	11,218	133,802
Loans and advances to customers	1,611,138	451,154	1,168,980	85,145	38,370	–	3,354,787
Financial investments – loans and receivables	16,893	21,626	68,430	74,349	30,290	–	211,588
Financial investments – available-for-sale	6,053	18,701	35,917	110,491	35,841	3,013	210,016
Financial investments – held-to-maturity	3,210	17,291	83,038	340,776	191,255	–	635,570
Other assets	8,538	4,743	19,568	58,944	13,724	153,931	259,448
Total assets	2,874,458	632,818	1,505,701	736,362	322,686	196,274	6,268,299
Liabilities							
Due to banks and other financial institutions	(433,196)	(311,077)	(354,341)	(279,971)	(29,690)	–	(1,408,275)
Financial liabilities at fair value through profit or loss	(5,076)	(6,885)	(11,640)	(4,603)	–	(10,376)	(38,580)
Due to customers	(2,417,869)	(514,857)	(626,933)	(464,685)	(855)	(4,469)	(4,029,668)
Other liabilities	(5,808)	(17,908)	(12,745)	(38,790)	(102,199)	(140,721)	(318,171)
Total liabilities	(2,861,949)	(850,727)	(1,005,659)	(788,049)	(132,744)	(155,566)	(5,794,694)
Total interest sensitivity gap	12,509	(217,909)	500,042	(51,687)	189,942	40,708	473,605

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in USD, HKD and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. As at 31 December 2015, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.4936 (31 December 2014: 6.1190) and 1 HK dollar to RMB0.83778 (31 December 2014: 0.78887), respectively The tables below summarize the Group's exposure to foreign exchange risk at the end of each year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, are categorized by the original currency.

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2015					
Assets					
Cash and balances with central banks	832,099	37,017	22,834	28,278	920,228
Due from banks and other financial institutions	426,597	169,247	2,765	12,582	611,191
Financial assets at fair value through profit or loss	113,464	20,285	3,215	36,345	173,309
Loans and advances to customers	3,253,162	266,456	98,884	16,066	3,634,568
Financial investments – loans and receivables	322,263	1,408	8	-	323,679
Financial investments – available-for-sale	167,198	50,478	25,001	22,062	264,739
Financial investments – held-to-maturity	928,028	3,705	84	1,866	933,683
Other assets	234,407	53,628	3,751	2,179	293,965
Total assets	6,277,218	602,224	156,542	119,378	7,155,362
Liabilities					
Due to banks and other financial institutions	(1,399,721)	(196,597)	(9,779)	(35,142)	(1,641,239)
Financial liabilities at fair value through profit or loss	(21,890)	(12,941)	(7,820)	(19,810)	(62,461)
Due to customers	(3,966,515)	(298,813)	(180,614)	(38,872)	(4,484,814)
Other liabilities	(357,438)	(53,042)	(5,745)	(12,531)	(428,756)
Total liabilities	(5,745,564)	(561,393)	(203,958)	(106,355)	(6,617,270)
Net position	531,654	40,831	(47,416)	13,023	538,092
Financial guarantees and credit related commitments	1,105,952	164,557	24,201	13,789	1,308,499

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2014					
Assets					
Cash and balances with central banks	874,236	27,343	30,986	5,490	938,055
Due from banks and other financial institutions	446,206	72,684	1,039	5,104	525,033
Financial assets at fair value through profit or loss	96,105	11,577	6,443	19,677	133,802
Loans and advances to customers	2,985,531	256,215	103,005	10,036	3,354,787
Financial investments – loans and receivables	210,680	908	–	–	211,588
Financial investments – available-for-sale	154,959	27,444	18,747	8,866	210,016
Financial investments – held-to-maturity	633,913	490	183	984	635,570
Other assets	208,704	7,738	15,890	27,116	259,448
Total assets	5,610,334	404,399	176,293	77,273	6,268,299
Liabilities					
Due to banks and other financial institutions	(1,207,338)	(169,242)	(18,595)	(13,100)	(1,408,275)
Financial liabilities at fair value through profit or loss	(4,769)	(10,134)	(12,123)	(11,554)	(38,580)
Due to customers	(3,684,955)	(190,610)	(133,274)	(20,829)	(4,029,668)
Other liabilities	(265,281)	(31,136)	(8,200)	(13,554)	(318,171)
Total liabilities	(5,162,343)	(401,122)	(172,192)	(59,037)	(5,794,694)
Net position	447,991	3,277	4,101	18,236	473,605
Financial guarantees and credit related commitments	1,261,479	228,380	19,834	24,834	1,534,527

3.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. Some of the equity investments arise from taking possession of foreclosed assets due to historical reasons and from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 2015, 17.5% (31 December 2014: 20%) of the Group's total RMB denominated customer deposits and 5% (31 December 2014: 5%) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilization functions are centralized by the Headquarters;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimize liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolios.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 – 3.3.4).

Sources of funding are regularly reviewed by the Assets and Liabilities Management Department to maintain a wide diversification of fundings in terms of currency, geography, customer, product and maturity terms.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group related to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2015									
Liabilities									
Due to banks and other financial institutions	–	–	(424,656)	(296,010)	(225,046)	(489,932)	(239,833)	(12,211)	(1,687,688)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(344)	(5,741)	(7,301)	(11,978)	(4,362)	–	(29,726)
Due to customers	–	–	(2,030,760)	(494,086)	(670,445)	(895,088)	(449,601)	(4)	(4,539,984)
Certificates of deposits issued	–	–	–	(9,908)	(23,473)	(48,624)	(9,406)	–	(91,411)
Debts securities issued	–	–	–	–	(1,525)	(1,034)	(76,672)	(121,410)	(200,641)
Other financial liabilities	–	–	(30,606)	(9,955)	(23,545)	(49,602)	(19,078)	(7,275)	(140,061)
Total liabilities (contractual maturity dates)	–	–	(2,486,366)	(815,700)	(951,335)	(1,496,258)	(798,952)	(140,900)	(6,689,511)
Assets									
Cash and balances with central banks	–	755,846	164,382	–	–	–	–	–	920,228
Due from banks and other financial institutions	–	–	124,719	185,937	80,765	205,259	20,642	2	617,324
Non-derivative financial assets at fair value through profit or loss	–	9,440	382	1,716	14,007	31,129	72,040	18,351	147,065
Loans and advances to customers	66,477	–	–	449,215	289,018	1,095,335	1,160,571	1,653,231	4,713,847
Financial investments – loans and receivables	139	–	–	17,840	30,505	75,679	171,654	60,641	356,458
Financial investments – available-for-sale	–	5,417	–	18,620	24,650	47,420	144,168	41,160	281,435
Financial investments – held-to-maturity	–	–	–	6,884	18,068	64,537	598,377	341,664	1,029,530
Other financial assets	132	–	11,612	2,775	6,147	25,075	73,896	17,706	137,343
Assets held for managing liquidity risk (contractual maturity dates)	66,748	770,703	301,095	682,987	463,160	1,544,434	2,241,348	2,132,755	8,203,230

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

	Overdue	Undated	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2014									
Liabilities									
Due to banks and other financial institutions	–	–	(227,812)	(204,786)	(319,220)	(390,504)	(295,424)	(37,872)	(1,475,618)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(299)	(5,144)	(7,048)	(11,960)	(4,754)	–	(29,205)
Due to customers	–	–	(2,032,649)	(614,088)	(523,544)	(580,915)	(481,485)	(1,082)	(4,233,763)
Certificates of deposits issued	–	–	–	–	(5,847)	(17,688)	(12,341)	(3,157)	(39,033)
Debts securities issued	–	–	–	–	(309)	–	(32,576)	(125,836)	(158,721)
Other financial liabilities	–	–	(20,672)	(5,887)	(17,749)	(13,130)	(11,006)	(5,220)	(73,664)
Total liabilities (contractual maturity dates)	–	–	(2,281,432)	(829,905)	(873,717)	(1,014,197)	(837,586)	(173,167)	(6,010,004)
Assets									
Cash and balances with central banks	–	766,604	171,451	–	–	–	–	–	938,055
Due from banks and other financial institutions	–	–	114,748	196,081	108,250	93,991	16,860	–	529,930
Non-derivative financial assets at fair value through profit or loss	–	241	321	8,920	12,450	40,312	57,607	16,095	135,946
Loans and advances to customers	52,892	–	–	488,862	322,849	1,037,268	1,060,381	1,470,668	4,432,920
Financial investments – loans and receivables	–	–	–	17,134	21,871	69,200	75,333	35,590	219,128
Financial investments – available-for-sale	1,115	3,013	–	6,247	19,367	37,408	123,547	45,823	236,520
Financial investments – held-to-maturity	–	–	–	3,362	17,989	86,048	378,635	235,846	721,880
Other financial assets	117	547	17,072	2,539	5,630	22,912	67,230	23,503	139,550
Assets held for managing liquidity risk (contractual maturity dates)	54,124	770,405	303,592	723,145	508,406	1,387,139	1,779,593	1,827,525	7,353,929

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and settlement, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, early termination of lending to other financial institutions and reverse repurchase agreement and utilizing the mandatory reserve deposits upon the PBOC's approval.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivative settled on a net basis*

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange derivative financial instruments: non-deliverable forward;
- Interest rate derivative financial instruments and others: interest rate swaps, forward rate agreements, over the counter interest rate options and others.

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2015						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	158	139	552	–	–	849
– Interest rate contracts and others	113	109	265	820	272	1,579
Total	271	248	817	820	272	2,428
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(106)	(136)	(468)	–	–	(710)
– Interest rate contracts and others	(71)	(123)	(307)	(954)	(398)	(1,853)
Total	(177)	(259)	(775)	(954)	(398)	(2,563)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(a) Derivative settled on a net basis (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2014						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	24	118	466	2	–	610
– Interest rate contracts and others	60	38	499	551	50	1,198
Total	84	156	965	553	50	1,808
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(91)	(46)	(163)	(11)	–	(311)
– Interest rate contracts and others	(115)	(222)	(472)	(659)	(42)	(1,510)
Total	(206)	(268)	(635)	(670)	(42)	(1,821)

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include: foreign exchange derivative instruments: currency forward, currency swaps, cross currency interest rate swaps.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2015						
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(458,010)	(259,891)	(713,399)	(76,695)	(4,135)	(1,512,130)
– Inflow	458,727	259,793	715,189	76,055	4,087	1,513,851

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2014						
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(275,950)	(259,683)	(455,864)	(89,023)	(3,530)	(1,084,050)
– Inflow	276,045	259,245	454,953	90,192	3,468	1,083,903

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 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 31 December 2015									
Assets									
Cash and balances with central banks	164,382	–	–	–	–	–	–	755,846	920,228
Due from banks and other financial institutions	124,719	185,497	80,483	201,436	19,054	2	–	–	611,191
Financial assets at fair value through profit or loss	382	16,979	17,887	40,915	68,426	19,280	–	9,440	173,309
Loans and advances to customers	–	433,050	270,186	1,021,046	880,890	964,591	64,805	–	3,634,568
Financial investments – loans and receivables	–	17,437	29,866	73,766	149,817	52,654	139	–	323,679
Financial investments – available-for-sale	–	18,227	24,033	46,395	135,275	35,392	–	5,417	264,739
Financial investments – held-to-maturity	–	6,660	17,195	62,212	546,858	300,758	–	–	933,683
Other assets	16,278	11,137	7,679	37,071	91,881	22,956	549	106,414	293,965
Total assets	305,761	688,987	447,329	1,482,841	1,892,201	1,395,633	65,493	877,117	7,155,362
Liabilities									
Due to banks and other financial institutions	(424,617)	(294,733)	(223,515)	(481,053)	(206,126)	(11,195)	–	–	(1,641,239)
Financial liabilities at fair value through profit or loss	(344)	(20,359)	(10,624)	(22,081)	(6,788)	(2,265)	–	–	(62,461)
Due to customers	(2,030,760)	(488,922)	(661,849)	(876,319)	(426,960)	(4)	–	–	(4,484,814)
Other liabilities	(52,124)	(21,565)	(45,063)	(87,956)	(114,706)	(107,342)	–	–	(428,756)
Total liabilities	(2,507,845)	(825,579)	(941,051)	(1,467,409)	(754,580)	(120,806)	–	–	(6,617,270)
Net amount on liquidity gap	(2,202,084)	(136,592)	(493,722)	15,432	1,137,621	1,274,827	65,493	877,117	538,092

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis *(Continued)*

	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 2014									
Assets									
Cash and balances with central banks	171,451	–	–	–	–	–	–	766,604	938,055
Due from banks and other financial institutions	114,721	195,496	107,070	91,472	16,274	–	–	–	525,033
Financial assets at fair value through profit or loss	321	10,673	14,193	41,700	51,477	15,197	–	241	133,802
Loans and advances to customers	–	474,734	296,288	942,297	743,231	845,345	52,892	–	3,354,787
Financial investments – loans and receivables	–	16,893	21,626	68,430	74,349	30,290	–	–	211,588
Financial investments – available-for-sale	–	6,030	18,701	35,917	109,399	35,841	1,115	3,013	210,016
Financial investments – held-to-maturity	–	3,210	17,291	83,038	340,780	191,251	–	–	635,570
Other assets	25,455	7,892	6,503	32,032	85,721	17,689	524	83,632	259,448
Total assets	311,948	714,928	481,672	1,294,886	1,421,231	1,135,613	54,531	853,490	6,268,299
Liabilities									
Due to banks and other financial institutions	(231,717)	(201,479)	(311,077)	(354,341)	(279,971)	(29,690)	–	–	(1,408,275)
Financial liabilities at fair value through profit or loss	(302)	(7,309)	(8,303)	(14,166)	(6,280)	(2,220)	–	–	(38,580)
Due to customers	(1,934,662)	(584,485)	(498,306)	(552,911)	(458,274)	(1,030)	–	–	(4,029,668)
Other liabilities	(180,473)	(5,029)	(10,753)	(14,415)	(27,498)	(80,003)	–	–	(318,171)
Total liabilities	(2,347,154)	(798,302)	(828,439)	(935,833)	(772,023)	(112,943)	–	–	(5,794,694)
Net amount on liquidity gap	(2,035,206)	(83,374)	(346,767)	359,053	649,208	1,022,670	54,531	853,490	473,605

3.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1-5 years	Over 5 years	Total
As at 31 December 2015				
Loan commitments and credit related commitments	476,183	44,745	8,927	529,855
Guarantees, acceptances and letters of credit	617,044	116,615	44,985	778,644
Total	1,093,227	161,360	53,912	1,308,499
As at 31 December 2014				
Loan commitments and credit related commitments	472,398	73,421	70,371	616,190
Guarantees, acceptances and letters of credit	758,338	109,775	50,224	918,337
Total	1,230,736	183,196	120,595	1,534,527

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposits without quotations from active market, precious metals and the second tier capital bonds and bond investments trading in inter-bank market. The fair value of CNY denominated bonds is determined based on the valuation result from the China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Future Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates, early redemption rate and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and receivables, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for lack of marketability. The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) Financial instruments not measured at fair value

The table below summarized the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair values.

	As at 31 December 2015		As at 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments				
– loans and receivables	323,679	328,809	211,588	213,189
Financial investments – held-to-maturity	933,683	965,328	635,570	637,745
Financial liabilities				
Certificates of deposits issued	(89,265)	(90,149)	(38,601)	(38,620)
Debt securities issued	(157,465)	(164,830)	(122,136)	(123,963)

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 31 December 2015				
Financial assets				
Financial investments				
– loans and receivables	–	46,501	282,308	328,809
Financial investments – held-to-maturity	6,214	958,039	1,075	965,328
Financial liabilities				
Certificates of deposits issued	–	–	(90,149)	(90,149)
Debt securities issued	–	(164,830)	–	(164,830)

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial assets				
Financial investments				
– loans and receivables	–	29,675	183,514	213,189
Financial investments – held-to-maturity	1,730	636,015	–	637,745
Financial liabilities				
Certificates of deposits issued	–	–	(38,620)	(38,620)
Debt securities issued	–	(123,963)	–	(123,963)

The carrying amounts and fair values of these financial assets and liabilities including loans and advances, due to customers, due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted in accordance to changes in interest rates set by the PBOC and other regulatory bodies.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) *Financial assets and liabilities measured at fair value on a recurring basis*

The table below summarized the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
As at 31 December 2015				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	5,325	13,063	–	18,388
– Public sector entities	–	1,924	–	1,924
– Banks and other financial institutions	1,034	23,957	–	24,991
– Corporate entities	751	52,964	–	53,715
Fund investments	110	9,244	–	9,354
Equity securities	86	–	–	86
Derivatives				
– Foreign exchange contracts	–	32,825	–	32,825
– Interest rate contracts and others	–	1,485	–	1,485
Precious metal contracts	–	30,541	–	30,541
	7,306	166,003	–	173,309
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	11,572	24,607	–	36,179
– Public sector entities	–	3,810	–	3,810
– Banks and other financial institutions	19,525	139,756	–	159,281
– Corporate entities	2,519	57,533	–	60,052
Equity securities and fund investments[1]	3,656	240	1,521	5,417
	37,272	225,946	1,521	264,739
Total assets	44,578	391,949	1,521	438,048
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(825)	(976)	–	(1,801)
Certificates of deposits issued	–	(11,885)	–	(11,885)
Derivatives				
– Foreign exchange contracts	–	(31,318)	–	(31,318)
– Interest rate contracts and others	–	(1,846)	–	(1,846)
Financial liabilities related to precious metal contracts	–	(15,611)	–	(15,611)
Debt securities issued	–	(12,641)	–	(12,641)
Total liabilities	(825)	(74,277)	–	(75,102)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) *Financial assets and liabilities measured at fair value on a recurring basis* *(Continued)*

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	6,624	12,028	–	18,652
– Public sector entities	244	2,132	–	2,376
– Banks and other financial institutions	2,995	25,767	–	28,762
– Corporate entities	230	55,441	–	55,671
Fund investments	133	–	–	133
Equity securities	53	55	–	108
Derivatives				
– Foreign exchange contracts	–	9,445	–	9,445
– Interest rate contracts and others	–	1,211	–	1,211
Precious metal contracts	–	17,444	–	17,444
	10,279	123,523	–	133,802
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	13,961	22,998	–	36,959
– Public sector entities	–	3,655	–	3,655
– Banks and other financial institutions	9,862	112,037	–	121,899
– Corporate entities	1,492	42,998	–	44,490
Equity securities and fund investments[1]	1,957	–	1,056	3,013
	27,272	181,688	1,056	210,016
Total Assets	37,551	305,211	1,056	343,818
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(5,347)	–	–	(5,347)
Certificates of deposits issued	–	(13,402)	–	(13,402)
Derivatives				
– Foreign exchange contracts	–	(8,550)	–	(8,550)
– Interest rate contracts and others	–	(1,524)	–	(1,524)
Financial liabilities related to precious metal contracts	–	(9,757)	–	(9,757)
Debt securities issued	–	(7,411)	–	(7,411)
Total liabilities	(5,347)	(40,644)	–	(45,991)

[1] Based on the nature, characteristics and risk, the Group discloses this type of investment separately.

There was no transfer between Level 1 and 2 during the year.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) ***Financial assets and liabilities measured at fair value on a recurring basis*** *(Continued)*

Reconciliation of level 3 items

	Debt securities corporate entities	Equity investments unlisted	Total
Balance at 1 January 2015	–	1,056	1,056
Total gains or losses			
– Net gains arising from trading activities	–	18	18
– Other comprehensive income	–	–	–
Additions	–	447	447
Disposals	–	–	–
Balance at 31 December 2015	–	1,521	1,521
Total gains for consolidated financial assets/ liabilities held at 31 December 2015			
– Realized gains	–	18	18
– Unrealized gains	–	–	–

	Debt securities corporate entities	Equity investments unlisted	Total
Balance at 1 January 2014	–	1,069	1,069
Total gains or losses			
– Net losses arising from trading activities	–	(10)	(10)
– Other comprehensive income	–	(3)	(3)
Additions	–	–	–
Disposals	–	–	–
Balance at 31 December 2014	–	1,056	1,056
Total losses for consolidated financial assets/ liabilities held at 31 December 2014			
– Realized losses	–	(10)	(10)
– Unrealized losses	–	–	–

Available for sale financial instruments with fair values determined based on unobservable inputs are primarily unlisted share securities. The fair value of these financial instruments is determined using market comparison method. This valuation method involves inputs from various unobservable assumptions such as price over book ratio and marketability discounts.

As at 31 December 2015, the carrying amounts of financial instruments with fair values determined based on unobservable inputs were insignificant, and the effect on the valuation results by using reasonable alternatives for the unobservable assumptions is considered to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2015, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

3.6 Capital management

The Group's objectives in managing "capital", which is a broader concept than the "equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The "Capital Rules for Commercial Banks (Provisional)" includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- minimum regulatory requirements for Core Tier 1 Capital Adequacy Ratio, Tier 1 Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;
- capital conservation buffer requires additional 2.5% of Core Tier 1 Capital Adequacy Ratio;
- additional capital surcharge for systemically important banks requires additional 1% of Core Tier 1 Capital Adequacy Ratio;
- should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Common equity Tier 1 capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;

- Additional Tier 1 capital, including additional Tier 1 capital instruments issued and related premium and eligible portion of non-controlling interests;

- Tier 2 capital, including Tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible Items from Common Equity Tier-one Capital include: Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure IRB approach for retail risk exposure, internal models approach for market risk and standardized approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on the "Administrative Measures for the Capital of Commercial Banks (Provisional)" are as follows:

Item	As at 31 December 2015	As at 31 December 2014
Core Tier 1 Capital Adequacy Ratio (%)	**11.14**	11.30
Tier 1 Capital Adequacy Ratio (%)	**11.46**	11.30
Capital Adequacy Ratio (%)	**13.49**	14.04
Core Tier 1 Capital	**521,641**	472,806
Core Tier 1 Capital deductions	**(3,154)**	(2,350)
Net Core Tier 1 Capital	**518,487**	470,456
Additional Tier 1 Capital	**14,943**	10
Net Tier 1 Capital	**533,430**	470,466
Tier 2 Capital	**94,432**	114,036
Net Capital	**627,862**	584,502
Risk-weighed assets	**4,653,723**	4,164,477

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

4 NET INTEREST INCOME

	Year ended 31 December	
	2015	2014
Interest income		
Balances with central banks	12,868	13,074
Due from banks and other financial institutions	22,813	18,881
Loans and advances to customers	214,127	211,400
Debt investment	55,318	45,154
	305,126	288,509
Interest expense		
Due to banks and other financial institutions	(55,212)	(54,341)
Due to customers	(97,743)	(93,826)
Debts securities issued	(6,213)	(4,568)
Certificates of deposits issued	(1,786)	(998)
	(160,954)	(153,733)
Net interest income	144,172	134,776
Including:		
Interest income on impaired loans and receivables	1,971	1,502
Interest income on financial investments designated at fair value through profit or loss	5,269	3,523
Interest expense on certificates of deposits issued classified as financial liabilities designated at fair value through profit or loss	520	167

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2015	2014
Settlement service	2,727	2,480
Bank cards	11,185	10,424
Investment banking	7,472	7,643
Guarantee and commitment	3,014	3,588
Management service	9,697	6,417
Agent service	3,403	1,754
Others	733	608
	38,231	32,914

	Year ended 31 December	
	2015	2014
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	611	569
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,899	1,540

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

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2015	2014
Settlement and agent service	621	226
Bank card	2,437	2,788
Others	146	296
	3,204	3,310

	Year ended 31 December	
	2015	2014
Fee expense, 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	14	60

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2015	2014
Foreign exchange	1,379	4,462
Interest rate instruments and others	(154)	204
Trading securities	1,417	1,580
	2,642	6,246

Net gains on foreign exchange includes gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains on interest rate instruments and others includes gains or losses from the trading and fair value changes of securities held for trading of interest rate swaps, interest rate options and other derivatives.

Net gains arising from trading activities for the year ended 31 December 2015 include a loss of RMB5 million (the year ended 31 December 2014: a loss of RMB85 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2015	2014
Profit on sales of property and equipment	49	122
Revaluation of investment property	140	5
Income from sales of precious metal merchandise	2,435	1,773
Leasing income	2,543	1,789
Other miscellaneous income	1,856	1,399
	7,023	5,088

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

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

9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Year ended 31 December	
	2015	2014
Loans and advances to customers (Note 19.2)		
– Collectively assessed losses provision	12,420	9,006
– Individually assessed losses provision	14,740	11,433
	27,160	20,439

10 OTHER OPERATING EXPENSE

	Year ended 31 December	
	2015	2014
Staff costs (Note 11)	25,429	24,690
Operating expenses	24,771	22,087
Auditor's remuneration	38	35
– Audit services	32	27
– Internal control audit services	2	2
– Other services	4	6
Depreciations and amortisations	7,200	5,753
Taxes	611	515
Business tax and surcharges	13,979	12,822
Impairment of finance lease receivables	558	274
Provision for impairment of financial investments ((1), Note 20)	1,151	1,947
Charge/(Reversal) of reserve for litigations	179	(189)
(Reversal)/Impairment of other receivables	(18)	200
Others	3,044	2,633
Total	76,904	70,732

(1) Net impairment losses on financial investments

	Year ended 31 December	
	2015	2014
Loans and receivables (Note 20)	773	1,971
Available-for-sale investments (Note 20)	39	(24)
Held-to-maturity investments (Note 20)	339	–
Total	1,151	1,947

11 STAFF COSTS

	Year ended 31 December	
	2015	2014
Salaries and bonuses	17,625	17,182
Post-employment benefit (Note (a))	3,073	3,127
Housing benefits and subsidies	282	99
Other social security and benefit costs	4,449	4,282
	25,429	24,690

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

11 STAFF COSTS *(Continued)*

(a) Post-employment benefit

Defined contribution plan

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the period to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognized in profit or loss as incurred.

The amounts recognized in profit or loss is as follows:

	Year ended 31 December	
	2015	2014
Expenses incurred for retirement benefit plans and unemployment insurance	**2,357**	2,424
Expenses incurred for annuity plan	**693**	691
Total	**3,050**	3,115

The amount payable at the year end is as follows:

	As at 31 December 2015	As at 31 December 2014
Expenses incurred for retirement benefit plans and unemployment insurance	**37**	45
Expenses incurred for annuity plan	**40**	–
Total	**77**	45

Defined benefit plan

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses and changes in actuarial assumptions are recognized in other comprehensive income, and amendments to pension plan are recognized in profit or loss in the period of a plan amendment. The amounts recognized in the statement of financial position represent the present value of unfunded obligations.

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

11 STAFF COSTS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plan *(Continued)*

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

	As at 31 December 2015	As at 31 December 2014
Statement of financial position		
– obligations for pension benefits	443	472

Amounts recognized in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Year ended 31 December	
	2015	2014
Components of defined benefit costs recognized in profit or loss	23	12
Components of defined benefit costs recognized in other comprehensive income	(6)	20
Total	17	32

Past service cost and net interest expense were recognized in other operating expense.

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2015	2014
Present value of unfunded obligations at the beginning of the year	472	483
Retirement benefits paid during the year	(46)	(43)
Net interest expense	21	23
Past service cost	2	(11)
Actuarial (gains)/losses	(6)	20
Present value of unfunded obligations at the end of the year	443	472

The average duration of the supplementary retirement benefits plan at 31 December 2015 is 13.44 years (2014: 14.24 years).

The Group expects to make a contribution of RMB42 million (2014: RMB43 million) to the supplementary retirement benefits plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

11 STAFF COSTS *(Continued)*

(a) Post-employment benefit *(Continued)*

Defined benefit plan *(Continued)*

The principle actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.30% (31 December 2014: 3.82%) and 1.43% (31 December 2014: 2.04%) respectively as at 31 December 2015. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2015, an average longevity of a pensioner after retirement at age 60 for male is average 19.70 years (31 December 2014: 22.20 years) while a pensioner after retirement at age 55 for female is average 28.70 years (31 December 2014: 29.52 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB32 million (increase by RMB37 million).

(2) If the expected inflation increases (decreases) by 1%, the defined benefit obligation would increase by RMB37 million (decrease by RMB33 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB29 million (decrease by RMB29 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emolutions before taxation

(in thousands of RMB)	Year ended 31 December 2015			
Name	**Emoluments**	**Remuneration**	**Other benefits**	**Total**
Executive directors				
Mr. Niu, Ximing	–	448	78	526
Mr. Peng, Chun	–	448	78	526
Ms. Yu, Yali	–	403	74	477
Mr. Hou, Weidong	–	403	74	477
Mr. Qian, Wenhui(1)	–	67	11	78
Non-executive directors				
Mr. Hu, Huating	–	672	172	844
Mr. Wang, Taiyin	–	672	172	844
Mr. Liu, Changshun	–	672	172	844
Mr. Peter, Wong Tung Shun	–	–	–	–
Mr. Ma, Qiang	–	–	–	–
Ms. Zhang, Yuxia	–	–	–	–
Mr. Peter Hugh Nolan	250	–	–	250
Mr. Chen, Zhiwu	250	–	–	250
Mr. Choi, Yiu Kwan	250	–	–	250
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Ms. Anita Fung Yuen Mei(1)	–	–	–	–
Mr. Lei, Jun(1)	–	–	–	–
Supervisors				
Mr. Song, Shuguang	–	448	86	534
Mr. Lu, Jiahui	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Mr. Teng, Tieqi	–	–	–	–
Mr. Gu, Huizhong	–	–	–	–
Mr. Dong, Wenhua	–	–	–	–
Mr. Li, Jin	–	–	–	–
Mr. Gao, Zhongyuan	–	–	–	–
Mr. Yan, Hong	–	–	–	–
Ms. Chen, Qing	–	705	134	839
Mr. Shuai, Shi	–	695	134	829
Mr. Du, Yarong	–	700	134	834
Mr. Fan, Jun	–	709	134	843
Total	1,250	7,042	1,453	9,745

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(a) Directors', supervisors' and senior management's emolutions before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2014			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Niu, Ximing	–	1,105	224	1,329
Mr. Peng, Chun	–	995	224	1,219
Mr. Qian, Wenhui	–	940	188	1,128
Ms. Yu, Yali	–	940	188	1,128
Non-executive directors				
Mr. Hu, Huating	–	884	168	1,052
Mr. Wang, Taiyin	–	884	168	1,052
Mr. Liu, Changshun(1)	–	442	83	525
Mr. Peter, Wong Tung Shun	–	–	–	–
Ms. Anita Fung Yuen Mei	–	–	–	–
Mr. Ma, Qiang	–	–	–	–
Mr. Lei, Jun	–	–	–	–
Ms. Zhang, Yuxia	–	–	–	–
Mr. Peter Hugh Nolan	250	–	–	250
Mr. Chen, Zhiwu	250	–	–	250
Mr. Choi, Yiu Kwan	250	–	–	250
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian(1)	63	–	–	63
Mr. Liu, Li(1)	63	–	–	63
Supervisors				
Mr. Song, Shuguang(1)	–	729	223	952
Mr. Lu Jiahui	–	–	–	–
Ms. Tang, Xinyu(1)	–	–	–	–
Mr. Teng, Tieqi	–	–	–	–
Mr. Gu, Huizhong	–	–	–	–
Mr. Dong Wenhua	–	–	–	–
Mr. Li, Jin	–	–	–	–
Mr. Gao, Zhongyuan	–	–	–	–
Mr. Yan, Hong	–	–	–	–
Ms. Chen, Qing	–	1,132	132	1,264
Mr. Shuai, Shi	–	1,095	132	1,227
Mr. Du, Yarong	–	1,137	132	1,269
Mr. Fan Jun	–	1,195	132	1,327
Directors, Supervisors resigned/retired				
Ms. Du, Yuemei(1)	–	663	125	788
Mr. Hua, Qingshan(1)	–	486	109	595
Mr. Wang, Weiqiang(1)	–	–	–	–
Mr. Liu, Tinghuan(1)	–	–	–	–
Mr. Jiang, Yunbao(1)	–	–	–	–
Total	876	12,627	2,228	15,731

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(a) Directors', supervisors' and senior management's emolutions before taxation *(Continued)*

(1) The total compensation package for directors and supervisors for the year ended 31 December 2015 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2015 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2014 was disclosed in the Supplemental Announcement for the 2014 Annual Report issued on 11 May 2015.

The balances listed above only disclose the emoluments of directors or supervisors from the date of their appointment. Especially, Mr. Qian Wenhui resigned as Executive Director and Executive Vice President of the Bank in Feb 2015; Ms. Anita Fung Yuen Mei resigned as Non-excutive Director of the Bank in Jan 2015; Mr. Lei Jun as Non-excutive Director of the Bank in Dec 2015; Mr. Hua Qingshan resigned as Supervisor of the Bank in June 2014; Mr. Song Shuguang was appointed as Supervisor of the Bank in June 2014; Ms. Du Yuemei resigned as Non-executive Director of the Bank in September 2014;Mr. Liu Changshun was appointed as Non-executive Director of the Bank in September 2014; In the second half of 2014, Ms. Li Jian and Mr. Liu Li were appointed as Independent Non-executive Directors of the Bank; Mr. Wang Weiqiang and Mr. Liu Tinghuan resigned as Directors of the Bank; In June 2014, Ms. Tang Xinyu was appointed as External Supervisor of the Bank, Mr. Jiang Yunbao resigned as External Supervisor of the Bank.

(2) During 2015 and 2014, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(3) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2015	2014
Salary	**8**	8
Discretionary bonuses	**13**	8
Employer's contribution to pension scheme and other benefits	**1**	1
Total	**22**	17

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of employees as at 31 December	
	2015	2014
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	2
HK$4,000,001 – HK$4,500,000	**2**	2
HK$4,500,001 – HK$5,000,000	**2**	–
HK$5,000,001 – HK$5,500,000	**–**	–
HK$5,500,001 – HK$6,000,000	**–**	–
HK$6,000,001 – HK$6,500,000	**–**	1
HK$10,000,001 – HK$10,500,000	**1**	–
	5	5

During 2015 and 2014, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(c) Share-based compensation

On 18 November 2005, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under a long-term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK$2.50, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period. On 31 December 2015, 7.558 million shares of the initial grant of SARs expired since they had not been exercised during the validity period.

On 3 November 2006, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under its long-term incentive plan. According to the resolution, the grant of SARs was targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK$6.13, which was the closing price of the Group's H share on 3 November 2006. The amount of the grant of the SARs was 2.724 million shares. The SARs are valid for a period of ten years from 3 November 2006, with a two-year vesting period.

Changes in fair value of valid SARs amounting to 3.72 million for the year ended 31 December 2015 (the year ended 31 December 2014:RMB6.22 million) were recognized in other operating expense but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows:

	Year ended 31 December	
	2015	2014
	Number of shares (In millions)	Number of shares (In millions)
Outstanding at the beginning of the year	**11**	11
Expired in the year	**(8)**	–
Outstanding at the end of the year	**3**	11

The fair value of valid SARs using the Binomial Option Pricing model as at 31 December 2015 is RMB1.46 million (31 December 2014: RMB33.47 million) and is recorded in other liabilities.

13 INCOME TAX

	Year ended 31 December	
	2015	2014
Current tax		
– PRC enterprise income tax	**18,907**	18,631
– Hong Kong profits tax	**783**	601
– Overseas taxation	**349**	328
	20,039	19,560
Deferred income tax (Note 24)	**(858)**	(668)
	19,181	18,892

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2014: 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.

13 INCOME TAX *(Continued)*

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% (2014: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2015	2014
Profit before tax	**86,012**	84,927
Tax calculated at a tax rate of 25%	**21,503**	21,232
Effect of different tax rates in other countries (or regions)	**56**	75
Tax effect of expenses not deductible for tax purposes[1]	**1,615**	453
Tax effect arising from income not subject to tax[2]	**(3,993)**	(2,868)
Income tax expense	**19,181**	18,892

(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 mainly represents interest income arising from treasury bonds, which is not taxable in accordance with the PRC tax regulations.

14 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 year.

	Year ended 31 December	
	2015	2014
Net profit attributable to ordinary shareholders of the Bank	**66,528**	65,850
Weighted average number of ordinary shares in issue (expressed in millions)	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**0.90**	0.89

The Bank issued non-cumulative preference shares on 29 July 2015 under the terms and conditions as detailed in Note 33 Preference Shares. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to ordinary shareholders of the Bank. The Bank has not declared any dividend on preference shares for the year ended 31 December 2015. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for year ended 31 December 2015 and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

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

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2015	As at 31 December 2014
Cash	17,647	19,261
Mandatory reserve deposits	749,068	766,604
Excess reserve deposits	146,735	143,339
Balances with central banks other than reserve deposits	6,778	8,851
Total	920,228	938,055

The Group is required to place mandatory reserves with PBOC and other overseas regulatory bodies. The mandatory reserves are calculated based on the eligible deposits from customers. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

	As at 31 December 2015	As at 31 December 2014
Mandatory reserve rate for deposits denominated in RMB (%)	17.50	20.00
Mandatory reserve rate for deposits denominated in foreign currencies (%)	5.00	5.00

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2015	As at 31 December 2014
Due from banks and other financial institutions		
– Banks operating in Mainland China	141,810	154,089
– Banks operating outside Mainland China	36,277	20,172
Financial assets held under resale agreements		
– Securities	4,606	60,787
– Loans	–	1,224
– Bills	71,686	116,443
Placement with and loans to banks		
– Banks operating in Mainland China	60,385	79,607
– Banks operating outside Mainland China	80,536	27,963
Placement with and loans to other financial institutions operating in Mainland China	215,891	64,748
	611,191	525,033

As at 31 December 2015, the Group's placement with certain wealth management products sponsored and not consolidated by the Group amounted to RMB50,000 million (31 December 2014: RMB41,500 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those arrangements approximated the carrying amount of the placements. The average exposure during 2015 was RMB27,427 million and the weighted-average outstanding period were 6.44 days (The average exposure during 2014 was RMB7,871 million and the weighted-average outstanding period were 3.71 days). As at the approval date of these consolidated financial statements, the placements have matured and the amounts have been fully repaid.

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2015	As at 31 December 2014
Derivative financial instruments (Note 18)	34,310	10,656
Financial assets held for trading		
Government bonds		
– Listed in Hong Kong	2,510	1,464
– Listed outside Hong Kong	1,001	12,137
– Unlisted	14,877	5,051
Other debt securities		
– Listed in Hong Kong	4,348	922
– Listed outside Hong Kong	10,611	9,000
– Unlisted – corporate entities	49,408	54,129
– Unlisted – public sector	1,833	2,189
– Unlisted – banking sector	14,430	20,569
Equity securities		
– Listed in Hong Kong	1	39
– Listed outside Hong Kong	85	69
Fund investments		
– Unlisted	9,354	133
Precious metal contracts	30,541	17,444
	173,309	133,802

Financial assets – financial assets at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2015	As at 31 December 2014
Financial assets – Financial assets at fair value through profit or loss		
– Governments and central banks	18,388	18,652
– Public sector entities	1,924	2,376
– Banks and other financial institutions	34,298	28,894
– Corporate entities	53,848	55,780
	108,458	105,702

The financial assets at fair value through profit or loss include financial assets held for trading and derivatives designated as effective hedging instruments.

Majority of the investments in unlisted bonds are traded in China's inter-bank bond market.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized 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 recognized 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 31 December 2015	**Contractual/ notional amount**	**Fair values Assets**	**Fair values Liabilities**
Foreign exchange contracts	**1,609,192**	**32,825**	**(31,318)**
Interest rate contracts and others	**504,847**	**1,485**	**(1,846)**
Total amount of derivative instruments recognized	**2,114,039**	**34,310**	**(33,164)**

As at 31 December 2014	Contractual/ notional amount	Fair values Assets	Fair values Liabilities
Foreign exchange contracts	1,123,840	9,445	(8,550)
Interest rate contracts and others	552,916	1,211	(1,524)
Total amount of derivative instruments recognized	1,676,756	10,656	(10,074)

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 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.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

Notional amounts of derivative financial instruments by original currency

	As at 31 December 2015	As at 31 December 2014
RMB	**938,269**	805,306
US dollar	**955,992**	680,022
HK dollar	**103,905**	106,253
Others	**115,873**	85,175
Total	**2,114,039**	1,676,756

Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group and Bank as follows:

	Contractual/ notional	**Fair values**	
As at 31 December 2015	**amount**	**Assets**	**Liabilities**
Derivative financial instruments designated as hedging instruments in cash flow hedges	**17,228**	**187**	**(74)**
Derivative financial instruments designated as hedging instruments in fair value hedges	**28,272**	**127**	**(281)**
Total	**45,500**	**314**	**(355)**

	Contractual/ notional	Fair values	
As at 31 December 2014	amount	Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	11,220	8	(281)
Total	11,220	8	(281)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(a) Fair value hedge

The Group uses interest rate swaps to minimize its exposure to fair value changes of its fixed-rate bond investments by swapping fixed-rate bond investments from fixed rates to floating rates. The interest rate swaps and the corresponding bond investments have the same terms and management of the Group considers that the interest rate swaps are highly effective hedging instruments. The hedged items are available-for-sale financial assets. The Group uses regression analysis to evaluate the effectiveness of hedging.

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

	As at 31 December 2015	As at 31 December 2014
Gains/(losses) on hedging instruments	**151**	(30)
(Losses)/gains on hedged items attributable to the hedge risk	**(172)**	24
Net losses from fair value hedges	**(21)**	(6)

(b) Cash flow hedge

The Group uses foreign exchange swaps to hedge against exposures to cash flow variability primarily from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate risks. The hedged items are placement with banks, certificates of deposit issued, loans and financial instruments sold under repurchase agreements. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the year ended 31 December 2015, the Group's net loss from the cash flow hedge of RMB 86 million (for the year ended 31 December 2014:Nil) were recognized in other comprehensive income and the gain and loss arising from ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2015.There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2015, as a result of the highly probable cash flows no longer being expected to occur.

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

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

	As at 31 December 2015	As at 31 December 2014
Loans and advances to customers	3,722,006	3,431,735
Less: allowance for collectively assessed impairment losses	(64,004)	(58,908)
Less: allowance for individually assessed impairment losses	(23,434)	(18,040)
	3,634,568	3,354,787

19.2 Movements in allowance for losses on loans and advances

	As at 31 December 2015		As at 31 December 2014	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the year	58,908	18,040	57,123	16,182
Net impairment allowances for loans charged to profit or loss (Note 9)	12,420	14,740	9,006	11,433
– Impairment allowances for loans	12,420	16,573	9,006	12,949
– Reversal of impairment allowances for loans	–	(1,833)	–	(1,516)
Recoveries of loans written-off in previous years	–	500	–	441
Unwind of discount on allowances during the year	–	(1,971)	–	(1,502)
Loans written off during the year as uncollectible	–	(15,268)	–	(15,811)
Other transfer (out)/in	(7,374)	7,374	(7,279)	7,279
Exchange differences	50	19	58	18
Balance at the end of the year	64,004	23,434	58,908	18,040

	As at 31 December 2015		As at 31 December 2014	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	62,863	14,085	59,922	13,383
Net impairment allowances for loans charged to profit or loss	21,211	5,949	14,488	5,951
– Impairment allowances for loans	22,740	6,253	15,942	6,013
– Reversal of impairment allowances for loans	(1,529)	(304)	(1,454)	(62)
Recoveries of loans written-off in previous years	245	255	205	236
Unwind of discount on allowances during the year	(1,657)	(314)	(1,203)	(299)
Loans written off during the year as uncollectible	(12,178)	(3,090)	(10,610)	(5,201)
Exchange difference	56	13	61	15
Balance at the end of the year	70,540	16,898	62,863	14,085

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.3 Analysis of loans and advances to customers by collective and individual assessments

	Loan and advances not impaired	Identified impaired loans and advances				
	Loans and advances for which the allowance is collectively assessed	For which the allowance is collectively assessed	For which the allowance is individually assessed	Subtotal	Total	Identified impaired gross loans and advances as a % of total gross loans and advances (%)
As at 31 December 2015						
Gross loans and advances	**3,665,800**	**6,682**	**49,524**	**56,206**	**3,722,006**	**1.51**
Allowance for impairment losses	**(58,070)**	**(5,934)**	**(23,434)**	**(29,368)**	**(87,438)**	
Net loans and advances to customers	**3,607,730**	**748**	**26,090**	**26,838**	**3,634,568**	
As at 31 December 2014						
Gross loans and advances	3,388,718	4,789	38,228	43,017	3,431,735	1.25
Allowance for impairment losses	(54,600)	(4,308)	(18,040)	(22,348)	(76,948)	
Net loans and advances to customers	3,334,118	481	20,188	20,669	3,354,787	

20 FINANCIAL INVESTMENTS

	As at 31 December 2015	As at 31 December 2014
Loans and receivables – at amortised cost		
– Unlisted	**326,470**	213,594
Impairment allowance	**(2,791)**	(2,006)
Loans and receivables (net)	**323,679**	211,588
Securities – available-for-sale debt securities – at fair value		
– Listed in Hong Kong	**26,959**	12,005
– Listed outside Hong Kong	**77,544**	59,930
– Unlisted	**154,819**	135,068
Debt securities	**259,322**	207,003
Equity securities and fund investments – at fair value		
– Listed in Hong Kong	**87**	104
– Listed outside Hong Kong	**1,483**	1,837
– Unlisted	**3,847**	1,072
Equity securities and fund investments	**5,417**	3,013
Securities – available-for-sale	**264,739**	210,016
Securities – held-to-maturity debt securities – at amortised cost		
– Listed in Hong Kong	**1,741**	–
– Listed outside Hong Kong	**151,419**	294,720
– Unlisted	**780,862**	340,850
Impairment allowance	**(339)**	–
Held-to-maturity investments (net)	**933,683**	635,570

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

20 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of financial investments are summarized as follows:

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2015	(2,006)	(1,115)	–	(3,121)
Provision for impairment	(800)	(39)	(339)	(1,178)
Reversal of impairment allowances	27	–	–	27
Transfers in	–	(61)	–	(61)
Disposals	–	–	–	–
Written-off	–	15	–	15
Exchange differences	(12)	(32)	–	(44)
As at 31 December 2015	(2,791)	(1,232)	(339)	(4,362)

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2014	(35)	(1,248)	–	(1,283)
Provision for impairment	(1,995)	(12)	–	(2,007)
Reversal of impairment allowances	24	36	–	60
Disposals	–	131	–	131
Exchange differences	–	(22)	–	(22)
As at 31 December 2014	(2,006)	(1,115)	–	(3,121)

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

20 FINANCIAL INVESTMENTS *(Continued)*

Financial investments analyzed by issuer are as follows:

	As at 31 December 2015	As at 31 December 2014
Loans and receivables		
– Governments and central banks	39,522	312
– Banks and other financial institutions	28,646	29,321
– Corporate entities	258,302	183,961
Impairment allowance	(2,791)	(2,006)
Loans and receivables (net)	323,679	211,588
Securities – available-for-sale		
– Governments and central banks	36,179	36,959
– Public sector entities	3,810	3,655
– Banks and other financial institutions	160,375	123,245
– Corporate entities	64,375	46,157
Total	264,739	210,016
Securities – held-to-maturity		
– Governments and central banks	568,248	289,276
– Public sector entities	16,205	14,088
– Banks and other financial institutions	272,865	243,619
– Corporate entities	76,704	88,587
Impairment allowance	(339)	–
Held-to-maturity (net)	933,683	635,570

The certificates of deposit held included in financial investments are analyzed as follows:

	As at 31 December 2015	As at 31 December 2014
Available-for-sale financial investment, at fair value – Unlisted	26,036	13,108

The maturity profile of certificate of deposits in the inter-bank market held by the remaining period as at year end to the contractual maturity dates are summarized as follows:

	As at 31 December 2015	As at 31 December 2014
Within 3 months	6,213	4,353
3 months to 12 months	5,748	3,112
1 year to 5 years	14,075	5,643
	26,036	13,108

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

21 PRINCIPAL SUBSIDIARIES

21.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group	Principal activities
Bank of Communications Financial Leasing Co., Ltd.[1]	Mainland China	20 Dec 2007	RMB7,000,000,000	100	Financial leasing
Bank of Communications International Trust Co., Ltd.[1]	Mainland China	18 Oct 2007	RMB3,765,000,000	85	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.[1]	Mainland China	4 Aug 2005	RMB200,000,000	65	Fund management
BoCommlife Insurance Company Limited[1]	Mainland China	27 Jan 2010	RMB2,100,000,000	62.50	Life insurance
BOCOM International Holdings Company Limited (formerly known as BOCOM Securities Company Limited)	Hong Kong	2 May 2007	HK$2,000,000,000	100	Securities dealing and brokerage
China BOCOM Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HK$400,000,000	100	General insurance and reinsurance
Dayi BoComm Xingmin Rural Bank Ltd.[1]	Mainland China	26 Sep 2008	RMB60,000,000	61	Commercial banking
Zhejiang Anji BoCOM Rural Bank Ltd.[1]	Mainland China	9 Apr 2010	RMB180,000,000	51	Commercial banking
Xinjiang Shihezi BoCOM Rural Bank Ltd.[1]	Mainland China	5 May 2011	RMB150,000,000	51	Commercial banking
Qingdao Laoshan BoCOM Rural Bank Ltd.[1]	Mainland China	21 Sep 2012	RMB150,000,000	51	Commercial banking
Bank of Communications (UK) Limited.	UK	29 July 2011	USD100,000,000	100	Commercial banking
Bank of Communications (Luxemburg) Limited.	Luxemburg	7 May 2015	Euro100,000,000	100	Commercial banking

(1) These subsidiaries incorporated in PRC are all limited liability companies.

As at 31 December 2015, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

(2) For details of the debt securities issued by subsidiaries please refer to Note 30.

21.2 Changes of principal subsidiaries

During the year ended 31 December 2015, the Bank and other shareholders of Xinjiang Shihezi BoCOM Rural Bank Ltd. increased capital disproportionally, which results in the reduction of the Bank's holding percentage from 70% to 51%.

During the year ended 31 December 2015, the Bank established Bank of Communications (Luxemburg) Limited as its wholly-owned subsidiary.

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

21 PRINCIPAL SUBSIDIARIES *(Continued)*

21.3 Auditors of subsidiaries

For the year ended 31 December 2015, PricewaterhouseCoopers was the auditor of all principal subsidiaries incorporated in Hong Kong. (For the year ended 31 December 2014: PricewaterhouseCoopers).

For the year ended 31 December 2015, PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC. (For the year ended 31 December 2014: PricewaterhouseCoopers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2015, Bank of Communications (UK) Limited was audited by PricewaterhouseCoopers LLP (For the year ended 31 December 2014: PricewaterhouseCoopers LLP).

For the year ended 31 December 2015, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative.

22 INVESTMENTS IN ASSOCIATES

	As at 31 December 2015	As at 31 December 2014
Investment cost	350	300
Net profit adjusted by the equity method	211	134
Changes in other equity	16	113
Investment in associates	577	547

The Group's investments in associates mainly represent the investment in Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established on 30 December 2011. The registered capital of the entity is RMB3,018 million as at 31 December 2014, and the principal activities of the entity are commercial banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2015 (2014: 10.60%).

The Group is entitled to nominate 3 directors out of 11 in associate's board of directors, accordingly the Group is able to exert significant influence on the investee.

Aggregate financial information of Bank of Tibet Co., Ltd.:

	As at 31 December 2015	As at 31 December 2014
Assets	36,666	25,523
Liabilities	31,734	21,275
Net assets	4,932	4,248

	Year ended 31 December	
	2015	2014
Revenue	724	528
Profit from continuing operations	683	451
Other comprehensive income	–	–
Total comprehensive income	683	451
Dividends received from the associate	–	–

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

23 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2015	42,849	13,556	21,933	14,386	5,797	98,521
Additions	1,269	2,478	3,235	18,480	249	25,711
Transfers in from investment property	1,795	–	–	–	–	1,795
Disposals	(89)	–	(1,017)	(16)	(263)	(1,385)
Transfers in/(out)	3,451	(3,967)	–	–	516	–
As at 31 December 2015	49,275	12,067	24,151	32,850	6,299	124,642
Accumulated depreciation						
As at 1 January 2015	(10,436)	–	(14,830)	(1,145)	(2,327)	(28,738)
Charge for the year	(1,609)	–	(3,202)	(1,055)	(605)	(6,471)
Disposals	61	–	879	10	28	978
As at 31 December 2015	(11,984)	–	(17,153)	(2,190)	(2,904)	(34,231)
Allowance for impairment losses						
As at 1 January 2015	–	(16)	–	–	–	(16)
Provision for impairment	–	–	–	(2)	–	(2)
Transfers out	–	–	–	–	–	–
As at 31 December 2015	–	(16)	–	(2)	–	(18)
Net book value						
As at 31 December 2015	37,291	12,051	6,998	30,658	3,395	90,393

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2014	36,482	13,277	19,073	8,044	4,828	81,704
Additions	1,711	5,567	3,644	6,385	499	17,806
Disposals	(117)	(13)	(784)	(43)	(32)	(989)
Transfers in/(out)	4,773	(5,275)	–	–	502	–
As at 31 December 2014	42,849	13,556	21,933	14,386	5,797	98,521
Accumulated depreciation						
As at 1 January 2014	(9,084)	–	(12,919)	(738)	(1,768)	(24,509)
Charge for the year	(1,420)	–	(2,571)	(443)	(584)	(5,018)
Disposals	68	–	660	36	25	789
As at 31 December 2014	(10,436)	–	(14,830)	(1,145)	(2,327)	(28,738)
Allowance for impairment losses						
As at 1 January 2014	–	(24)	–	–	–	(24)
Provision for impairment	–	–	–	–	–	–
Transfers out	–	8	–	–	–	8
As at 31 December 2014	–	(16)	–	–	–	(16)
Net book value						
As at 31 December 2014	32,413	13,540	7,103	13,241	3,470	69,767

The Group recognized the leasehold land in Hong Kong branch and Hong Kong subsidiaries as finance lease and accounted for it as “land and buildings” and is depreciated over the shorter of the useful life of the buildings and the land’s lease term.

As at 31 December 2015, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB 30,582 million (31 December 2014: RMB12,370 million).

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

24 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2015 (for the year ended 31 December 2014: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2014: 16.5%).

The movements in the deferred income tax account are as follows:

	Impairment allowances for loans	Impairment allowances for investments	Impairment allowances for other assets	Outstanding litigations and unsettled obligation	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of derivative instruments	Other temporary differences	Total
Balance at 1 January 2015	13,374	756	205	70	118	(195)	(130)	1,847	16,045
Recognized in profit or loss	1,760	316	(22)	46	(7)	–	(165)	(1,070)	858
Recognized in other comprehensive income	–	–	–	–	–	(360)	22	–	(338)
Balance at 31 December 2015	15,134	1,072	183	116	111	(555)	(273)	777	16,565

	Impairment allowances for loans	Impairment allowances for investments	Impairment allowances for other assets	Outstanding litigations and unsettled obligation	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of derivative instruments	Other temporary differences	Total
Balance at 1 January 2014	12,412	310	232	117	121	1,639	555	1,820	17,206
Recognized in profit or loss	962	446	(27)	(47)	(8)	–	(685)	27	668
Recognized in other comprehensive income	–	–	–	–	5	(1,834)	–	–	(1,829)
Balance at 31 December 2014	13,374	756	205	70	118	(195)	(130)	1,847	16,045

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

24 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 31 December 2015		As at 31 December 2014	
	Temporary differences	Deferred income tax assets/ (liabilities)	Temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	(2,580)	(659)	(1,548)	(387)
Change in fair value of derivative instruments	(34,310)	(8,607)	(10,650)	(2,664)
Other temporary differences	(1,165)	(289)	(609)	(152)
	(38,055)	(9,555)	(12,807)	(3,203)
Deferred income tax assets				
Impairment allowances for loans	60,540	15,134	53,370	13,374
Impairment allowances for investments	4,287	1,072	2,976	756
Impairment allowances for other assets	732	183	900	205
Retirement supplementary pension payable	443	111	472	118
Outstanding litigations and unsettled obligation	463	116	279	70
Change in fair value of available-for-sale financial assets	325	104	768	192
Change in fair value of derivative instruments	33,164	8,334	10,074	2,534
Other temporary differences	4,262	1,066	7,970	1,999
	104,216	26,120	76,809	19,248
Net deferred income tax assets	66,161	16,565	64,002	16,045

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities:

	As at 31 December 2015	As at 31 December 2014
Deferred income tax assets	16,684	16,077
Deferred income tax liabilities	(119)	(32)

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

25 OTHER ASSETS

	As at 31 December 2015	As at 31 December 2014
Interest receivable	41,533	34,790
Settlement accounts	3,611	10,130
Other receivables and prepayments	9,011	10,742
Less: impairment allowance (d)	(632)	(624)
Leasehold improvement	855	864
Intangible assets (a)	2,059	1,707
Foreclosed assets	787	456
Rental deposits	167	194
Goodwill (e)	351	322
Investment properties (b)	5,634	7,276
Finance lease receivables (c)	113,778	100,810
Less: impairment allowance (d)	(2,241)	(1,680)
Precious metal	2,333	2,508
Others	9,065	5,562
	186,311	173,057

(a) Intangible assets

	Software	Land use rights	Total
Cost			
As at 1 January 2015	1,878	1,261	3,139
Additions	649	22	671
Disposals	(394)	–	(394)
As at 31 December 2015	2,133	1,283	3,416
Accumulated amortisation			
As at 1 January 2015	(1,089)	(343)	(1,432)
Amortisation expense	(268)	(40)	(308)
Disposals	383	–	383
As at 31 December 2015	(974)	(383)	(1,357)
Carrying amounts	1,159	900	2,059

	Software	Land use rights	Total
Cost			
As at 1 January 2014	2,109	1,022	3,131
Additions	364	266	630
Disposals	(595)	(27)	(622)
As at 31 December 2014	1,878	1,261	3,139
Accumulated amortisation			
As at 1 January 2014	(1,339)	(331)	(1,670)
Amortisation expense	(263)	(37)	(300)
Disposals	513	25	538
As at 31 December 2014	(1,089)	(343)	(1,432)
Carrying amounts	789	918	1,707

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

25 OTHER ASSETS *(Continued)*

(b) Investment properties

	As at 31 December 2015	As at 31 December 2014
Balance at the beginning of the year	7,276	194
(Losses)/Additions of the year	(1,795)	7,077
Gains on property revaluation	140	9
Effect of foreign currency exchange differences	13	(4)
Balance at the end of the year	5,634	7,276

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

As at 31 December of 2015, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2015
Commercial property units located in Hong Kong	–	–	960	960
Commercial property units located outside Hong Kong	–	–	4,674	4,674

The valuation of these investment properties as at 31 December 2015 were performed by RHL Appraisal Limited and Beijing Zhuoxindahua Appraisal Co., Limited, independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalization rate and unit price.

(c) Finance lease receivables

	As at 31 December 2015	As at 31 December 2014
Minimum finance lease receivables		
Within 1 year (inclusive)	34,459	29,554
1 year to 2 years (inclusive)	28,815	26,350
2 year to 3 years (inclusive)	22,381	21,826
Over 3 years	42,316	38,605
	127,971	116,335
Gross investment in finance leases	127,971	116,335
Unearned finance income	(14,193)	(15,525)
Net investment in finance leases	113,778	100,810
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	30,237	24,887
1 year to 2 years (inclusive)	25,682	22,792
2 year to 3 years (inclusive)	20,162	19,323
Over 3 years	37,697	33,808
	113,778	100,810
The allowance for uncollectible finance lease receivable	(2,241)	(1,680)
Net finance lease receivables	111,537	99,130

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

25 OTHER ASSETS *(Continued)*

(d) Impairment allowance

	As at 1 January 2015	Amounts accrued	Reversal	Write-off	Transfer (in)/out	Exchange differences	As at 31 December 2015
Other receivables	(624)	(1)	19	–	(26)	–	(632)
Finance lease receivables	(1,680)	(569)	11	–	–	(3)	(2,241)
Total	(2,304)	(570)	30	–	(26)	(3)	(2,873)

	As at 1 January 2014	Amounts accrued	Reversal	Write-off	Transfer (in)/out	Exchange differences	As at 31 December 2014
Other receivables	(531)	(200)	–	105	2	–	(624)
Finance lease receivables	(1,406)	(274)	–	–	–	–	(1,680)
Total	(1,937)	(474)	–	105	2	–	(2,304)

(e) Goodwill

	As at 1 January 2015	Addition during the year	Decrease during the year	As at 31 December 2015	Impairment allowance
Bank of Communications International Trust Co., Ltd.	200	–	–	200	–
BoCommlife Insurance Company Limited	122	–	–	122	–
Others	–	29	–	29	–
Total	322	29	–	351	–

	As at 1 January 2014	Addition during the year	Decrease during the year	As at 31 December 2014	Impairment allowance
Bank of Communications International Trust Co., Ltd.	200	–	–	200	–
BoCommlife Insurance Company Limited	122	–	–	122	–
Total	322	–	–	322	–

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the share prices of similar type of those listed financial institutions.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognized.

(f) Loans to employees

As at 31 December 2015 and 31 December 2014, the Group does not offer any loans to employees for the purpose of enabling the selected employees to acquire the shares of the Bank and its subsidiaries.

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

26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2015	As at 31 December 2014
Loans from central banks	135,320	83,669
Deposits from other banks		
– Banks operating in Mainland China	346,359	326,511
– Banks operating outside Mainland China	10,963	33,986
Deposits from other financial institutions	856,888	661,540
Loans from banks and other financial institutions		
– Banks operating in Mainland China	133,399	126,904
– Banks operating outside Mainland China	108,445	86,092
Financial instruments sold under repurchase agreements	49,865	89,573
Total	1,641,239	1,408,275

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2015	As at 31 December 2014
Derivative financial instruments (Note 18)	33,164	10,074
Short position of securities held for trading	1,801	5,347
Certificates of deposits issued	11,885	13,402
Financial liabilities related to precious metal contracts	15,611	9,757
Total	62,461	38,580

Except for certificates of deposits issued which are designated as at fair value through profit or loss, the financial liabilities at fair value through profit or loss include financial liabilities held for trading and derivatives designated as effective hedging instruments.

For the years ended 31 December 2015 and 31 December 2014, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk of the Group.

28 DUE TO CUSTOMERS

	As at 31 December 2015	As at 31 December 2014
Corporate demand deposits	1,433,773	1,395,657
Corporate time deposits	1,596,635	1,270,614
Individual demand deposits	594,704	542,124
Individual time deposits	855,903	815,778
Other deposits	3,799	5,495
	4,484,814	4,029,668
Including:		
Pledged deposits held as collateral	395,379	494,860

29 CERTICIATES OF DEPOSITS ISSUED

Certificates of deposits were issued by domestic branches and branches of the Bank in Taipei, Hong Kong, New York, Tokyo, Singapore, Frankfurt and Sydney.

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

30 DEBT SECURITIES ISSUED

		As at 31 December 2015	As at 31 December 2014
Carried at amortized cost:			
Subordinated bonds	30.1	**55,448**	55,500
Tier 2 capital bonds	30.2	**39,215**	38,930
Bonds			
– The Bank	30.3	**46,700**	17,000
– Subsidiaries	30.3	**16,103**	10,706
Sub-total		**157,466**	122,136
Carried at fair value:			
Bonds	30.3	**12,640**	7,411
Total		**170,106**	129,547

Note: These debt securities are designated as fair value through profit and loss upon initiation as the Hongkong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognizing the gains or loss on them on different basis. Accordingly, the debts are designated as fair value through profit and loss with changes in fair values charged to profit and loss account.

30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue Place	Coupon Rate %	Par Value (CCY)	Issue Date	Maturity	Note	Issue Amount	Balance At the Year End	Balance At the Beginning of the Year
07 BoComm 01	RMB	Mainland China	4.13	16,000	2007/03/06	15 Years	(a)	16,000	16,000	16,000
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 Years	(b)	13,500	13,500	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 Years	(c)	26,000	25,948	26,000
Total								55,500	55,448	55,500

(a) The Group has an option to redeem these bonds on 8 March 2017. If no redemption exercised by the Group, the bonds will bear a fixed coupon rate of 7.13% for the remaining 5 years commencing 8 March 2017.

(b) The Group has an option to redeem these bonds on 3 July 2019. If no redemption exercised by the Group, the bonds will bear a fixed coupon rate of 7.00% for the remaining 5 years commencing 3 July 2019.

(c) The Group has an option to redeem these bonds on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue Place	Coupon Rate %	Par Value (CCY)	Issue Date	Maturity	Note	Issue Amount	Balance At the Year End	Balance At the Beginning of the Year
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 Years	(a)	28,000	27,974	27,966
14 BoComm USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 Years	(b)	7,590	7,727	7,274
14 BoComm Euro	Euro	Hong Kong	3.625	500	2014/10/03	12 Years	(c)	3,554	3,514	3,690
Total								39,144	39,215	38,930

(a) The Group has an option to redeem these bonds at the face value partially or as a whole on 19 August 2019, provided CBRC's permission is acquired in advance and the Group's capital structure fulfils the CBRC requirements on capital if the redemption is exercised.

(b) The Group has an option to redeem these bonds as a whole on 3 October 2019. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year US treasury bonds plus 285 basis points.

(c) The Group has an option to redeem these bonds as a whole on 3 October 2021. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year Euro plus 300 basis points.

These secondary capital bonds have the write-down feature of a secondary capital instrument, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. The subordinated debts are regarded as tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for offsetting daily operating loss of the Group.

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds

Detailed information of bonds held at amortized cost is as follows:

	Currency	Issue Place	Coupon Rate %	Par Value (CCY)	Issue Date	Maturity	Issue Amount	Balance At the End of the Year	Balance At the Beginning of the Year
The Bank									
13 BoComm 01	RMB	Mainland China	4.37	10,000	2013/07/26	5 Years	10,000	10,000	10,000
14 HK 2 Years Bills	RMB	Hong Kong	3.30	1,500	2014/03/21	2 Years	1,500	1,500	1,500
12 HK B	RMB	Hong Kong	3.10	300	2012/03/08	3 Years	300	–	300
15 Bocomm	RMB	Mainland China	3.45	30,000	2015/12/17	5 Years	30,000	30,000	–
13 Taiwan Bond A	RMB	Taiwan	3.40	800	2013/12/10	3 Years	800	800	800
13 Taiwan Bond B	RMB	Taiwan	3.70	400	2013/12/10	5 Years	400	400	400
14 Formosa Bond A	RMB	Taiwan	3.45	1,000	2014/06/23	3 Years	1,000	1,000	1,000
14 Formosa Bond B	RMB	Taiwan	3.85	500	2014/06/23	5 Years	500	500	500
14 Formosa Bond C	RMB	Taiwan	4.15	500	2014/06/23	7 Years	500	500	500
P14JHTP1A	RMB	Taiwan	3.30	200	2014/12/04	2 Years	200	200	200
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 Years	900	900	900
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 Years	700	700	700
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 Years	200	200	200
Subtotal							47,000	46,700	17,000
Subsidiaries									
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 Years	3,247	3,238	3,055
14 Azure Orbit	USD	Hong Kong	3.375	500	2014/04/25	5 Years	3,247	3,246	3,054
5 Year MTN	USD	Hong Kong	3.125	385	2015/08/18	5 Years	2,500	2,500	–
3 Year MTN	EUR	Luxembourg	3M Euribor +1.15%	100	2015/08/18	3 Years	700	700	–
14 Leasing 01	RMB	Mainland China	6.10	200	2014/01/17	3 Years	200	150	200
14 Leasing 02	RMB	Mainland China	5.20	3,800	2014/07/17	3 Years	3,800	2,850	3,800
14 Leasing ABS	RMB	Mainland China	5.20~6.40	664	2014/09/19	3 Years	664	219	597
15 Leasing	RMB	Mainland China	3.80	4,000	2015/10/16	3 Years	4,000	3,200	–
Subtotal							18,358	16,103	10,706
Total							65,358	62,803	27,706

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue Place	Coupon Rate %	Par Value (CCY)	Issue Date	Maturity	Issue Amount	Balance	Fair Value at year end	Fair Value At the End of the Year
14 Hong Kong medium-term notes	USD	Hong Kong	2.125	700	2014/01/15	3 Years	4,546	4,539	4,570	4,311
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 Years	419	415	434	415
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 Years	293	293	300	286
14 CHF bond	CHF	Hong Kong	0.875	300	2014/06/26	3 Years	1,921	1,966	2,002	1,935
14 SGD bond	SGD	Hong Kong	2.10	100	2014/07/24	3 Years	459	460	456	464
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 Years	4,870	4,858	4,878	–
Total							12,508	12,531	12,640	7,411

31 OTHER LIABILITIES

	As at 31 December 2015	As at 31 December 2014
Interest payable	74,409	70,892
Settlement accounts	26,056	20,670
Staff compensation payable	7,271	6,163
Business and other taxes payable	4,180	3,338
Insurance contracts reserve	6,656	4,657
Deposits received for finance lease	8,652	7,488
Provision for outstanding litigation (a)	369	191
Provision for unsettled obligation (a)	94	88
Dividends payable	63	61
Others	32,912	28,591
Total	160,662	142,139

(a) The movements in the provision for outstanding litigation and unsettled obligation

	As at 1 January 2015	Amounts accrued during the period	Amounts reversed during the period	Amounts paid during the period	Exchange differences	As at 31 December 2015
Provision for outstanding litigation	191	203	(24)	(1)	–	369
Provision for unsettled obligation	88	–	–	–	6	94
	279	203	(24)	(1)	6	463

31 OTHER LIABILITIES *(Continued)*

(a) The movements in the provision for outstanding litigation and unsettled obligation *(Continued)*

	As at 1 January 2014	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	Exchange differences	As at 31 December 2014
Provision for outstanding litigation	378	67	(241)	(13)	–	191
Provision for unsettled obligation	89	–	(1)	–	–	88
	467	67	(242)	(13)	–	279

32 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	**Ordinary shares of RMB 1 each**	**Capital surplus**	**Total**
As at 1 January 2015	**74,263**	**74,263**	**113,496**	**187,759**
As at 31 December 2015	**74,263**	**74,263**	**113,392**	**187,655**

	Number of shares (in millions)	Ordinary shares of RMB 1 each	Capital surplus	Total
As at 1 January 2014	74,263	74,263	113,383	187,646
As at 31 December 2014	74,263	74,263	113,496	187,759

As at 31 December 2015 and 31 December 2014, the number of A shares of the Group is 39,251 millions, and the number of H shares of the Group is 35,012 millions, both with par value of RMB 1 per share.

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

32 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2015 and 2014, the Group's capital surplus is listed as follows:

	As at 1 January 2015	Additions	Reductions	As at 31 December 2015
Share premium	112,769	–	–	112,769
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	145	3	–	148
Capital increase in a subsidiary	(29)	–	(12)	(41)
Capital increase in an associate	113	–	(97)	16
Others	26	2	–	28
Total	113,496	5	(109)	113,392

	As at 1 January 2014	Additions	Reductions	As at 31 December 2014
Share premium	112,769	–	–	112,769
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	145	–	–	145
Capital increase in a subsidiary	(29)	–	–	(29)
Capital increase in an associate	–	113	–	113
Others	26	–	–	26
Total	113,383	113	–	113,496

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

33 PREFERENCE SHARES

33.1 Preference shares outstanding at the end of the period

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency	In RMB	Maturity	Conversion condition	Conversion
Preference shares in USD	2015-07-29	Equity	5.00%	20USD/Share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the year
				Less: Issue fees			(58)			
				Book value			14,924			

33.2 Main Clauses

(a) Dividend

The preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) from and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) the dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorized by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares.

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

The Bank shall distribute dividends annually for the preference shares in U.S. dollar, based on the total amount of the issued and outstanding preference shares on the corresponding times.

33 PREFERENCE SHARES *(Continued)*

33.2 Main Clauses *(Continued)*

(b) Conditions to distribution of dividends

Notwithstanding any other provision in the terms and conditions of the preference shares, the payment of any dividends on any dividend payment date is subject to:

(1) the Bank having distributable after-tax profits (which are based on the undistributed profits of the Bank as shown in the audited financial statements of the Bank prepared in accordance with People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) or IFRS, whichever is the lower, after making up for previous years' losses and contributing to the statutory reserve and general reserve; and

(2) the relevant capital adequacy ratios of the Bank meeting the requirements of the capital management rules and other applicable regulatory requirements.

Further, subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend in the manner set out in the terms and conditions of the preference shares. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness due and payable.

The cancellation of any amount of dividend in accordance with these provisions shall not constitute a default for any purpose on the part of the Bank. Dividend payments are non-cumulative, and the preference shareholders shall have no right to any cancelled dividend amount, whether on a winding-up or otherwise.

(c) Dividend stopper

If the Bank elects to cancel (in whole or in part) any dividend (but not where such dividend has been cancelled pursuant to condition of the terms and conditions of the preference shares upon the occurrence of a trigger event), the cancellation of such dividend (in whole or in part) on the preference shares will require a resolution to be passed at a shareholders' general meeting. The Bank undertakes that any shareholders' resolution that cancels a dividend (in whole or in part) on the preference shares will be a parity obligation dividend cancellation resolution and undertakes that it will not propose to any shareholders' general meeting a resolution to cancel any dividend on the preference shares that is not a parity obligation dividend cancellation resolution.

If, on any dividend payment date, payment of a dividend to be paid in accordance with the terms and conditions of the preference shares is not made in full by reason of the provisions described in the terms and conditions of the preference shares or otherwise (but not where such dividend has been cancelled pursuant to the terms and conditions of the preference shares upon the occurrence of a trigger event), the Bank shall not make any payment in cash on, and will procure that no distribution or dividend in cash or payment in cash is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the preference shares unless or until the earlier of:

(1) the dividend scheduled to be paid on any subsequent dividend payment date is paid in full to preference shareholders; or

(2) the redemption or purchase and cancellation of the preference shares in full or the conversion in full of the aggregate liquidation preference of the preference shares.

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

33 PREFERENCE SHARES *(Continued)*

33.2 Main Clauses *(Continued)*

(d) Order of distribution and liquidation method

On such winding-up of the Bank, any remaining assets of the Bank shall,after the distributions in accordance with the terms and conditions of the preference shares have been made, be applied to the claims of the preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares. On such winding-up of the Bank, the preference shareholders shall be entitled to an amount in respect of each preference share which will be equal to the liquidation preference together with any declared but unpaid dividends accrued in respect of that preference share.

If there are insufficient remaining assets upon such winding-up of the Bank to cover the amounts payable in full on the preference shares and all parity obligations, the preference shareholders and the holders of such parity obligations will share ratably in the distribution of such remaining assets (if any) of the Bank in proportion to the full amounts to which they are respectively entitled.

(e) Mandatory conversion trigger events

If an additional tier 1 capital instrument trigger event or a non-viability trigger event occurs, the Bank shall (after having notified and obtained the consent of the CBRC but without the need for the consent of preference shareholders or ordinary shareholders):

(1) cancel any dividend in respect of the relevant loss absorption amount that is unpaid accrued up to and including the conversion date; and

(2) irrevocably and compulsorily convert with effect from the conversion date all or some only of the preference shares into such number of H Shares as is equal to the loss absorption amount in respect of that holder's preference shares (as converted into Hong Kong dollars at the fixed exchange rate of U.S.$1.00 to HK$7.7555) divided by the effective conversion price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H Shares (such conversion to H Shares being referred to as a "conversion", and "converted" shall have a corresponding meaning), and any fractional share less than one H Share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

(f) Redemption

The Bank may, subject to obtaining CBRC approval and compliance with the redemption preconditions, upon not less than 30 nor more than 60 days' notice to the preference shareholders and the Fiscal Agent, redeem all or some of the preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each preference share so redeemed shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends accrued in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the date scheduled for redemption.

33.3 Movement of preference shares issued

Preference shares USD	Balance at 1 January 2015	Movement: Additions	Movement: Reductions	Balance at 31 December 2015
Amount (shares)	–	122,500,000	–	**122,500,000**
In RMB (millions)	–	14,924	–	**14,924**

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

33 PREFERENCE SHARES *(Continued)*

33.4 Interests attribute to holders of preference shares

	As at 31 December 2015	As at 1 January 2015
Total equity attribute to equity holders of the parent company	**534,885**	471,055
Equity attribute to ordinary equity holders of the parent company	**519,961**	471,055
Equity attribute to preference shares holders of the parent company	**14,982**	–
Total equity attribute to non-controlling interests	**3,207**	2,550
Equity attribute to non-controlling interests of ordinary shares	**3,207**	2,550
Equity attribute to non-controlling interests of preference shares	**–**	–

34 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank and its domestic subsidiaries are required to appropriate 10% of its net profit for the year (Note 35) to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to "Administrative Measures for the Provisioning of Financial Enterprises" (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

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

34 RESERVES AND RETAINED EARNINGS *(Continued)*

On 18 May 2015, the shareholders at the 2015 First Extraordinary General Meeting approved the following profit appropriation of 2014:

	As at 31 December 2015	As at 31 December 2014
Statutory reserve	6,392	6,017
Statutory general reserve	2,960	8,111
Discretionary reserve	34,522	26,732
	43,874	40,860

During the year ended 31 December 2015, the Group transferred RMB 4,104 million (2014: RMB 8,792 million) and RMB2,960 million (2014: RMB 8,111 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB 2,960 million (2014: RMB 8,111 million) related to the appropriation proposed for the year ended 31 December 2014 which was approved in the 2015 First Extraordinary General Meeting held on 18 May 2015.

Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets are set out below:

	Year ended 31 December	
	2015	2014
At beginning of the year	599	(4,902)
Changes in fair value recorded in equity	3,001	7,532
Changes in fair value reclassified from equity to profit or loss	(1,078)	(197)
Income tax relating to components of other comprehensive income	(360)	(1,834)
At end of the year	2,162	599

Retained earnings

The movements of retained earnings are set out below:

	Year ended 31 December	
	2015	2014
At beginning of the year	71,825	67,330
Profit for the year	66,528	65,850
Appropriation to statutory reserve	(6,578)	(6,523)
Appropriation to statutory general reserve	(4,104)	(8,792)
Appropriation to discretionary reserve	(34,522)	(26,732)
Dividends paid	(20,051)	(19,308)
At end of the year	73,098	71,825

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

35 DIVIDENDS

	Year ended 31 December	
	2015	2014
Dividends to ordinary shareholders of the Bank	**20,051**	19,308

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 reserves;

(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 recognized 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 26 March 2015 which was approval by the 2015 First Extraordinary General Meeting on 18 May 2015, the Bank appropriated RMB2,960 million to the statutory general reserve and RMB34,522 million to discretionary reserve. It was also resolved that a cash dividend of RMB0.27 (before tax) for each ordinary share, totaling RMB20,051 million, calculated based 74,263 million shares outstanding as at 31 December 2014, will be distributed to ordinary shareholders. The actual issuing day of the dividends was on July 26, 2015.

On 29 March 2016, the Board of Directors of the Bank proposed to appropriate RMB11,598 million to the statutory general reserve. A cash dividend of RMB0.27 (before tax) for each share, totalling RMB20,051 million, calculated based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2015 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

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

36 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 31 December 2015	As at 31 December 2014
Letters of guarantee	**333,725**	310,500
Letters of credit commitments	**150,085**	226,469
Acceptances bills	**294,834**	381,368
Credit card commitments	**438,608**	388,038
Loan commitments		
– Under 1 year	**32,700**	61,424
– 1 year and over	**58,547**	166,728
	1,308,499	1,534,527

Capital expenditure commitments

	As at 31 December 2015	As at 31 December 2014
Contracted but not provided for	**7,645**	7,465

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 31 December 2015	As at 31 December 2014
Within 1 year (inclusive)	**3,021**	2,543
Beyond 1 year but no more than 2 years (inclusive)	**2,485**	2,240
Beyond 2 years but no more than 3 years (inclusive)	**1,885**	1,818
Beyond 3 years but no more than 5 years (inclusive)	**2,282**	2,368
More than 5 years	**1,683**	1,220
	11,356	10,189

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

36 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments *(Continued)*

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

	As at 31 December 2015	As at 31 December 2014
Within 1 year (inclusive)	**3,442**	824
Beyond 1 year but no more than 2 years (inclusive)	**2,958**	827
Beyond 2 years but no more than 3 years (inclusive)	**2,955**	827
Beyond 3 years but no more than 5 years (inclusive)	**5,905**	1,602
More than 5 years	**17,698**	3,393
	32,958	7,473

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 31 December 2015, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB67,952 million (31 December 2014: RMB58,443 million).

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

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.

As at 31 December 2015, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2014: 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. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 31. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarized as follows:

	As at 31 December 2015	As at 31 December 2014
Outstanding claims	**1,397**	1,725
Provision for outstanding litigation (Note 31)	**369**	191

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

37 COLLATERALS

(1) Assets pledged

Assets pledged are mainly collaterals under repurchase arrangement and loans from banks and other financial institutions.

	Pledged assets		Associate liabilities	
	As at 31 December 2015	As at 31 December 2014	**As at 31 December 2015**	As at 31 December 2014
Investment securities	**201,280**	178,708	**179,853**	166,654

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 42 transfers of financial assets.

(2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2015, the fair value of such collaterals amounted to RMB1,873 million (31 December 2014: RMB1,022 million). All pledges are conducted under standard and normal business terms. As at 31 December 2015 and 2014, the Group did not sell or re-pledge any collaterals received.

38 OTHER COMPREHENSIVE INCOME FOR THE YEAR

	Years ended 31 December 2015		
	Before tax amount	**Tax benefit (expense)**	**Net of tax amount**
Other comprehensive income			
Financial investments – available-for-sale	**1,923**	**(360)**	**1,563**
Changes in fair value recorded in equity	**3,001**	**(630)**	**2,371**
Changes in fair value reclassified from equity to profit or loss	**(1,078)**	**270**	**(808)**
Cash flow hedge reserve	**(86)**	**22**	**(64)**
Translation difference on foreign operations	**1,116**	**–**	**1,116**
Actuarial gains on pension benefits	**6**	**–**	**6**
Other comprehensive income for the year	**2,959**	**(338)**	**2,621**

	Years ended 31 December 2014		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Financial investments – available-for-sale	7,334	(1,833)	5,501
Changes in fair value recorded in equity	7,531	(1,882)	5,649
Changes in fair value reclassified from equity to profit or loss	(197)	49	(148)
Translation difference on foreign operations	(205)	–	(205)
Actuarial losses on pension benefits	(20)	5	(15)
Other comprehensive income for the year	7,109	(1,828)	5,281

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

39 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2015	As at 31 December 2014
Cash and balances with central banks (Note 15)	**164,382**	171,451
Due from banks and other financial institutions (Note 16)	**166,053**	142,175
	330,435	313,626

40 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are primarily wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those wealth management products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2015, the wealth management products managed and consolidated by the Group amounted to RMB788,451 million (31 December 2014: RMB 576,923 million). The financial impact of any individual wealth management products on the Group's financial performance is not significant.

Interests held by other interest holders are included in due to customers.

41 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or sponsors structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 31 December 2015, those structured entities sponsored by the Group mainly include funds, trusts, asset management products and wealth management products with principals not guaranteed by the Group. The Group earned commission income by providing management services to the investors of these structured entities, which were not material to the Group. In addition, the Group also involved in certain structured entities through direct investments.

These investments are recognized as fair value through profit and loss, loans and receivables and available-for-sale investments in the financial statements, depending on the classification of the financial assets.

The following table summarizes the size of these structured entities sponsored or through investments by the Group, the carrying values recognized in the consolidated statement of financial position of the Group's interests in unconsolidated structured entities and the Group's maximum exposure to loss:

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

41 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 31 December 2015		**Carrying Value**				
	Size	**Financial assets at fair value through profit or loss**	**Financial investments – Available-for-sale**	**Financial investments – Loans and receivables**	**Maximum exposure to loss**	**Type of income**
Funds	**83,730**	**9,289**	**1,789**	**–**	**11,078**	**Commission income and investment income**
Trusts and asset management products	**615,571**	**–**	**410**	**255,511**	**255,950**	**Commission income and investment income**
Not principal protected wealth management products	**668,868**	**–**	**–**	**–**	**–**	**Commission income**
Total	**1,368,169**	**9,289**	**2,199**	**255,511**	**267,028**	

As at 31 December 2014		Carrying Value				
	Size	Financial assets at fair value through profit or loss	Financial investments – Available-for-sale	Financial investments – Loans and receivables	Maximum exposure to loss	Type of income
Funds	39,581	2	1,221	–	1,223	Commission income and investment income
Trusts and asset management products	621,977	–	–	181,955	181,955	Commission income and investment income
Not principal protected wealth management products	457,031	–	–	–	–	Commission income
Total	1,118,589	2	1,221	181,955	183,178	

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

42 TRANSFERS OF FINANCIAL ASSETS

42.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognized from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognizes a financial liability for cash received.

As at 31 December 2015 and 2014, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial instruments sold under repurchase agreements" (see Note 26).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognized and the associated liabilities:

	Pledged assets		**Associated liabilities**	
	As at 31 December 2015	As at 31 December 2014	**As at 31 December 2015**	As at 31 December 2014
Investment securities	**1,501**	2,931	**1,484**	2,920

42.2 Securities Lending Transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 31 December 2015, the carrying value of debt securities lent to counterparties was RMB 8,400 million (31 December 2014: Nil).

42.3 Asset securitisation

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognized on the consolidated financial statement to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2015, loans with an original carrying amount of RMB5,022 million have been securitized by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches (all the securitized assets of 3,034 million at 31 December 2014 became due as at 26 January 2015). As at 31 December 2015, the carrying amount of assets the Group continues to recognize was RMB252 million (31 December 2014: RMB92 million). Arising from this continuing involvement, the Group has recognized continuing involvement assets and continuing involvement liabilities of RMB252 million, respectively (31 December 2014: RMB92 million).

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

43 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2015, the MOF holds 19,703 million (31 December 2014: 19,703 million) shares of the Group which represents 26.53% (31 December 2014: 26.53%) of total share capital of the Group.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The volumes and outstanding balances of the related party transactions at the year end, and related income and expenses for the years are summarized as follows:

	As at 31 December 2015	As at 31 December 2014
Treasury bond and special government bond	**299,525**	265,957
Interests receivable	**4,792**	4,407
Due to customers	**22,000**	42,000
Interests payable	**142**	510

	Year ended 31 December	
	2015	2014
Interest income	**9,763**	9,421
Interset expense	**1,617**	1,499

The interest rate of the transactions between the Group and MOF are summarized below:

	Year ended 31 December 2015	
	2015 %	2014 %
Treasury bond and special government bond	**2.38~6.15**	2.38~6.15
Due to customers	**2.95~5.25**	3.80~6.13

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 31 December 2015, National Council for Social Security Fund holds 10,311 million (31 December 2014: 10,311 million) shares in the Group which represents 13.88% (31 December 2014: 13.88%) of total share capital of the Group. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarized below:

	As at 31 December 2015	As at 31 December 2014
Due to customers	**64,500**	56,600
Interests payable	**1,083**	927

	Year ended 31 December	
	2015	2014
Interest expense	**3,219**	2,925

The interest rate of transactions between the Group and the National Council for Social Security Fund is summarized below:

	Year ended 31 December	
	2015	2014
	%	%
Due to customers	**3.85~6.10**	4.46~6.10

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 31 December 2015, HSBC holds 13,886 million (31 December 2014: 13,886 million) shares of the Group which represents 18.70% (31 December 2014: 18.70%) of total share capital of the Group. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarized below:

	As at 31 December 2015	As at 31 December 2014
On-balance sheet items		
Due from banks and other financial institutions	**1,976**	55
Financial investments	**512**	1,057
Derivative financial assets	**185**	9
Interests receivable	**7**	6
Deposit form banks and others financial institutions	**982**	3,914
Loans from banks and other financial institutions	**6,725**	8,348
Financial instruments sold under repurchase agreements	**1,999**	3,455
Derivative financial liabilities	**140**	122
Interests payable	**2**	6
Off-balance sheet items		
Notional principal of derivative financial instruments	**204,188**	145,286

	Year ended 31 December	
	2015	2014
Net gains arising from trading activities	**(117)**	28
Interest income	**39**	43
Interset expense	**359**	380

The interest rate of transactions between the Group and HSBC is summarized below:

	Year ended 31 December	
	2015 %	2014 %
Due from other banks and financial institutions	**0.01~0.125**	0.01~0.025
Financial investments	**2.38~5.50**	0.69~5.50
Deposits from banks and other financial institutions	**0.01~5.75**	0.01~5.35
Loans from banks and other financial institutions	**0.10~4.90**	0.034~4.55
Financial instruments sold under repurchase agreements	**2.28~3.58**	2.28~3.38

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organizations (collectively the "state-owned entities"). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(e) Transactions with subsidiaries

The pricing of the transactions with susbdiaries is determined based on normal commercial banks.

Details of transaction volumes and outstanding balances are summarized below:

Bank	As at 31 December 2015	As at 31 December 2014
Due from banks and other financial institutions	**1,725**	154
Loans to banks and other financial institutions	**36,209**	18,183
Financial investments	**1,682**	1,254
Loans and advances to customers	**8,657**	8,260
Interests receivable	**431**	397
Other assets	**134**	248
Deposits from other banks and financial institutions	**4,356**	2,422
Loans from banks and other financial institutions	**825**	874
Due to customers	**809**	1,310
Debt securities issued	**52**	–
Interests payable	**7**	10
Other liabilities	**18**	217

	Year ended 31 December	
Bank	2015	2014
Interest income	**1,010**	924
Interest expense	**67**	94
Fee and commission income	**254**	214
Fee and commission expense	**38**	65
Other operating income	**86**	93
Other operating expense	**69**	64

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

The interest rates of transactions between the Bank and its subsidiaries are summarized below:

Bank	Year ended 31 December 2015 %	2014 %
Due from banks and other financial institutions	**0.05~5.50**	0.01~4.90
Loans to other banks	**0.18~4.00**	0.53~5.80
Financial investments	**3.80~6.10**	4.80~6.10
Loans and advances to customers	**0.72~3.62**	2.67~3.16
Deposits from banks and other financial institutions	**0.01~5.50**	0.01~4.55
Loans from banks and other financial institutions	**0.15~0.50**	0.16~1.13
Due to customers	**0.01~1.36**	0.01~5.57
Debt securities issued	**5.75**	–

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

The volumes during and outstanding balances are summarized as follows:

	As at 31 December 2015	As at 31 December 2014
Due to customers	**10**	7

Compensations of direcors and senior management are disclosed in Note 12.

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associate

As at 31 December 2015, The Group holds 10.60% (31 December 2014: 20%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Bank of Tibet Co., Ltd. are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarized below:

	As at 31 December 2015	As at 31 December 2014
Deposits from banks and other financial institutions	**2,330**	2,371
Interests payable	**2**	3

	Year ended 31 December	
	2015	2014
Interest expense	**53**	93

The interest rate of transactions between the Group and Bank of Tibet Co., Ltd. is summarized below:

	Year ended 31 December	
	2015	2014
	%	%
Deposits from banks and other financial institutions	**1.35~3.80**	2.60~6.30

44 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, Shanxi, 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, London, Toronto, Luxembourg, Brisbane, and Taipei.

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

44 SEGMENTAL ANALYSIS *(Continued)*

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

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the 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 expense for all reportable segments will be presented on a net basis.

The measure of segment profit or loss reviewed by the Group's senior management 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 expense between the segments.

Operating segment information

	For the year ended 31 December 2015								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
External interest income	32,648	10,954	80,011	43,019	23,320	15,697	99,477	–	305,126
External interest expense	(32,211)	(8,492)	(55,732)	(29,339)	(12,687)	(10,015)	(12,478)	–	(160,954)
Inter-segment net Interest income/(expense)	17,184	2,200	21,003	11,362	3,123	2,671	(57,543)	–	–
Net Interest income	17,621	4,662	45,282	25,042	13,756	8,353	29,456	–	144,172
Fee and commission income	4,403	1,495	13,016	7,373	3,110	2,490	6,344	–	38,231
Fee and commission expense	(287)	(100)	(1,169)	(489)	(295)	(374)	(490)	–	(3,204)
Net fee and commission income	4,116	1,395	11,847	6,884	2,815	2,116	5,854	–	35,027
Net gains/(losses) arising from trading activities	415	57	818	526	64	(1,769)	2,531	–	2,642
Net gains/(losses) arising from financial investments	3	29	1,136	340	–	(4)	63	–	1,567
Insurance business income	–	–	4,011	–	–	40	–	–	4,051
Share of profit of associates	–	–	–	–	–	4	72	–	76
Other operating income	704	277	2,741	933	545	1,277	546	–	7,023
Total operating revenue	22,859	6,420	65,835	33,725	17,180	10,017	38,522	–	194,558
Impairment losses on loans and advances to customers	(2,268)	(106)	(14,222)	(3,950)	(2,385)	(344)	(3,885)	–	(27,160)
Insurance business expense	–	–	(4,467)	–	–	(15)	–	–	(4,482)
Other operating expense	(8,796)	(4,042)	(22,453)	(12,689)	(6,681)	(3,609)	(18,634)	–	(76,904)
Profit before tax	11,795	2,272	24,693	17,086	8,114	6,049	16,003	–	86,012
Income tax									(19,181)
Net profit for the year									66,831
Depreciation and amortisation	(801)	(445)	(2,332)	(1,027)	(650)	(694)	(1,251)	–	(7,200)
Capital Expenditure	(895)	(572)	(17,671)	(1,456)	(640)	(3,634)	(1,899)	–	(26,767)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	For the year ended 31 December 2014								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
External interest income	35,299	11,277	81,978	42,604	23,221	12,948	81,182	–	288,509
External interest expense	(31,992)	(7,856)	(52,484)	(28,769)	(11,123)	(8,232)	(13,277)	–	(153,733)
Inter-segment net Interest income/ (expense)	16,051	2,077	15,883	10,575	1,688	1,446	(47,720)	–	–
Net Interest income	19,358	5,498	45,377	24,410	13,786	6,162	20,185	–	134,776
Fee and commission income	2,823	1,086	12,618	7,164	2,901	1,535	4,787	–	32,914
Fee and commission expense	(519)	(91)	(1,170)	(708)	(351)	(114)	(357)	–	(3,310)
Net fee and commission income	2,304	995	11,448	6,456	2,550	1,421	4,430	–	29,604
Net gains/(losses) arising from trading activities	508	56	1,511	467	255	567	2,882	–	6,246
Net gains/(losses) arising from financial investments	–	–	182	21	–	53	19	–	275
Insurance business income	–	–	2,510	–	–	37	–	–	2,547
Share of profit of associates	–	–	–	–	–	–	90	–	90
Other operating income	616	227	1,989	924	448	380	504	–	5,088
Total operating revenue	22,786	6,776	63,017	32,278	17,039	8,620	28,110	–	178,626
Impairment losses on loans and advances to customers	(980)	(1,227)	(14,596)	(2,208)	(1,028)	(400)	–	–	(20,439)
Insurance business expense	–	–	(2,504)	–	–	(24)	–	–	(2,528)
Other operating expense	(8,652)	(3,755)	(21,260)	(12,781)	(6,412)	(3,014)	(14,858)	–	(70,732)
Profit before tax	13,154	1,794	24,657	17,289	9,599	5,182	13,252	–	84,927
Income tax									(18,892)
Net profit for the year									66,035
Depreciation and amortisation	(468)	(425)	(2,233)	(873)	(343)	(497)	(914)	–	(5,753)
Capital Expenditure	(2,360)	(809)	(2,885)	(2,585)	(1,544)	(13,629)	(2,093)	–	(25,905)

	As at 31 December 2015								
	Northern China	**North Eastern China**	**Eastern China**	**Central and Southern China**	**Western China**	**Overseas**	**Head Office**	**Eliminations**	**Group Total**
Segment assets	**1,135,026**	**341,769**	**2,336,453**	**1,240,038**	**633,404**	**659,606**	**3,059,290**	**(2,266,908)**	**7,138,678**
Including Investment in associates	**–**	**–**	**–**	**1**	**–**	**53**	**523**	**–**	**577**
Unallocated assets									**16,684**
Total assets									**7,155,362**
Segment liabilities	**(1,129,382)**	**(338,407)**	**(2,283,083)**	**(1,225,180)**	**(625,688)**	**(637,153)**	**(2,645,166)**	**2,266,908**	**(6,617,151)**
Unallocated liabilities									**(119)**
Total liabilities									**(6,617,270)**

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 31 December 2014								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
Segment assets	948,519	295,668	2,107,325	1,149,702	533,799	590,614	2,389,943	(1,763,348)	6,252,222
Including Investment in associates	–	–	–	–	–	–	547	–	547
Unallocated assets									16,077
Total assets									6,268,299
Segment liabilities	(946,869)	(282,619)	(2,034,638)	(1,148,540)	(521,920)	(581,728)	(2,041,696)	1,763,348	(5,794,662)
Unallocated liabilities									(32)
Total liabilities									(5,794,694)

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 investments, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorized in the above business segments.

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

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

The group business information is summarized as follows:

	For the year ended 31 December 2015				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	77,754	19,322	46,039	1,057	144,172
Inter-segment net interest income/ (expense)	(985)	17,873	(16,888)	–	–
Net interest income	76,769	37,195	29,151	1,057	144,172
Net fee and commission income	15,887	15,790	1,033	2,317	35,027
Net gains/(losses) arising from trading activities	2,353	(2)	(665)	956	2,642
Net gains arising from financial investments	–	–	1,567	–	1,567
Share of profit of associates	–	–	–	76	76
Insurance business income	–	–	–	4,051	4,051
Other operating income	3,483	2,687	28	825	7,023
Total operating revenue	98,492	55,670	31,114	9,282	194,558
Impairment losses on loans and advances to customers	(21,211)	(5,949)	–	–	(27,160)
Insurance business expense	–	–	–	(4,482)	(4,482)
Other operating expense					
– depreciation and amortisation	(2,167)	(4,542)	(158)	(333)	(7,200)
– others	(30,645)	(33,259)	(3,010)	(2,790)	(69,704)
Profit before tax	44,469	11,920	27,946	1,677	86,012
Income tax					(19,181)
Net profit for the year					66,831
Capital expenditure	(8,052)	(16,887)	(588)	(1,240)	(26,767)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	For the year ended 31 December 2014				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	88,557	17,245	28,134	840	134,776
Inter-segment net interest income/ (expense)	(7,823)	18,290	(10,467)	–	–
Net interest income	80,734	35,535	17,667	840	134,776
Net fee and commission income	16,474	11,362	94	1,674	29,604
Net gains/(losses) arising from trading activities	964	(220)	5,479	23	6,246
Net gains arising from financial investments	–	–	197	78	275
Share of profit of associates	–	–	–	90	90
Insurance business income	–	–	–	2,547	2,547
Other operating income	2,155	1,945	6	982	5,088
Total operating revenue	100,327	48,622	23,443	6,234	178,626
Impairment losses on loans and advances to customers	(14,488)	(5,951)	–	–	(20,439)
Insurance business expense	–	–	–	(2,528)	(2,528)
Other operating expense					
– depreciation and amortisation	(1,731)	(3,630)	(126)	(266)	(5,753)
– others	(29,795)	(29,551)	(4,149)	(1,484)	(64,979)
Profit before tax	54,313	9,490	19,168	1,956	84,927
Income tax					(18,892)
Net profit for the year					66,035
Capital expenditure	(7,793)	(16,343)	(569)	(1,200)	(25,905)

	As at 31 December 2015				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**2,819,081**	**1,043,997**	**3,239,559**	**36,041**	**7,138,678**
Including:					
Investment in associates				**577**	**577**
Unallocated assets					**16,684**
Total assets					**7,155,362**
Segment liabilities	**(3,275,719)**	**(1,477,740)**	**(1,856,510)**	**(7,182)**	**(6,617,151)**
Unallocated liabilities					**(119)**
Total liabilities					**(6,617,270)**

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

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 31 December 2014				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	2,639,542	907,829	2,666,063	38,788	6,252,222
Including:					
Investment in associates				547	547
Unallocated assets					16,077
Total assets					6,268,299
Segment liabilities	(2,869,014)	(1,368,306)	(1,552,332)	(5,010)	(5,794,662)
Unallocated liabilities					(32)
Total liabilities					(5,794,694)

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

45 STATEMENT OF FINANCIAL POSITION OF THE BANK

	As at 31 December 2015	As at 31 December 2014
ASSETS		
Cash and balances with central banks	**919,643**	937,399
Due from banks and other financial institutions	**639,334**	537,879
Financial assets at fair value through profit or loss	**172,381**	133,555
Loans and advances to customers	**3,628,265**	3,350,705
Financial investments – loans and receivables	**319,762**	206,761
Financial investments – available-for-sale	**255,968**	205,560
Financial investments – held-to-maturity	**932,422**	634,209
Investment in subsidiaries	**15,820**	13,735
Investment in associates	**523**	547
Property and equipment	**56,707**	55,766
Deferred income tax assets	**16,290**	15,820
Other assets	**57,356**	58,133
Total assets	**7,014,471**	6,150,069

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

45 STATEMENT OF FINANCIAL POSITION OF THE BANK *(Continued)*

	As at 31 December 2015	As at 31 December 2014
LIABILITIES		
Due to banks and other financial institutions	**1,561,084**	1,333,606
Financial liabilities at fair value through profit or loss	**62,451**	38,575
Due to customers	**4,479,852**	4,026,730
Certificates of deposits issued	**89,265**	38,601
Current tax liabilities	**7,869**	7,637
Deferred income tax liabilities	**13**	16
Debt securities issued	**154,055**	118,841
Other liabilities	**135,140**	122,014
Total liabilities	**6,489,729**	5,686,020
EQUITY		
Share capital	**74,263**	74,263
Preference shares	**14,924**	–
Capital surplus	**113,433**	113,525
Other reserves	**254,905**	208,728
Retained earnings	**67,217**	67,533
Total equity	**524,742**	464,049
Total equity and liabilities	**7,014,471**	6,150,069

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2016 and signed on its behalf by:

Chairman and Executive Director: Niu Ximing *Vice Chairman, Executive Director and President: Peng Chun*

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

45 STATEMENT OF FINANCIAL POSITION OF THE BANK *(Continued)*

(a) Statement of Changes in Equity of the Bank

				Other reserves								
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for available-for-sale financial assets	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Retained earnings	Total
Balance at 1 January 2015	**74,263**	**-**	**113,525**	**36,903**	**105,242**	**69,339**	**(28)**	**-**	**(2,739)**	**11**	**67,533**	**464,049**
Net profit for the year	-	-	-	-	-	-	-	-	-	-	63,574	63,574
Other comprehensive income	-	-	-	-	-	-	1,216	(28)	1,146	6	-	2,340
Total comprehensive income	-	-	-	-	-	-	1,216	(28)	1,146	6	63,574	65,914
Issuance of preference shares	-	14,924	-	-	-	-	-	-	-	-	-	14,924
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)
Transfer to reserves	-	-	-	6,357	34,522	2,960	-	-	-	-	(43,839)	-
Capital increase in an associate	-	-	(97)	-	-	-	-	-	-	-	-	(97)
Others	-	-	5	(2)	-	-	-	-	-	-	-	3
Balance at 31 December 2015	**74,263**	**14,924**	**113,433**	**43,258**	**139,764**	**72,299**	**1,188**	**(28)**	**(1,593)**	**17**	**67,217**	**524,742**
Balance at 1 January 2014	74,263	–	113,412	30,511	78,510	61,228	(5,000)	–	(2,468)	26	64,152	414,634
Net profit for the year	–	–	–	–	–	–	–	–	–	–	63,924	63,924
Other comprehensive income	–	–	–	–	–	–	4,972	–	(271)	(15)	–	4,686
Total comprehensive income	–	–	–	–	–	–	4,972	–	(271)	(15)	63,924	68,610
Capital increase in an associate	–	–	113	–	–	–	–	–	–	–	–	113
Dividends paid to ordinary shares	–	–	–	–	–	–	–	–	–	–	(19,308)	(19,308)
Transfer to reserves	–	–	–	6,392	26,732	8,111	–	–	–	–	(41,235)	–
Balance at 31 December 2014	74,263	–	113,525	36,903	105,242	69,339	(28)	–	(2,739)	11	67,533	464,049

46 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

On 23 March 2016, MOF issued "Notice of Overall Implementation of Pilot Program for Value Added Tax Replacing Business Tax". (Cai Shui [2016] No. 36). Pursuant to the Notice, value added tax replacing the existing business tax will be levied for certain pilot industries, including financial industry, since 1 May 2016 on a national-wide basis. Following the implementation of imposing value added tax instead of business tax, tax payers have to report revenue and expenses exclusive of tax and this would have an impact on the presentation of financial statements and financial indicators of the Group.

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION

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

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

1 LIQUIDITY RATIOS

The liquidity ratios that the Group submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC.

	As at 31 December 2015	As at 31 December 2014
Liquidity ratios (%):	**43.12**	47.58

2 CURRENCY CONCENTRATIONS

	US dollar	**HK dollar**	**Others**	**Total**
As at 31 December 2015				
Spot assets	**551,695**	**154,994**	**113,027**	**819,716**
Spot liabilities	**(558,437)**	**(204,570)**	**(102,347)**	**(865,354)**
Forward purchases	**667,758**	**76,195**	**54,495**	**798,448**
Forward sales	**(609,416)**	**(12,209)**	**(94,610)**	**(716,235)**
Net option position	**994**	**–**	**2**	**996**
Net long/(short) position	**52,594**	**14,410**	**(29,433)**	**37,571**
Net structural position	**43,690**	**2,043**	**2,632**	**48,365**

	US dollar	HK dollar	Others	Total
As at 31 December 2014				
Spot assets	386,181	168,310	53,082	607,573
Spot liabilities	(406,428)	(173,146)	(51,168)	(630,742)
Forward purchases	529,812	69,780	34,761	634,353
Forward sales	(537,450)	(18,112)	(12,010)	(567,572)
Net option position	(289)	–	(80)	(369)
Net (short)/long position	(28,174)	46,832	24,585	43,243
Net structural position	14,183	8,242	2,229	24,654

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

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

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

	As at 31 December 2015				
	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	**232,390**	**53,255**	**279,675**	**–**	**565,320**
– of which attributed to Hong Kong	**33,134**	**5,070**	**146,633**	**–**	**184,837**
North and South America	**37,161**	**6,887**	**18,583**	**–**	**62,631**
Africa	**–**	**302**	**164**	**–**	**466**
Europe	**29,773**	**428**	**4,935**	**–**	**35,136**
	299,324	**60,872**	**303,357**	**–**	**663,553**

	As at 31 December 2014				
	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	145,375	34,562	302,199	–	482,136
– of which attributed to Hong Kong	8,284	13,156	172,875	–	194,315
North and South America	19,701	4,075	9,414	–	33,190
Africa	–	181	–	–	181
Europe	18,542	368	4,995	–	23,905
	183,618	39,186	316,608	–	539,412

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

4 OVERDUE AND RESTRUCTURED ASSETS

4.1 Gross amount of overdue loans

	As at 31 December 2015	As at 31 December 2014
Gross loans and advances to customers which have been overdue for:		
– within 3 months	21,910	36,633
– between 3 and 6 months	17,394	11,416
– between 6 and 12 months	31,927	17,230
– over 12 months	42,102	15,968
	113,333	81,247
Percentage (%):		
– within 3 months	0.59	1.07
– between 3 and 6 months	0.47	0.33
– between 6 and 12 months	0.86	0.50
– over 12 months	1.12	0.47
	3.04	2.37

	As at 31 December 2015	As at 31 December 2014
Gross amounts of due from banks and other financial institutions which have been overdue for:		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	–
	–	–
Percentage (%):		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	–
	–	–

As at 31 December 2015 and 2014, balances of overdue trade bills which have been included in the gross overdue loans and advances to customers are:

	As at 31 December 2015	As at 31 December 2014
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	–
	–	–

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

4 OVERDUE AND RESTRUCTURED ASSETS *(Continued)*

4.2 Overdue and restructured loans

	As at 31 December 2015	As at 31 December 2014
Total restructured loans and advances to customers	32,907	6,809
Including: restructured loans and advances to customers overdue above 3 months	2,694	975
Percentage of restructured loans and advances to customers overdue above 3 months in total loans (%)	0.07	0.03

5 SEGMENTAL INFORMATION OF LOANS

5.1 Impaired loans by geographical area

	As at 31 December 2015		As at 31 December 2014	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
– Northern China	7,478	(2,870)	3,960	(1,331)
– North Eastern China	2,450	(1,155)	2,218	(1,179)
– Eastern China	32,795	(13,406)	29,855	(12,676)
– Central and Southern China	8,426	(3,687)	4,862	(1,977)
– Western China	4,481	(1,841)	1,831	(684)
	55,630	(22,959)	42,726	(17,847)
Hong Kong, Macau, Taipei and overseas regions	576	(475)	291	(193)
	56,206	(23,434)	43,017	(18,040)

5.2 Overdue loans and advances to customers by geographical area

	As at 31 December 2015			As at 31 December 2014		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
PRC domestic regions						
– Northern China	14,882	(2,922)	(1,735)	8,891	(1,287)	(1,111)
– North Eastern China	5,615	(1,113)	(776)	4,156	(1,159)	(462)
– Eastern China	64,724	(13,238)	(12,735)	54,635	(12,029)	(8,763)
– Central and Southern China	15,133	(3,727)	(1,624)	8,061	(1,300)	(703)
– Western China	12,177	(1,854)	(1,700)	4,895	(568)	(760)
	112,531	(22,854)	(18,570)	80,638	(16,343)	(11,799)
Hong Kong, Macau, Taipei and overseas regions	802	(475)	(41)	609	(407)	–
	113,333	(23,329)	(18,611)	81,247	(16,750)	(11,799)
Fair value of collaterals	52,437	Not applicable	Not applicable	38,193	Not applicable	Not applicable

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

6 LOANS AND ADVANCES TO CUSTOMERS

6.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

Hong Kong	As at 31 December 2015			As at 31 December 2014		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Electronics	1,088	0.57	62	1,488	0.78	167
– Textile and clothing	3,751	1.97	6	3,444	1.81	12
– Other manufacturing	19,459	10.20	307	11,949	6.29	318
Electricity, gas and water production and supply	2,180	1.14	2	2,218	1.17	43
Construction	6,993	3.67	2,326	13,353	7.03	2,392
Transportation, storage and postal service	4,024	2.11	3,193	9,743	5.13	5,826
Telecommunication, IT service and software	26	0.01	–	7	–	3
Wholesale and retail	65,840	34.53	3,045	86,684	45.64	9,487
Accommodation and catering	119	0.06	–	61	0.03	39
Financial institutions	20,674	10.84	5,853	20,780	10.94	4,249
Real estate	9,086	4.76	3,252	11,279	5.94	10,038
Services	–	–	–	–	–	–
Education, science, culture and public wealth	5	–	4	18	0.01	18
Others	32,525	17.07	5,945	9,801	5.16	649
Total corporate loans	165,770	86.93	23,995	170,825	89.93	33,241
Individual loans						
Mortgage	10,730	5.63	10,726	9,915	5.22	9,812
Credit cards	118	0.06	–	112	0.06	–
Others	14,075	7.38	10,824	9,064	4.79	6,305
Total individual loans	24,923	13.07	21,550	19,091	10.07	16,117
Gross amount of loans and advances before impairment allowance	190,693	100.00	45,545	189,916	100.00	49,358
Outside Hong Kong	3,531,313			3,241,819		

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group is 50% as at 31 December 2015 (31 December 2014: 47%).

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

6.2 Allowance on loans and advances by loan usage

	As at 31 December 2015		As at 31 December 2014	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Corporates	44,284	(18,852)	34,040	(14,443)
Individuals	11,922	(4,582)	8,977	(3,597)
	56,206	(23,434)	43,017	(18,040)
Fair value of collateral	21,359	Not applicable	15,688	Not applicable

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss and other comprehensive income, and the amount of loans and advances written off during the years are disclosed below:

	For the year ended 31 December 2015			For the year ended 31 December 2014		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	21,211	(12,178)	245	14,488	(10,610)	205
Individuals	5,949	(3,090)	255	5,951	(5,201)	236
	27,160	(15,268)	500	20,439	(15,811)	441

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