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)

2016 INTERIM REPORT

Stock Code: 03328

IMPORTANT REMINDERS

The Board, Supervisory Committee and Directors, Supervisors, senior management of the Bank guarantee the authenticity, accuracy and completeness of the interim report, free of false records, misleading statements or material omissions, and assume individual and joint legal responsibilities.

Mr. Niu Ximing, the responsible person of the Bank, 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 interim report.

2016 Interim Report and 2016 Interim Results Announcement were passed at the Third Meeting of the Eighth Session of the Board of Directors on 25 August 2016. Of the 15 Directors required to attend and the vote at the meeting, 12 Directors duly participated in person, while Peter Wong Tung Shun, Chen Zhiwu and Liu Li, did not attend the meeting in person due to work arrangement. Peter Wong Tung Shun, the Non-executive Director, entrusted Helen Wong Pik Kuen, the Non-executive Director in written to attend and vote for him, and each of Chen Zhiwu and Liu Li, the Independent Non-executive Directors, entrusted Li Jian, the Independent Non-executive Director, respectively, to attend and vote for them.

The Bank did not distribute any interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2016.

There does not exist any non-operating fund occupancy by controlling shareholders and other related parties. Neither does any external guarantee violating the regulations and decision-making procedures.

Prospective statements involved in the report, such as future plans, development strategies do not constitute a real commitment of the Bank to investors. Investors are required to keep enough investment risk awareness.

Contents

Definitions

The following terms will have the following meanings in this 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 2016 to 30 June 2016
"Group"	Refers to	the Bank and its subsidiaries
"Bank"	Refers to	Bank of Communications Co., Ltd.
"Ministry of Finance"	Refers to	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 director(s) of the Bank
"Overseas"	Refers to	Includes 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, 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 Hong Kong 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 Fund"	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 of Directors and Company Secretary)
Contact address	No.188, Yin Cheng Zhong Road, Pudong New District, Shanghai, P.R. China
Tel	86-21-58766688
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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
Head office address	No.188, Yin Cheng Zhong Road, Pudong New District, Shanghai, P.R. China
Principal place of business in Hong Kong	20 Pedder Street, Central, Hong Kong
Website	www.bankcomm.com

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 the SSE at www.sse.com.cn
Designated website for information disclosure (H share)	Website of HKEx at www.hkexnews.hk
Places where the interim report is available	Head Office of the Bank

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 Shares	HKEx	BOCOM 15USDPREF	4605

AUDITORS

Accounting firm employed (domestic): PricewaterhouseCoopers Zhong Tian LLP
Accounting firm employed (overseas): PricewaterhouseCoopers

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

(I) Major Financial Data and Financial Indicators

As at 30 June 2016, major financial data and financial indicators prepared by the Group in accordance with International Financial Reporting Standards (the "IFRS") are as follows:

(In millions of RMB unless otherwise stated)

Major financial data	January to June 2016	January to June 2015	Increase/ (decrease) (%)
Net interest income	68,148	71,059	(4.10)
Profit before tax	48,497	48,289	0.43
Net profit (attributable to shareholders of the parent company)	37,661	37,324	0.90
Earnings per share (attributable to shareholders of parent company, in RMB yuan)	0.50	0.50	–
	As at 30 June 2016	As at 31 December 2015	Increase/ (decrease) (%)
Total assets	7,956,322	7,155,362	11.19
Including: Loans and advances to customers	3,983,756	3,722,006	7.03
Total liabilities	7,400,828	6,617,270	11.84
Including: Due to Customers	4,734,627	4,484,814	5.57
Shareholders' equity (attributable to shareholders of the parent company)	552,515	534,885	3.30
Net assets per share (attributable to shareholders of parent company, in RMB yuan)[1]	7.24	7.00	3.43
Net Capital[2]	646,318	627,862	2.94
Including: Net Core Tier 1 capital[2]	535,616	518,487	3.30
Other Tier 1 capital[2]	14,953	14,943	0.07
Tier 2 capital[2]	95,749	94,432	1.39
Risk-weighted assets[2]	4,905,041	4,653,723	5.40

Major financial indicator (%)	January to June 2016	January to June 2015	Changes (Percentage point)
Cost-to-income ratio[3]	25.61	25.87	(0.26)
Annualised return on average assets	1.00	1.12	(0.12)
Annualised return on average shareholders' equity	14.08	15.55	(1.47)
	30 June 2016	31 December 2015	Changes (Percentage point)
Impaired loans ratio	1.54	1.51	0.03
Provision coverage of impaired loans	150.45	155.57	(5.12)
Capital adequacy ratio[2]	13.18	13.49	(0.31)
Tier 1 Capital adequacy ratio[2]	11.22	11.46	(0.24)
Core Tier 1 Capital adequacy ratio[2]	10.92	11.14	(0.22)

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. Calculated pursuant to the *"Administrative Measures for the Capital Management of Commercial Banks (Provisional)"* issued by the China Banking Regulatory Commission.
3. Refers to business and administrative expenses against the total of various net incomes.

(II) Credit Rating in the Last Three Years

	First half of 2016	2015	2014
Standard & Poor's	A-/A2/Negative	A-/A2/Stable	A-/A2/Stable
Moody's	A2/P-1/Negative	A2/P-1/Stable	A2/P-1/Stable
Fitch	A/F1/Stable	A/F1/Stable	A/F1/Stable

Note: The rating format is "rating of long-term foreign currency deposit"/"rating of short-term foreign currency deposit"/"rating outlook".

(I) Business Review

In the first half of 2016, facing the complicated economic and financial situation, the Group adhered to the "BoCom Strategy", actively adjusted to the "New Normal" to persistently serve the real economy, stimulated operating vitality through innovation and fostered transformation development through deepened reform, and realised stable improvement in scale and efficiency. As at the end of the Reporting Period, the Group's total assets increased by 11.19% from the beginning of the year to RMB7,956.322 billion. During the Reporting Period, the net profit increased by 0.90% on a year-on-year basis to RMB37.661 billion.

Business performance remained stable and progressive with actively serving the real economy. In response to the important national strategic deployments of the State, the Group proactively enlarged social financing scale to improve the capability of serving the real economy. As at the end of the Reporting Period, its balance of loans to customers (before impairment allowances, the same below unless otherwise specified) increased by 7.03% from the beginning of the year to RMB3,983.756 billion, of which balance of loans to transportation, storage and postal service sector increased by 10.99% from the beginning of the year, balance of loans to water conservancy, environmental and other public utilities increased by 18.27% from the beginning of the year and the balance of personal housing mortgage loans increased by 13.79% from the beginning of the year. The Group promoted the significant optimisation of deposit structure by actively developing low cost liabilities. As at the end of the Reporting Period, the balance of customer deposits increased by 5.57% from the beginning of the year to RMB4,734.627 billion, among which the balance of demand deposits increased by 14.42% from the beginning of the year and the proportion of demand deposits increased by 3.79 percentage points from the beginning of the year to 49.02%.

Operation efficiency continually improved with profit structure optimisation. During the Reporting Period, the Group's net operating income increased by 6.65% on a year-on-year basis to RMB103.609 billion, among which, net fee and commission income was RMB20.964 billion, representing a year-on-year increase of 8.14%; the proportion of fee and commission income increased by 0.27 percentage point on a year-on-year basis to 20.23%. The Group has improved the operating efficiency by reducing the operating costs to maximise its profits. Its cost-to-income ratio was 25.61%, representing a year-on-year decrease of 0.26 percentage point; the deposit per outlet (excluding community branch outlets) increased by 5.75% from the beginning of the year to RMB1.709 billion; the profit per capita (annualised) of the Group increased on a year-on-year basis by 0.63% to RMB828,700; and the diversion rate of e-channels increased by 2.29 percentage points from the beginning of the year to 90.42%.

Asset quality remained stable while achieving progresses with intensified risk management and control. The Group continued to improve the risk management system of "Full Coverage, Whole Process, Responsibility Accountability and Risk Management Culture", enhance the risk prevention and mitigation capabilities to keep asset quality stable. As at the end of the Reporting Period, the impaired loans ratio was 1.54%, representing an increase of 0.03 percentage point from the beginning of the year. The provision coverage ratio of impaired loans was 150.45%, which met the relevant regulatory requirements. The Group closely followed the requirements of the state's structural reform on the supply side to strengthen the management and control over risks of overcapacity industry and the risk investigation in key areas. The Group strived to refine its loans and guarantee business by reducing high risk loans and obtaining sufficient buffer and facilitate asset restructuring, and strengthened collection of non-performing loans. During the Reporting Period, it reduced non-performing loans on balance sheet over RMB36.0 billion. The cost of collaterals added by means of restructuring and so on was RMB2.8 billion.

Accelerating the advance of "BoCom Strategy" to manifest the features of wealth management. The pace of internationalisation and integration was sped up, achieving greater profitability for the Group. Net profits of overseas banking entities for the year achieved a year-on-year growth of 29.67%, and accounted for 7.11% of the Group's net profit, representing an increase of 1.57 percentage points on a year-on-year basis. The net profits attributable to the parent company from the subsidiaries represented a year-on-year increase of 22.77%, the proportion of which to the net profit of the Group increased by 0.90 percentage point to 5.07% on a year-on-year basis. The Group further revealed features of wealth management operation by expanding and intensifying wealth management business, transactional business, innovative business and agency business. As at the end of the Reporting Period, assets under custody increased by 10.29% from the beginning of the year to RMB6,152.467 billion, retail financial asset under management ("AUM") increased by 6.55% from the beginning of the year to RMB2,612.526 billion, and the on-and-off-balance sheet wealth management denominated in Renminbi increased by 5.31% to over RMB1.5 trillion.

Remarkable achievements in deepening reform to promote transformation with "two engines of divisions and branches". In the past one year since the implementation of *BoCom's Plan to Strengthen Reformation*, the Bank promoted the internal operating mechanism and operating model innovation boldly and resolutely, with a view to entering into a new stage of transformation development in an all-around way. The Bank reformed the structure in front offices to enhance its cross-border, cross-industry and cross-market integrated financial service operating capability. It promoted reformation of remuneration distribution mechanism, established professional manager system and improved appraisal review system, and carried out pricing assessment for all staff and all products to efficiently spur the operating vitality. The Bank promoted the transformation of "Trinity" outlet operating mode and reform and development of branches managed by provinces to enhance services provided to the society. Moreover, the Bank innovated the operating of divisional structure to preliminary shape the transformation development pattern of "two engines of divisions and branches". During the Reporting Period, top 6 profit making centres of divisional structure had a year-on-year increase of pre-provision profits before tax of 33.14%.

Market influence constantly increased with brand image shaped effectively. In 2016, the Group was honoured in *FORTUNE*'s "Top 500 Global Companies" for eight consecutive years, and ranked No. 153 in terms of revenue, up by 37 ranks as compared with the previous year. The Group ranked No. 13 among the global top 1,000 banks in terms of Tier 1 Capital rated by *The Banker*, up by 4 ranks as compared with the previous year and ranked top 20 among global banks in three consecutive years. The Group ranked No. 1 in China Retail Banking Satisfaction Study for three years in a row.

1 Corporate banking business

- **During the Reporting Period, the Group's profit before tax from corporate banking business decreased by 26.39% on a year-on-year basis to RMB21.312 billion; net fee and commission income decreased by 10.84% on a year-on-year basis to RMB9.703 billion; the total number of corporate customers of domestic branches increased by 4.7% from the beginning of the year.**

- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 6.85% from the beginning of the year to RMB3,237.924 billion; corporate loan balance increased by 6.12% from the beginning of the year to RMB2,895.748 billion.**

- **As at the end of the Reporting Period, the Group's corporate impaired loan balance increased by 7.35% from the beginning of the year to RMB47.541 billion; the impaired loans ratio increased by 0.02 percentage point from the beginning of the year to 1.64%.**

The Group constantly served the real economy, gave full play to the advantages of international and integrated operation, and actively adhered to major national strategies and local major projects. While improving cross-border, cross-industry and cross-market service capabilities, it comprehensively reinforced the full exposure prevention to promote the stable and healthy development of corporate financial business.

(1) Corporate and institutional business

Been supportive to key national strategies such as “Belt and Road Initiatives”, “Coordinated Development of the Beijing, Tianjin and Hebei Region”, etc., the Group has established and improved the business coordinated mechanism between domestic and overseas branches as well as between the Group and the subsidiaries, strengthened the linkage between the diversified financing channels. The Group also fostered the business cooperation with governments, social capital providers and other market players. The Group has signed the *Strategic Cooperation Framework Agreement for the Period of 13th Five Year Plan* with several provincial and municipal governments. The Group participated in China’s government-enterprise investment cooperation fund approved by the State Council and established by the Ministry of Finance. The Group was granted licence for charge agency on penalty for violating traffic rules and tuition fees for the customers from schools. The brand new social security and financial service system platform was built and the WeChat Platform was successfully launched. The Group actively explored and promoted innovation products, such as “land reserve financing”, “venture loan”, etc. And the syndicated loan business of the Group was awarded “Outstanding Contribution Award” by the China Banking Association.

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

The Group enhanced the co-operation with its client with third-party platforms, such as Medical E-commerce, Enterprise Credit Report System, Cross-Border E-commerce, etc., which integrated and also expanded the customer resource of small enterprises. Focusing on the encouraged industry for the enhancement of livelihood security, science, education, culture and public health as well as the consumption upgrading, the Group actively expanded the characteristic industrial customer base. It also reinforced the innovation in service and products. At present, the “POS loans” business based on “Jiayitong” customers had been put into use in 17 branches and “Wo Yi Loans” products started its promotion. As at the end of the Reporting Period, the domestic banks’ balance of loans to SMEs that met the qualification of four national ministries and commissions increased by RMB30.333 billion from the beginning of the year to RMB654.791 billion.

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

Through continually building the brand of "Express Receivable Collector" and "Express Bill Discounting", researching and developing innovative functions such as E-bank signing of bill discount contract and bill discount withdrawals, and integrating and optimising the service processes and schemes for industries such as hospital, real estate and financial companies as well as for key customers, the Bank enriched its product features, enhanced its service efficiency, and effectively promoted the joint development of SMEs and customers without loans. By seizing industrial development opportunities such as traditional enterprise transformation, medical procurement reform and Internet e-commerce, the Bank designed and launched fast and efficient electronic supply chain financing solutions in industries such as medicine and petroleum. In addition, the Bank successfully put the "Smart Distributor Platform" into use on multiple vehicle industrial chain networks. As at the end of the Reporting Period, there were more than 2,000 qualified industrial chain networks and more than 24,000 qualified industrial chain companies being developed by the domestic branches.

Major Breakthrough in Electronic Supply Chain of Smart Vehicle Financing System

Smart vehicle financing system is an electronic financial service platform for the whole vehicle industrial chain. This industry-leading platform with comprehensive risk control and featured by wealth management was created by the Bank through the utilisation of information technology as well as the connectivity of the whole vehicle industrial chain. At present, up to 16 vehicle industrial chain networks have started the use of the distributor financing platform of the smart vehicle financing system (hereinafter "Smart Distributor Platform"). The Bank's Smart Distributor Platform has been put into use in 7 out of the top 15 (in respect of sales) auto companies in our country, reaching a coverage of 47%. In addition, multiple auto manufacturers are working with the Bank to develop system connection.

- Efficient and convenient business process

  Through the original business process and intelligent business model of the Smart Distributor Platform, on-line and intelligent handling of the complete process of auto sales financing business becomes a reality. Seen from front end, distributor's repayment efficiency and customers' experience have been substantially improved. Seen from back end, business process has been greatly simplified. Compared with off-line business, the system average number of nodes for single business process has been reduced from 29 to 8, and the processing time has been shortened by 90%.

- Effective combination with core enterprises
  Smart Distributor Platform is closely coupled with the sales business of auto manufacturers, which makes it possible to realise the totally electronic process from making loans to making repayment. There are distinct advantages over other banks. Firstly, the convenient repayment process and flexible facility management enable efficient, convenient and risk-controllable fund support to industrial chain networks. Secondly, through mechanisms such as dynamic inventory management and management of overdue licenses, we can help customers to increase their inventory carry rate and improve their operating performance. Thirdly, we provide customers with tools which can be used to perform cross-over analysis from different aspects such as auto brand, region and auto model, assisting them in judging the quality of distributors and enabling them to improve management and control over the whole industrial chain networks.

- Organic balance between risks and benefits
  A risk control module has been embedded in the whole process of Smart Distributor Platform. Through dynamic tracking and management of information flow, capital flow and logistics information, we are able to control distributors' sales payment collection and improve the liquidity of goods supervised. Therefore, off-line operational risk can be effectively avoided and credit risk can be warned in advance.

- In-depth development of industry customers
  Breaking through the previous limit that industrial chain system can only be built through system connection with "core enterprises", we have built an intelligent system on the Smart Distributor Platform. This intelligent system directly serves SMEs on the industrial chain. Such an innovative business model can be replicated to other industries to further strengthen the Bank's competition advantage in financial services to various industries.

(4) Cash management business

The Bank accelerated innovation of global cash management business, put cross-border bi-directional Renminbi cash pool into use, and completed cross-border bi-directional transfer of Renminbi and foreign currency cash, making the query function more efficient. Directed by customer experience, the Bank greatly improved customer service efficiency and enriched product line of cash management by strengthening innovative connectivity between notes pool and products such as “Express Receivable Collector” and “Express Bill Discounting”, optimising functions of products such as “secondary accounts”, “Bidding Pass” and “Reimbursement Pass” and putting the management module of collaterals for corporate financing into use. As at the end of the Reporting Period, the number of corporate customers of e-channel “Win to Fortune” cash management was 17,000 and the cash management accounts was more than 180,000. The Bank was awarded “2016 Best Cash Management Bank” by *The Asset*.

(5) International settlement and trade financing

The Bank gave great impetus to combine cross-border settlement and trade financing 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 reached RMB1,960.684 billion, and the amount of international trade financing reached RMB57.131 billion. The Bank fully supports the “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 reached RMB90.461 billion, and the volume of international factoring processed by domestic branches increased on a year-on-year basis by 25.89% to RMB5.257 billion.

(6) Investment banking business

Seizing the opportunity of launch of shelf offering system, the Bank actively snatched market share and successfully marketed a number of key shelf offering projects. The Bank optimised the business mode of industry fund and promoted the application of governmental purchase service in industry fund. The Bank strengthened its cooperation with high-quality customers and proactively promoted business innovation such as USD-denominated direct investment, local treasury bond bridging financing and private securitisation of beneficiary rights of governmental purchase/procurement projects. Fee income from investment banking reached RMB3.392 billion during the Reporting Period, accounting for 15.25% 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 11% on a year-on-year basis to 144, and the issuance amount of such instruments reached RMB179.9 billion.

(7) Asset custody business

The Bank strengthened the Group's business linkage, drove comprehensive and diversified development of custody business by relying on business chain and fund chain and focusing on key products such as bond fund (public offering), fund asset management products with principals guaranteed by the Group, and products related to asset management of securities companies. In addition, the Bank launched business such as custody trust of property rights and actively scaled up the custody of products such as QDII, national pension reserve fund, enterprise annuity and pension funds. As at the end of the Reporting Period, assets under custody of the Bank increased by 10.29% from the beginning of the year to RMB6,152.467 billion.

2 Personal banking business

- **During the Reporting Period, from personal banking business sector, the Group's profit before tax increased by 88.38% on a year-on-year basis to RMB12.710 billion; net fee and commission income increased by 36.19% on a year-on-year basis to RMB9.973 billion; the total number of individual customers in domestic branches increased by 4.92% from the beginning of the year.**

- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 2.94% from the beginning of the year to RMB1,493.218 billion, and the proportion of personal deposits decreased by 0.80 percentage point from the beginning of the year to 31.54%. The balance of personal loans of the Group increased by 9.53% from the beginning of the year to RMB1,088.008 billion, and the proportion of personal loans increased by 0.62 percentage point from the beginning of the year to 27.31%.**

- **As at the end of the Reporting Period, the balance of personal impaired loans of the Group increased by 15.95% from the beginning of the year to RMB13.823 billion; the personal impaired loans ratio increased by 0.07 percentage point from the beginning of the year to 1.27%.**

Adhering to the "customer-centred" principle, the Group strived to develop saving deposits, personal assets and wealth management business, actively built top-class mobile banking and continued to enhance the influence of its service brand with AUM as the lead, effective customer as the basis and cross sales as the starting point, so as to comprehensively promote the transformation development of personal financial business.

(1) Personal deposit and loan

The Group actively developed saving deposits and promoted the increase of new customers and new funds. The Group strengthened the sales of certificates of deposit and open on-balance sheet wealth management products, actively reduced the scale of high-cost deposits amount and promoted the reasonable optimisation of the deposit structure. The Group optimised the retail asset business process, accelerated the efficiency in core loops such as application for credit cards, examination and approval and registration for lending as well as vigorously developed mortgage business. As at the end of the Reporting Period, the balance of the housing mortgage loans of the Group increased by RMB83.354 billion from the beginning of the year to RMB687.711 billion, with a growth rate of 13.79%.

(2) Personal wealth management business

Taking the "10th Anniversary of OTO Fortune" as an opportunity, the Group carried out the brand-new image design for the OTO Fortune brand and took the innovative theme of customers' wealth management demands in three life stages (i.e. getting married, educating a child and enjoying the later life) as the pointcut, showing benefit of the wealth appreciation to a household in different stages. The Group carried out media propaganda of the thanksgiving campaign for 10th anniversary of OTO Fortune, focusing on broadcasting publicity VCR for 10th anniversary of OTO Fortune via mainstream media websites and mobile media such as iQiyi, Letv, Sohu TV and Youku Tudou. The video had around 600 thousand views averagely per week, reflecting a remarkable publicity effect. The Group continued to build the characteristics of traditional Chinese medicine health care. During the Reporting Period, the Group carried out the campaign of OTO Fortune health care of famous doctors of traditional Chinese medicine in 10 branches.

As at the end of the Reporting Period, retail AUM by the Group amounted to RMB2,612.526 billion, representing an increase of 6.55% from the beginning of the year. The number of BoCom fortune customers and OTO Fortune customers increased by 7.62% and 12.74%, respectively from the beginning of the year. The total number of private banking customers increased by 13.74% as compared to the beginning of the year.

(3) Bank card business

Credit card business

The Group continued to carry out credit card brand marketing activities such as "Weekly Swipe", "Super Red Friday" and "Catering Super Red Season" and received positive market response. The Group launched payment products such as Apple pay, Samsung pay, Huawei pay, HCE, P2P money transfer and payment via scanning QR code in succession, which constantly enriched the payment methods and functions. It launched innovative products such as "angel loan" and "cash instalment" to vigorously develop the consumption credits business. The Group optimised the customer approval policy and reinforced anti-fraud and exceptional transaction monitoring, keeping the balance between the risk and revenue.

As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 3.99 million from the beginning of the year to 47.14 million. In the first half of the year, the accumulated expenditure amounted to RMB885.2 billion, representing an increase of 24.75% on a year-on-year basis. Credit card overdraft balance amounted to RMB288.072 billion, representing an increase of 6.09% from the beginning of the year while the impairment over credit card overdraft was 2.14%, representing an increase of 0.32 percentage point from the beginning of the year.

Debit card business

The Group actively carried out the promotional activities for on-line and off-line debit card consumption to enhance the customers' activeness and drive increase in consumption of bank card. Focusing on personal settlement account and mobile payment, the Group carried out product innovation to enable customers from other banks to open II personal bank accounts on mobile bank and "Go Pay", building a quick on-line channel to gain market share. In addition, the Group launched NFC payment products such as Apple pay and mobile QR payment products such as QR code mobile payment. This enhanced the convenience in payment and the customers' experience in card swiping. As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 113.83 million, representing a net increase of 5.67 million from the beginning of the year. The accumulated spending was RMB432.5 billion in the first half of 2016, representing a year-on-year increase of 7.77%.

3. Interbank and treasury business

- **During the Reporting Period, the Group's net operating income from treasury business increased by 9.07% on a year-on-year basis to RMB14.597 billion.**
- **During the Reporting Period, the Group's profit before tax in terms of treasury business increased by 15.84% on a year-on-year basis to RMB13.453 billion.**

Being active in response to a series of challenges in the macro market, the Group continued to strengthen its research and assessment over the macro environment at home and abroad, accurately seized the market opportunity, dug up the value of monetary market, wealth and asset management and other businesses, enhanced product innovation and expanded interbank cooperation channels to drive the comprehensive development of interbank and market business.

(1) Institutional financial service

The Group entered into strategic cooperation agreements with Zhengzhou Commodity Exchange, China Securities Depository and Clearing Company Limited and Agricultural Development Bank of China successively. It strengthened business cooperation with financial factor markets such as Shanghai Clearing House Co., Ltd. and Shanghai Gold Exchange, becoming one of the first batch of agent banks conducting agent clearing business for standard bond forward of Shanghai Clearing House Co., Ltd. The Group proactively explored the business cooperation with multilateral international financial institutions such as New Development Bank BRICS and Asian Infrastructure Investment Bank and has established cooperation relationship with New Development Bank BRICS in sectors of opening accounts, deposits from other banks, fund settlement and interbank credit.

With respect to interbank collaboration, the Group entered into interbank platform contracts with 314 banks and took leading positions in aspects of third party depository business under interbank collaboration, third party depository financing and securities lending function under interbank collaboration and bank-futures trading company transfer under interbank collaboration. The Group actively promoted “rural credit union projects” and entered into cooperation agreements with 21 provincial rural credit unions. Moreover, the Group actively explored cooperative customers in cross-border interbank payment system (“CIPS”) businesses. As a result, interbank wealth management was accelerated, revenue from interbank wealth management business increased by 45.74% year on year, number of interbank wealth management customers increased by 50.08% from the beginning of the year and the balance of wealth management custody business from other banks increased by 96.58% from the beginning of the year. In terms of collaborations with securities companies and futures trading companies, the Group seized the opportunity of rapid development of Prime Broke (“PB”) business of security companies and provided a whole set of matching services of accounts, depository and appreciation. The balance of margin deposits of futures trading companies increased by 18.58% from the beginning of the year, ranking first in terms of scale of deposits.

(2) Money market transactions

The Group accurately predicted the fund requirements and allocated funds timely through open market to strengthen the liquidity management. The Group adjusted the tenure structure, diversified funds usage and enhanced funds utilisation efficiency. During the Reporting Period, the total volume of Renminbi money market transactions by domestic branches was RMB6.82 trillion, among which RMB4.33 trillion was lent to financial institutions and RMB2.49 trillion was borrowed from financial institutions. The total volume of foreign currency money market transaction was USD91.9 billion.

(3) Trading account business

The Group actively expanded emerging businesses such as Renminbi bond lending and Renminbi interest rate swap, agent settlement and funds transactions. The Group promoted the development of divisions by accelerating the development of transaction sub-centre in Hong Kong while exploring to set up transaction sub-centre in London. During the Reporting Period, the transaction volume of domestic branches in respect of Renminbi-denominated bonds reached RMB1.35 trillion and the volume of interbank market exchange foreign transactions reached USD515.199 billion. The Group became one of the pioneer banks for direct exchange of Renminbi for South African Rand and Renminbi for KRW in the interbank foreign exchange market.

(4) Banking book investments

With respect to the external environment where market returns were low and volatile and risk of enterprises' default increasingly rose up, the Group strengthened researches on macro-economic situation and monetary policy, and moderately adjusted portfolio duration, so as to maintain portfolio returns. As at the end of the Reporting Period, the Group's investment in securities amounted to RMB1,958.488 billion, representing an increase of 20.11% from the beginning of the year. The securities investment yield was 3.81%, representing a year-on-year decrease of 37 basis points.

(5) Precious metal business

The Group became one of the pioneer banks qualified to quote in formal gold inquiry market as approved by Shanghai Gold Exchange, maintaining the forefront position in the market. As the first batch of "Shanghai Gold" pricing members of Shanghai Gold Exchange to carry out quotation and proprietary transaction, the Group concluded the first centralised pricing transaction through membership agency system. The Group successfully completed the first bonds deposits transaction in the international board of Shanghai Gold Exchange. The Group officially joined gold pricing mechanism of LMBA and became the fourth Chinese-funded bank in joining the mechanism. During the Reporting Period, the domestic branches achieved RMB81.153 billion in terms of volume for precious metal brokerage transactions, representing an increase of 18.53% from the prior year; the sales of real precious metals business amounted to RMB1.064 billion; the accumulated transaction volume of proprietary gold trading accounted to 2,757.76 tons, representing a year-on-year increase of 141.28%. The Bank maintained an active role in the market.

(6) Asset management business

Through constant efforts in asset management business, during the Reporting Period, the Bank totally launched 5,107 wealth management products and raised funds of RMB11,775.6 billion, representing a year-on-year increase of 17.99%. As at the end of the Reporting Period, the on-and-off-balance sheet wealth management products denominated in Renminbi amounted to RMB1,534.74 billion, increasing by 5.31% from the beginning of the year, and the income of intermediary business increased by 16.64% on a year-on-year basis. With the continuous enhancement of influence of asset management brand, the Bank was awarded "2016 Best Wealth Management Institute" and "2016 Best China Innovation Bank Wealth Management Products" by *Securities Times*.

Asset management of the BoCom: accelerate the construction of wealth management banks to achieve synergistic development on and off-balance sheet. Asset management business is an important support for realising the Bank's development mode of "low capital consumption and low cost expansion". By virtue of the advantage of "BoCom Strategy", the Bank vigorously developed the asset management business, and promoted the transformation from a large asset holding bank to a large asset management bank on the basis of investment in domestic and overseas debt capital market and transaction integration operation.

Become the manager of entity fund through expanding wealth management customer base. Since the launch of "BoCOM Tong Ye" interbank wealth management products, the Bank has built the strong brand advantages in the market. As at the end of the Reporting Period, nearly a thousand of customers purchased the wealth management products, amounting to RMB114 billion, in which, the wealth management services provided to banking entities has become the special advantageous business of the Bank's asset management.

Become the world's leading RMB asset manager through seizing opportunity of RMB internationalisation. By taking Hong Kong sub-centre of asset management business as a starting point and exploring the effective approach of internationalisation of asset management business, the Bank was devoted to developing on-and-off-balance sheet integrated world's leading wealth management bank. During the Reporting Period, the Bank made great efforts in researching domestic and overseas investment opportunity and capital outflow channel; overseas products are actively subscribed by investors. The Bank seized the market opportunity, successfully participated overseas REITs project, security traders' IPO project in Hong Kong Stocks and enterprise overseas equity financing project, and gradually promoted overseas bond investment.

Become the asset manager of high net-worth customers through providing value-added products and services. With the constant increase of personal wealth and asset allocation transferring from real estate to financial asset, there are numerous potential asset management businesses of high net-worth customers. As the dominant force of individual investor, the investment behaviour of high net-worth customer is comparatively mature, with the investment demand relatively complex. The Bank actively adapt to the active demand of private banking customers and vigorously launched private banking products. As at the end of the Reporting Period, the private banking products amounted to RMB204 billion.

Become pension manager through actively developing pension products. Under the promotion of pension system reform, the Bank firstly launched pension wealth management products across the industry. With characteristics of large-scale and long-term investment, moderate risk appetite and pursuit of absolute return, the pension has relatively high consistency with risk management speciality and risk appetite of the Bank's asset management. The Bank actively carried out marketing and accelerated product innovation. As at the end of the Reporting Period, pension wealth management products amounted to RMB27.6 billion.

4. "Trinity" network construction

- **During the Reporting Period, the annualised profit per capita of the Group increased year-on-year by 0.63% to RMB828.7 thousand. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 5.75% from the beginning of the year to RMB1.709 billion.**

- **As at the end of the Reporting Period, the total amount of domestic banking branch outlets increased by 73 from the beginning of the year to 3,214, of which 76 were newly opened and 3 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 1.37:1. The diversion rate of e-channels increased by 2.29 percentage points from the beginning of the year to 90.42%.**

- **As at the end of the Reporting Period, the number of relationship managers in domestic branches increased year-on-year by 1.79% to 22,545.**

The Group continuously deepened "Trinity" network construction, accelerated the building of omni-channel resource integration and new synergistic platform to explore and create intelligent services and new management model. The Group accelerated innovation of E-channels and products such as mobile banking, WeChat banking, online banking and self-service banking. On the basis of relationship manager team construction, the Bank continued to increase the proportion of number and abilities of relationship managers, to further enhance the construction and development of "trinity" service channel which comprises of physical outlets, e-banking and relationship manager.

(1) Physical outlets

The Bank further deepened the transformative development of grass-root institutions, carried out in-situ modification or relocation and adjustment of existing outlets in various ways, launched pilot run of outlet service mode innovation, focused on integration of outlet functional layout, and continuously improved the outlet products comprehensiveness and business contribution. The Bank continuously carried forward classification construction of grass-root outlets in the following two aspects. On one hand, the Bank constantly carried forward the construction of comprehensive outlets. As at the end of the Reporting Period, the number of comprehensive outlets increased by 56 from the beginning of the year to 571, where the number of comprehensive flagship outlets increased by 40 from the beginning of the year. On the other hand, the Bank actively promoted new establishment and reconstruction of all-inclusive outlets and continued to improve all-inclusive financial system. As at the end of the Reporting Period, 499 all-inclusive branches were opened for business.

As at the end of the Reporting Period, the total number of domestic outlets increased by 73 from the beginning of the year to 3,214, of which 76 were newly opened and 3 were closed down due to their low yields. The Bank's network covered 236 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities up 0.30 percentage point from the beginning of the year to 70.66%. In particular, the coverage ratio in West China was 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 2.186 billion with the transaction amount exceeding RMB108.47 trillion. The diversion rate of e-channels was up 2.29 percentage points from the beginning of the year to 90.42%.

Self-service banking. The Bank made thorough efforts to improve the efficiency of self-service banking. During the Reporting Period, the number of self-service machine increased by 307 to more than 31,000 in total and the number of self-service bank was 3,765 in total. The ratio of self-service bank to traditional branch outlet reached 1.37:1. The transaction number of self-service banking was 292 million and the transaction amount was over RMB1 trillion, representing a year-on-year increase of 23.97%. 813 Intelligent Teller Machines (iTM) have been promoted across the Bank.

Online banking. The Bank optimised functions and interface of online banking, to constantly improve customer experience. As at the end of the Reporting Period, the number of corporate e-banking customers increased by 6.37% from the beginning of the year, and the number of corporate e-banking transactions increased year-on-year by 83.23% to 411 million. The number of personal E-banking customers increased by 5.88% from the beginning of the year, and the number of personal E-banking transactions (excluding mobile banking transactions) increased year-on-year by nearly 60% to 1.348 billion.

Mobile banking. The Bank officially launched version 3.0 of mobile banking, which optimised the functions and process experience, 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 12.08% from the beginning of the year. The number of the mobile banking transactions increased year-on-year by 26% to 130 million. The total transaction amounts made via mobile banking increased year-on-year by nearly 150% to RMB3.22 trillion.

(3) Relationship manager

The Bank continued to build its relationship manager teams. As at the end of the Reporting Period, the number of relationship managers in domestic branches increased year-on-year by 1.79% to 22,545 in total, among which, the number of the corporate relationship managers was 10,010 while the number of retail relationship managers was 12,535. The Bank improved the appraisal and distribution mode, strengthened incentive and restrictive mechanism, enhanced training of relationship managers, and improved their abilities to perform duties.

(4) Customer service

The Bank is committed to becoming the best service bank by constantly pushing forward service innovation, actively participating in the selection of Top 1,000 model units for civilised and standardised service in China's banking sector organised by the China Banking Association, and further enhancing customer rights protection, which further increased influence of its service brand. The Bank ranked No. 1 in 2016 China Retail Banking Satisfaction Study (RBSS) organised by J.D.POWER for the third year in a row.

5. Internationalisation and Universal Operation

(1) Internationalisation strategy

- **During the Reporting Period, net profits of the Group's overseas banking entities increased by 29.67% on a year-on-year basis to RMB2.679 billion, accounting for 7.11% of the Group's net profits, which increased by 1.57 percentage points 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 6.09% from the beginning of the year to RMB743.907 billion, accounting for 9.35% of the Group's total assets, representing a decrease of 0.45 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 12.50% from the beginning of the year to RMB279 million, and the impaired loan ratio increased by 0.01 percentage point from the beginning of the year to 0.08%.**

The Group focused on driving the implementation of internationalisation strategy by improving the layout of overseas service network, giving full play to the advantages of its global service network and licenses, and increasing its all-round financial service ability based on financial innovation and key products.

Overseas service network

The layout of overseas service network was promoted steadily. 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 1,620 banks in over 142 countries and regions, set up 238 cross-border Renminbi inter-bank accounts for 127 overseas agent banks in 33 countries and regions, and opened 72 foreign currency settlement accounts in 19 currencies with 55 banking institutions in over 24 countries and regions.

The synergetic business of domestic and overseas

Centring on the national strategy of “Belt and Road Initiatives” and “Go Global”, the Bank grasped the hot spots of foreign investment and cooperation, provided enterprises with mid-and-long term financing service with domestic and overseas synergy, and constantly increased its cross-border, cross-industry and cross-market operating service ability. During the Reporting Period, the total transaction amount of the synergetic business was USD25.397 billion, and its accumulated revenue reached RMB2.491 billion.

Cross-border Renminbi transaction

The Bank expanded businesses such as cross-border direct Renminbi investment, cross-border bi-directional Renminbi cash pool and cross-border financing, to enlarge the scale of cross-border Renminbi settlement of capital items. Giving play to the advantage of internationalisation, the Bank cooperated with Korea Securities Depository (KSD) and HKSCC to develop “China-Korea Zhai Shi Tong” project, to promote interconnection between infrastructures of Chinese and Korean bond markets. The Bank constantly improved its ability to manage global risks and conducted cross-border Renminbi business in compliance with laws and regulations. During the Reporting Period, the transaction amount of the cross-border Renminbi settlement by domestic and overseas banking institutions increased by 32.10% on a year-on-year basis to RMB889.448 billion.

Offshore services

The Bank vigorously promoted the onshore and offshore synergetic mechanism and expanded businesses including cross-border syndicated loan, financing to merger and acquisition, bond investment and cross-border wealth management, to broaden the sources of revenue. As at the end of the Reporting Period, the total amount of offshore assets increased by 21.21% from the beginning of the year to USD15.472 billion, loan balance increased by 41.55% from the beginning of the year to USD10.159 billion, and deposit balance increased by 11.29% from the beginning of the year to USD10.558 billion.

(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 to RMB1.909 billion, representing a year-on-year increase of 22.77%, the proportion of which to the net profit of the Group increased by 0.90 percentage point to 5.07% 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 17.50% from the beginning of the year to RMB244.117 billion, the proportion of which to the total assets of the Group increased by 0.17 percentage point to 3.07% from the beginning of the year.**

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 integrated in the Group's overall compositions.

– BoCOM Leasing continued to optimise business structure and promote internationalisation development of aviation and air-cargo business. As at the end of the Reporting Period, the leasing asset balance increased by 11.99% from the beginning of the year to RMB156.329 billion. BoCOM Leasing is one of the leading companies in domestic financial lease industry in terms of asset size, investment amount and asset quality.

– BoCOM International Trust continued to develop its core businesses including PPP, industrial investment fund and asset securitisation. During the Reporting Period, it successfully issued the first batch of asset securitisation products issued by city commercial bank and rural commercial bank. As at the end of the Reporting Period, its AUM increased by 18.80% from the beginning of the year to RMB586.169 billion.

- BoCOM Fund saw outstanding performance of several publicly offered funds, among which BoCOM Zhizao and BoCOM Xinchengzhang are top one-sixth of funds among its peers. As at the end of the Reporting Period, its AUM increased by 5.24% from the beginning of the year to RMB456.871 billion. Domestic subsidiaries engaged in asset management integrated into the Group's wealth management strategy system to provide comprehensive asset management across primary and secondary markets. As at the end of the Reporting Period, the AUM reached RMB308.154 billion.

- BoCommlife Insurance actively integrated within the Group's business system, and its bancassurance business took a great leap forward. During the Reporting Period, the realised original premium income increased by 180.61% on a year-on-year basis to RMB8.814 billion. It continued to be rated Level A company in the regulatory category rating by the China Insurance Regulatory Commission.

- BoCOM International accelerated business development, with increasingly diversified investment banking business. During the Reporting Period, it completed 18 investment projects, with a year-on-year increase of 20%.

- With steady development, BoCOM Insurance's gross premium growth rate and net compensation rate were better than the Hong Kong interbank market average, with investment performance significantly outperforming the market performance.

- 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 3.62% from the beginning of the year to RMB7.982 billion.

First anniversary of "Reform Deepening":
new drive for transformation and new chapter of development

Since the approval of the *Reform Deepening Plan of BoCom* ("Reform Deepening Plan") by the State Council, the Bank has positively grasped the profound changes in economic and financial environment and, by centring on three key tasks of "exploring the corporate governance mechanism of commercial bank, reforming internal operation mechanism and promoting transformation and innovation of operating mode", it implemented reform programs stated in the Reform Deepening Plan orderly. Over the past year, the Bank made preliminary achievements in all tasks of reform deepening, with gradually released reform dividends, effectively motivated transformation and constantly increased core development indicators.

Improved corporate governance mechanism to give full play to the initiative. The Bank strengthened management of stock ownership and Board of Directors and, while holding on to its position as a state-owned company, played a role of strategic investor of HSBC, where its "1+1" global strategic cooperation with HSBC has seen new accomplishment. The Bank improved and innovated the three-level authorised operation system composed of "sufficient authorisation from Shareholders Meeting to Board of Directors, full authorisation from Board of Directors to Senior Management and hierarchical authorisation from Senior Management", which realised full coverage and dynamic supervision of authorised operation. It has initially established the personal funds holding plan of Management.

Vigorously promoted the reform of internal operation mechanism to improve operating vitality and competitiveness. The Bank reformed the organisational structure of front-stage module and improved the market responding speed and comprehensive cross-border, cross-industry and cross-market operation capabilities. The Bank established the professional manager system and appraisal review system to implement the development responsibility and stimulate operating vitality. Furthermore, the Bank reformed the remuneration distribution system and promoted the all-product pricing assessment covering all personnel to motivate the staff. The Bank improved the comprehensive risk management system and strengthened the mechanism to investigate the risk management responsibility, so as to maintain the overall stability of asset quality.

Implemented transformation and innovation of operating mode to improve operation efficiency and profitability. The Bank innovated the divisional structure operation to shape the development layout driven by two engines of divisions and branches and continuously improve the profit contribution from divisions. The Bank's image of providing high quality service was consolidate and strengthened by promoting transformation of "Trinity" outlet operating mode and improving the level of serving public in an all-around way. Moreover, the Bank actively pushed forward the transformation and development of provincial branches and confirmed the strategic orientation of provincial branches to focus on the development of retail business, so as to expand its services to SME customers and the public all over the country.

Deepening reform is both a tough fight and a protracted war. As a pathfinder of deepening reform in large commercial banks, the Bank will further adhere to the state's "13th Five Year Plan", continue to push forward the implementation of reform projects under the leading of "BoCom Strategy" with greater determination and more efforts, and make all efforts to promote the transformation and innovation in businesses by utilising operating surplus from deepening reform, so as to better accommodate "New Normal" of China's economy and provide effective support for the development of real economy.

(II) 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 RMB208 million, equivalent to a 0.43% increase on a year-on-year basis, reaching RMB48.497 billion. Profit before tax was 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)

	For the six months ended 30 June	
	2016	2015
Net interest income	68,148	71,059
Net fee and commission income	20,964	19,386
Impairment losses on loans and advances to customers	(14,807)	(11,454)
Profit before tax	48,497	48,289

(2) Net interest income

During the Reporting Period, the Group's net interest income decreased by RMB2.911 billion on a year-on-year basis to RMB68.148 billion, accounting for 65.77% 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 six months ended 30 June 2016			For the six months ended 30 June 2015		
	Average balance	Interest income/ (expense)[5]	Annualised average yield/ (cost) (%)	Average balance	Interest income/ (expense)	Annualised average yield/ (cost) (%)
ASSETS						
Balances with central banks	934,971	6,969	1.49	874,830	6,565	1.50
Due from banks and other financial institutions	550,912	7,224	2.62	636,419	11,021	3.46
Loans and advances to customers and receivables	3,972,290	96,895	4.88	3,640,072	109,081	5.99
Include: Corporate loans and receivables	2,803,016	65,089	4.64	2,619,488	76,869	5.87
Individual loans	1,004,577	29,099	5.79	901,034	29,849	6.63
Discount bills	164,697	2,707	3.29	119,550	2,363	3.95
Investment securities	1,746,290	33,273	3.81	1,226,081	25,616	4.18
Interest-bearing assets	6,919,372[3]	140,225[3]	4.05	6,271,004[3]	150,590[3]	4.80
Non-interest-bearing assets	325,501			299,415		
Total assets	7,244,873[3]			6,570,419[3]		
Liabilities and Shareholders' Equity						
Due to customers	4,626,153	44,989	1.94	4,245,883	50,350	2.37
Include: Corporate deposits	3,141,520	28,887	1.84	2,834,823	32,868	2.32
Individual deposits	1,484,633	16,102	2.17	1,411,060	17,482	2.48
Due to banks and other financial institutions	1,822,177	25,843	2.84	1,552,866	27,189	3.50
Debt securities issued and others	321,852	5,381	3.34	193,191	3,685	3.81
Interest-bearing liabilities	6,485,091[3]	72,077[3]	2.22	5,885,542[3]	79,531[3]	2.70
Shareholders' equity and non-interest-bearing liabilities	759,782			684,877		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,244,873[3]			6,570,419[3]		
Net interest income		68,148			71,059	
Net interest spread[1]			1.83[3]			2.10[3]
Net interest margin[2]			1.97[3]			2.27[3]
Net interest spread[1]			1.95[4]			2.16[4]
Net interest margin[2]			2.08[4]			2.33[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.
5. According to requirements of Notice on the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36), VAT payable was deducted from the Group's interest income in the current period.

During the Reporting Period, the Group's net interest income decreased by 4.10% on a year-on-year basis. The net interest spread and net interest margin decreased by 27 and 30 basis points on a year-on-year basis to 1.83% and 1.97%, respectively. In which, the net interest spread and net interest margin in the second quarter decreased by 8 and 7 basis points as compared with the first quarter, respectively. If removing the effect of "Replacing Business Tax with VAT", the net interest spread and net interest margin decreased by 21 and 24 basis points on a year-on-year basis to 1.89% and 2.03% respectively, in which, the net interest spread and net interest margin in the second quarter both increased by 4 basis points as compared with the first quarter.

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 January to June 2016 and January to June 2015		
	Increase/(decrease) due to		
	Balance	Interest rate[Note]	Net increase/ (decrease)
Interest-bearing assets			
Balances with central banks	451	(47)	404
Due from banks and other financial institutions	(1,479)	(2,318)	(3,797)
Loans and advances to customers and receivables	9,950	(22,136)	(12,186)
Investment securities	10,872	(3,215)	7,657
Changes in interest income	19,794	(27,716)	(7,922)
Interest-bearing liabilities			
Due to customers	4,506	(9,867)	(5,361)
Due to banks and other financial institutions	4,713	(6,059)	(1,346)
Debt securities issued and others	2,451	(755)	1,696
Changes in interest expense	11,670	(16,681)	(5,011)
Changes in net interest income	8,124	(11,035)	(2,911)

Note: According to requirements of *Notice on the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax* (Cai Shui [2016] No. 36), VAT payable was deducted from the Group's interest income in the current period; the deduction amounts are included in "interest" item.

During the Reporting Period, the Group's net interest income decreased by RMB2.911 billion on a year-on-year basis, of which the increase of RMB8.124 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB11.035 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 decreased by RMB7.922 billion or 5.20% on a year-on-year basis to RMB144.361 billion.

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

Interest income from loans and advances to customers and receivables was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables decreased by RMB12.186 billion or 11.17% on a year-on-year basis to RMB96.895 billion, largely due to the decrease in the annualised average yield of loans and advances to customers and receivables on a year-on-year basis by 111 basis points.

B. *Interest income from investment securities*

During the Reporting Period, interest income from investment securities increased by RMB7.657 billion or 29.89% on a year-on-year basis to RMB33.273 billion. This was largely due to the year-on-year increase in the average balance of investment securities by 42.43%.

C. *Interest income from balances with the central bank*

The balances with the central bank mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from balances with the central bank increased by RMB404 million to RMB6.969 billion. The growth of the average interest income balances with the central bank was primarily due to the year-on-year increase in average customer deposits by 6.87%.

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

Interest income from balances due from banks and other financial institutions decreased by RMB3.797 billion or 34.45% on a year-on-year basis to RMB7.224 billion. This was largely due to the year-on-year decrease in the annualised average yield due from banks and other financial institutions by 84 basis points, and a year-on-year decrease in the average balance by 13.44%.

② **Interest expense**

During the Reporting Period, the Group's interest expense decreased by RMB5.011 billion or 6.17% on a year-on-year basis to RMB76.213 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 decreased by RMB5.361 billion or 10.65% on a year-on-year basis to RMB44.989 billion, accounting for 59.03% of total interest expense. The decrease in interest expense on customer deposits was mainly due to a year-on-year decrease in the annualised average yield of customer deposits by 43 basis points.

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 decreased by RMB1.346 billion or 4.95% on a year-on-year basis to RMB25.843 billion. This was largely due to the year-on-year decrease in the annualised average yield of balances due to banks and other financial institutions by 66 basis points.

C. *Interest expense on bond issuance and others*

During the Reporting Period, interest expense on bond issuance and other interest-bearing liabilities increased by RMB1.696 billion or 46.02% on a year-on-year basis to RMB5.381 billion. This was mainly due to a year-on-year increase in average balance of bond issuance and others by 66.60%.

(3) Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously improved the quality and efficiency of intermediary business development and vigorously promoted 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 RMB1.578 billion or 8.14% on a year-on-year basis to RMB20.964 billion. Agency 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)

	For the six months ended 30 June	
	2016	2015
Settlement service and bank cards	6,610	7,249
Investment banking	3,392	4,686
Guarantee and commitment	1,689	2,109
Management service	6,783	5,028
Agency service	3,395	1,568
Others	369	332
Total fee and commission income	22,238	20,972
Less: Fee and commission expense	(1,274)	(1,586)
Net fee and commission income	20,964	19,386

Fee income from settlement service and bank card services decreased by RMB639 million or 8.82% on a year-on-year basis to RMB6.61 billion. This was largely due to the Group's active response to the requirements of national policies, reducing the settlement service fees, thus resulting in the decrease in fee income from settlement service.

Fee income from investment banking decreased by RMB1.294 billion or 27.61% on a year-on-year basis to RMB3.392 billion. This was mainly due to the decrease in consultant service.

Fee income from guarantee and commitment services decreased by RMB420 million or 19.91% on a year-on-year basis to RMB1.689 billion. This was mainly due to the slow growth of global economy and decline in guarantee and commitment services, including letter of guarantee.

Fee income from management services increased by RMB1.755 billion or 34.90% on a year-on-year basis to RMB6.783 billion. This was mainly driven by the increase in the fee income from assets management and agency wealth management services.

Fee income from agency services increased by RMB1.827 billion or 116.52% on a year-on-year basis to RMB3.395 billion. This was mainly driven by the significant increase in the fee income from insurance agency services.

(4) Operating costs

During the Reporting Period, the Group's operating cost increased by RMB1.422 billion or 5.72% on a year-on-year basis to RMB26.277 billion, while its cost-to-income ratio was 25.61%, representing a year-on-year decrease of 0.26 percentage point.

(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 RMB3.353 billion or 29.27% on a year-on-year basis to RMB14.807 billion. The increase comprised of ① collective assessment decreased by RMB570 million on a year-on-year basis to RMB6.107 billion; and ② individual assessment increased by RMB3.923 billion on a year-on-year basis to RMB8.70 billion. During the Reporting Period, credit cost ratio increased by 0.12 percentage point on a year-on-year basis to 0.74%.

(6) Income tax

During the Reporting Period, the Group's interest expense decreased by RMB209 million or 1.94% on a year-on-year basis to RMB10.574 billion. The effective tax rate of 21.80% is lower than the statutory tax rate of 25%, which is mainly due to the tax exemption on interest income from 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)

	For the six months ended 30 June	
	2016	2015
Current tax	9,495	10,724
Deferred tax	1,079	59

2. Analysis on Major Balance Sheet Items

(1) Assets

As at the end of the Reporting Period, the Group's total assets were RMB7,956.322 billion, representing an increase of RMB800.960 billion, equivalent to an increase of 11.19% 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)

	30 June 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	3,891,431	48.91	3,634,568	50.80
Investment securities	1,958,488	24.62	1,630,559	22.79
Cash and balances with central banks	1,040,308	13.08	920,228	12.86
Due from banks and other financial institutions	651,493	8.19	611,191	8.54
TOTAL ASSETS	7,956,322		7,155,362	

① **Loans and advances to customers**

During the Reporting Period, the Group reasonably controlled the amount, direction and pace of credit advancement, and achieved 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 RMB3,983.756 billion, representing an increase of RMB261.750 billion or 7.03% from the beginning of the year, among which the increase in Renminbi loans from domestic branches increased by RMB222.060 billion or 6.75% 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)

	30 June 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	106,484	2.67	101,647	2.73
Manufacturing				
– Petroleum and chemical	119,708	3.00	125,952	3.38
– Electronics	72,962	1.83	75,424	2.03
– Steel	35,967	0.90	36,879	0.99
– Machinery	122,811	3.08	105,187	2.83
– Textile and clothing	35,870	0.90	40,680	1.09
– Other manufacturing	234,898	5.90	238,027	6.40
Electricity, gas and water production and supply	141,451	3.55	138,256	3.71
Construction	105,027	2.64	109,893	2.95
Transportation, storage and postal service	464,006	11.65	418,057	11.23
Telecommunications, IT services and software	19,083	0.48	13,413	0.36
Wholesale and retail	292,775	7.35	333,903	8.97
Accommodation and catering	36,471	0.92	35,070	0.94
Financial institutions	101,665	2.55	50,832	1.37
Real estate	223,805	5.62	227,061	6.10
Services	295,503	7.42	262,750	7.06
Water conservancy, environmental and other public utilities	156,183	3.92	132,061	3.55
Education, science, culture and public health	80,733	2.03	71,731	1.93
Others	112,429	2.82	94,420	2.53
Discounted bills	137,917	3.46	117,444	3.16
Total corporate loans	2,895,748	72.69	2,728,687	73.31
Mortgage	687,711	17.26	604,357	16.24
Credit card	288.072	7.23	271,542	7.30
Others	112,225	2.82	117,420	3.15
Total individual loans	1,088,008	27.31	993,319	26.69
Gross amount of loans and advances to customers before impairment allowances	3,983,756	100.00	3,722,006	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB167.061 billion, or 6.12% from the beginning of the year to RMB2,895.748 billion. The four most concentrated industries were manufacturing, transportation, storage and postal service, services and wholesale and retail business, which accounted for 57.83% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB94.689 billion or 9.53% from the beginning of the year to RMB1,088.008 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 0.62 percentage point from the beginning of the year to 27.31%.

Loan concentration by borrowers

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for 1.85% of the Group's net capital, and the total loans of top 10 customers accounted for 12.74% 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)

	30 June 2016		
	Type of industry	Loan balances	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	11,967	0.30
Customer B	Transportation, storage and postal service	10,901	0.27
Customer C	Transportation, storage and postal service	10,191	0.26
Customer D	Transportation, storage and postal service	8,646	0.22
Customer E	Services industries	7,600	0.19
Customer F	Others	7,598	0.19
Customer G	Manufacturing – other manufacturing	7,000	0.18
Customer H	Transportation, storage and postal service	6,326	0.16
Customer I	Transportation, storage and postal service	6,106	0.15
Customer J	Transportation, storage and postal service	6,024	0.15
Total of Top Ten Customers		82,359	2.07

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 33.16%, 18.23% and 7.83%, respectively, among which, the loan balance in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta increased by 8.37%, 3.37% and 9.65%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.54%, representing an increase of 0.03 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 5.12 percentage points from the beginning of the year to 150.45%, and the provision ratio of impaired loans decreased by 0.03 percentage point from the beginning of the year to 2.32%.

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)

	30 June 2016	31 December 2015
Impaired loans	61,364	56,206
Loans overdue by more than 90 days	85,381	91,423
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.54	1.51

② **Investment securities**

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB327.929 billion or 20.11% from the beginning of the year to RMB1,958.488 billion. Return on investment securities reached a relatively satisfactory level of 3.81%, benefiting from the Group's 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 based on the Group's intention 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)

	30 June 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	116,316	5.94	108,458	6.65
Investment securities – loans and receivables	341,771	17.45	323,679	19.85
Investment securities – available-for-sale	295,075	15.07	264,739	16.24
Investment securities – held-to-maturity	1,205,326	61.54	933,683	57.26
Total	1,958,488	100.00	1,630,559	100.00

– By type of issuers

(in millions of RMB unless otherwise stated)

	30 June 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Governments and central banks	936,274	47.81	662,337	40.62
Public sector entities	22,975	1.17	21,939	1.35
Banks and other financial institutions	576,633	29.44	496,184	30.43
Corporate entities	422,606	21.58	450,099	27.60
Total	1,958,488	100.00	1,630,559	100.00

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	–
2015 policy bank bond	5,060	3.74	10/09/2025	–
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	–

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB783.558 billion or 11.84% from the beginning of the year to RMB7,400.828 billion. Among this balance, customer deposits increased by RMB249.813 billion from the beginning of the year, which accounted for 63.97% of total liabilities and decreased by 3.80 percentage points decrease from the beginning of the year. Balance due to banks and other financial institutions increased by RMB383.282 billion from the beginning of the year, which accounted for 27.36% of total liabilities and represented an increase of 2.56 percentage points from the beginning of the year.

Customer deposits

Customer deposits is the Group's main source of funding. As at the end of the Reporting Period, the Group's customer deposits balance has increased by RMB249.813 billion or 5.57% from the beginning of the year to RMB4,734.627 billion. In terms of the Group's customer structure, the proportion of corporate customer deposit accounted for 68.39%, representing an increase of 0.81 percentage point from the beginning of the year. The proportion of individual deposits was 31.54%, representing a decrease of 0.80 percentage point from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits increased by 3.79 percentage points from the beginning of the year to 49.02%, while the proportion of time deposits decreased by 3.78 percentage points from the beginning of the year to 50.91%.

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

(in millions of RMB)

	30 June 2016	31 December 2015
Corporate deposits	3,237,924	3,030,408
Include: Corporate demand deposits	1,643,946	1,433,773
Corporate time deposits	1,593,978	1,596,635
Individual deposits	1,493,218	1,450,607
Include: Individual demand deposits	677,040	594,704
Individual time deposits	816,178	855,903

3. Analysis on major cash flow items

As at the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB30.968 billion from the beginning of the year to RMB361.403 billion.

The net cash inflows from operating activities decreased by RMB129.945 billion on a year-on-year basis to RMB226.002 billion, mainly due to the year-on-year decrease in the amount of cash inflows related to customer deposits.

The net cash outflows from investing activities increased by RMB127.020 billion on a year-on-year basis to RMB299.406 billion, mainly due to the increase in net cash outflows related to securities investment activities.

The net cash inflows from financing activities increased by RMB105.785 billion on a year-on-year basis to RMB102.445 billion, mainly due to the year-on-year increase in the cash inflow related to the issuance of 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)

	For the six months ended 30 June			
	2016		2015	
	Profit before tax	Net operating income[1]	Profit before tax	Net operating income[1]
Northern China	6,244	11,318	6,301	11,751
North Eastern China	1,902	4,146	1,943	4,087
Eastern China	12,879	38,799	12,588	33,016
Central and Southern China	10,124	17,744	10,730	17,254
Western China	5,964	9,742	6,396	9,508
Overseas	3,504	5,485	3,195	4,727
Head Office	7,880	16,375	7,136	16,803
Total[2]	48,497	103,609	48,289	97,146

Note:

1. Includes net interest income, net fee and commission income, dividend income, net gains/(losses) arising from trading activities, net gains/(losses) arising from de-recognition of financial investments, insurance business income, share of results of associates and other operating income.
2. Including profit attributable to non-controlling interest.

(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)

	30 June 2016		31 December 2015	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	687,739	557,012	707,804	544,823
North Eastern China	267,468	196,156	264,203	190,285
Eastern China	1,735,544	1,394,855	1,639,756	1,299,000
Central and Southern China	1,092,575	746,001	964,427	687,517
Western China	624,598	410,184	556,443	382,623
Overseas	324,100	353,544	349,764	326,400
Head Office	2,603	326,004	2,417	291,358
Total	4,734,627	3,983,756	4,484,814	3,722,006

(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 51.20% of the Group's net interest income.

The table below illustrates the Group's net interest income from each of the Group's segments for the periods indicated:

(in millions of RMB)

	For the six months ended 30 June 2016				
	Corporate banking	Personal banking	Treasury business	Other businesses	Total
Net interest income	34,890	19,666	13,015	577	68,148
– Net external interest income/(expense)	30,178	8,724	28,669	577	68,148
– Net internal interest income/(expense)	4,712	10,942	(15,654)	–	–

(III) Capital Adequacy Ratio

1. Measurement method

The Group calculated the capital adequacy ratios pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* issued by the CBRC and requirements therein. Upon the approval from CBRC, the Group started to use the Advanced Measurement Approach of Capital Management for measurement of capital adequacy ratio. The credit risk was calculated by the internal rating-based approach, the market risk by internal model method, and operational risk by the standardised approach.

2. Scope of measurement

The calculation of capital adequacy ratio encompassed the Group's domestic and overseas branches and subsidiaries which are financial institutions (excluding insurance company).

3. Measurement result

At the end of June 2016, as calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* issued by the CBRC, the Group has capital adequacy ratio of 13.18%, Tier 1 Capital adequacy ratio of 11.22%, and Core Tier 1 Capital adequacy ratio of 10.92%, which are all in compliance with the regulatory requirements.

(in millions of RMB unless otherwise stated)

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	535,616	508,726
Net Tier 1 Capital	550,569	523,650
Net Capital	646,318	619,214
Core Tier 1 Capital adequacy ratio (%)	10.92	10.77
Tier 1 Capital adequacy ratio (%)	11.22	11.09
Capital adequacy ratio (%)	13.18	13.11

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 (%)	10.63	10.59
Capital adequacy ratio (%)	13.42	13.31

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

4. Risk-weighted asset

The table below measures the Group's risk-weighted assets in accordance with the *Administrative Measures for the Capital Management of Commercial Banks (Provisional)*. The credit risk-weighted asset was assessed based on internal rating, the market risk-weighted asset was quantified using internal model, and the operational risk-weighted asset was quantified using a standardised approach.

(in millions of RMB)

Item	30 June 2016
Credit risk-weighted asset	4,489,350
Market risk-weighted asset	92,130
Operational risk-weighted asset	323,561
Additional risk-weighted assets arising from capital application floor and calibration	–
Total risk-weighted asset	4,905,041

5. Credit risk exposure

Exposure to default risk covered under the internal rating approach

(in millions of RMB)

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

Item	30 June 2016
Corporate risk exposure	3,123,087
Retail risk exposure	1,261,475
Total	4,384,562

Credit risk exposure not covered under the internal rating approach

(in millions of RMB)

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

Item	30 June 2016
On-balance-sheet credit risk	4,294,479
Including: Asset securitisation	6,230
Off-balance-sheet credit risk	138,200
Counterparty credit risk	47,556
Total credit risk exposure not covered under the internal rating approach	4,480,235

6. Market risk capital requirement

The Group's market risk capital requirement was assessed using internal model, and for market risk not already covered by internal model was assessed with a standardised approach. The table below sets forth the market risk capital requirements of the Group.

(in millions of RMB)

Risk type	Capital requirement
Market risk covered under internal rating approach	5,942
Market risk not covered under internal model approach	1,428
Total	7,370

7. Value at risk (VaR)

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

(in millions of RMB)

Item name	January to June 2016 Value at risk (VaR)	Stressed value at risk (SVaR)
VaR of market risk as at Reporting Period end	675	1,120
Max. VaR during the Reporting Period	1,510	2,056
Min. VaR during the Reporting Period	449	598
Average VaR during the Reporting Period	868	1,374

For more information about the Group's capital measurement, please refer to "Supplementary Information on Capital Adequacy and Leverage Ratio".

(IV) Information on Leverage Ratio

The Group calculated the leverage ratio in accordance with the requirement of the *Leverage Ratio Rules for Commercial Banks (Revised)* issued by CBRC in January 2015. On 30 June 2016, the Group's leverage ratio was 6.30%, which complied with the regulatory requirements.

(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

Item	30 June 2016	31 March 2016	31 December 2015
Net Tier 1 Capital	550,569	551,948	533,430
Balance of adjusted on-and-off-balance sheet items	8,739,883	8,199,075	7,956,127
Leverage ratio (%)	6.30	6.73	6.70

For more information about the Group's leverage ratio, please refer to "Supplementary Information on Capital Adequacy Ratio and Leverage Ratio".

(V) Liquidity Coverage Ratio

The Group calculates the liquidity coverage ratio pursuant to *Rules on Liquidity Risk Management of Commercial Banks (Provisional)* and relative statistics system. The monthly average liquidity coverage ratio of the Group in the second quarter in 2016 was 112.50%, an increase of 1% from the first quarter of 2016, which was mainly due to the effect of increase in qualified high-quality liquid assets. The ratios at each month end within the second quarter were in compliance with the regulatory requirements, and were stable as a whole. The qualified high-quality liquid assets mainly include securities issued or guaranteed by sovereignties with zero risk weighting, issued by public sectors with 20% risk weighting and usable central reserve with central banks available under stressed situation. The details of average monthly liquidity coverage ratio in the second quarter of 2016 are listed below:

(in millions of RMB unless otherwise stated)

SN		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,238,964
Cash Outflow			
2	Retail deposits, small business deposits	1,421,850	122,931
3	Stable deposit	382,328	18,979
4	Less stable deposit	1,039,522	103,952
5	Unsecured wholesale funding	3,290,783	1,292,403
6	Including: Business relationship deposit (excluding trust business)	2,259,552	562,748
7	Non-business relationship deposit (including all counterparties)	1,027,936	726,360
8	Unsecured debt	3,295	3,295
9	Secured funding		11,687
10	Other items	575,152	36,851
11	Including: Cash outflow relates to derivatives and other pledged assets	1,772	1,772
12	Cash outflow relates to loss of secured funding	575	575
13	Committed credit and liquidity facilities	572,805	34,504
14	Other contractual funding obligation	11,937	7,098
15	Contingent funding obligations	1,017,567	23,994
16	Total expected cash outflow		1,494,964
Cash Inflow			
17	Secured lending, including reverse repos and securities borrowing	50,557	44,208
18	Cash inflow relates to repay under normal terms of business	674,621	411,258
19	Other cash inflow	21,123	11,784
20	Total expected cash inflow	746,301	467,250
			Amount after adjustment
21	The qualified high-quality liquid assets		1,155,788
22	Net cash outflow		1,027,714
23	Liquidity Coverage Ratio (%)		112.50

(VI) Risk Management

In the first half of 2016, the Group continually focused on "Full Coverage, Whole Process, Risk Management Culture and Responsibility Accountability System", improved the risk management system, optimised credit investment structure, strengthened management and control over key fields, enhanced credit risk monitoring, deepened risk management over market and liquidity, operation, compliance, reputation and country, and thus provided strong and firm support for the reform, innovation, transformation and development of the Group.

1. Risk appetite

The Board of Directors established "Stability, Balance, Compliance and Innovation" as the overall risk appetite of the Group. During the Reporting Period, the Group adhered to its concept on compliance operation, so as to comply with the external regulatory requirements and strengthen the internal policies and relevant controls. The Group constantly enhanced its risk management to support its business development strategy and controlled the risks of transformation and innovation effectively. The Group insisted pursuing a stable and balanced development, maintaining a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In the first half of 2016, the implementation of the Group's overall risk appetite was overally satisfactory. All indicators of the risk tolerance levels and risk limits were stable.

2. Risk management framework

The Board of Directors assumes the ultimate responsibility and is authorised for decision-making for the Bank's risk management. The Bank monitored and controlled the bank-wide risk management matters through the Risk Management and Related Party Transactions Control Committee. The Bank's senior management established a "1+3+2" Risk Management Committee, i.e., the Comprehensive Risk Management Committee, under which three sub-committees had been established, 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/Non-credit Review Committee and the High-risk Assets Review Committee had also been established. Each tier-1 branch, overseas branch and subsidiary 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 a unified and coordinated risk management system.

3. Risk management tool

The Group acknowledged the importance 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, optimised its risk monitoring mode proactively, and monitored information such as enterprises' asset value, investing activities, cash flow and counter-parties from all directions in real-time, in order to achieve effective identification, positioning and warning of risks. Furthermore, the Group enhanced monitoring of middle office over market risk, interest rate risk 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 also continued to optimise the econometric models and management systems which covered credit risk, market risk, operational risk, liquidity risk, interest rate risk and other risks. The Group has been consistently monitoring, analysing and optimising its operation model, so as to upgrade its advanced methods and the research and development of new measures. The Group has applied econometric results extensively in customer access, quota management, risk monitoring and control as well as performance appraisal.

4. Credit risk management

Credit risk is one of the major risks which the Group is facing, mainly attributable to its loan business, treasury business, international business, on-balance-sheet wealth management and direct investment business. 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 Group controlled the credit risk within acceptable range to achieve a balance between risk and return.

The optimisation of credit assets structure is driven by the principles set out in the credit underwriting policy. The Group developed, issued and implemented the 2016 Bank of Communications Credit and Risk Policy Outline and industry investment guidance to provide effective service for economic growth of entities and the implementation requirements of structural reform. The investment appetite in the first half of 2016 was aligned with the operation and demand characteristics of the current macro-economy, which continuously decreased the loan balance in industries with excess capacity under limit management and control.

The Group strengthened the risk management and control in key areas. It strengthened the risk monitoring of group customers and evaluated the closeness and suitability between the Bank and customers based on the development strategy and business sector layout. The Group focused on risk management over bills business, developed and issued guiding opinions on risk management and control over bills business, innovated risk monitoring method of bills business and organised operation units to carry out authenticity investigation into trade background of suspicious bills. The Group also carried out risk investigation into industries with excess capacity, focused on key customers and took targeted risk management and control measures. Besides, the Group investigated investment risk of enterprise bonds, enhanced negative information monitoring of bond issuers and evaluated and analysed risks of bond portfolio.

The Group focused on mitigating risks and releasing pressure on credit asset quality. Firstly, the Group firmly pushed forward with reducing exposures and strengthening credit enhancements. In the first half of 2016, the Bank cumulatively reduced credit exposure by RMB51.34 billion, and enhanced credit exposure of RMB13.59 billion. Secondly, focusing on improving asset coverage, the Group reduced the potential losses by strengthening guarantee and reducing risk exposures. Lastly, the Group simultaneously took various measures to reduce non-performing loans, the non-performing loans were reduced by RMB36 billion in the first half of 2016.

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 principal and interest in a timely manner. For corporate credit assets, based on the core regulatory definition, the Bank has referenced 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.

As at the end of June 2016, the Group's balance of non-performing loans was RMB61.364 billion/1.54%, increased by RMB5.158 billion/0.03 percentage point from the beginning of the year. The breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities were as follows:

(in millions of RMB unless otherwise stated)

Categories	30 June 2016 Balance	30 June 2016 Proportion (%)	31 December 2015 Balance	31 December 2015 Proportion (%)	31 December 2014 Balance	31 December 2014 Proportion (%)
Pass	3,800,125	95.39	3,547,697	95.32	3,296,815	96.07
Special mention	122,267	3.07	118,103	3.17	91,903	2.68
Total performing loan balance	3,922,392	98.46	3,665,800	98.49	3,388,718	98.75
Sub-standard	23,697	0.59	22,953	0.62	16,103	0.47
Doubtful	22,297	0.56	22,521	0.61	18,680	0.54
Loss	15,370	0.39	10,732	0.28	8,234	0.24
Total non-performing loan balance	61,364	1.54	56,206	1.51	43,017	1.25
Total	3,983,756	100.00	3,722,006	100.00	3,431,735	100.00

As at the end of June 2016, the breakdown of the Group's migration rate stipulated by the Chinese banking regulatory authorities were as follows:

Downward migration rates (%)	January to June 2016	2015	2014
Pass	1.52	2.52	2.59
Special mention	17.93	27.32	24.43
Sub-standard	31.09	32.14	52.64
Doubtful	28.26	21.78	18.90

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.

5. Market risk management

The market risks to which the Bank is primarily exposed included interest rate risk and foreign exchange risk (gold included).

The Bank established and improved a market risk management framework with clarified segregation of duties, sound policies and procedures, enhanced measurement system, timely analysis and monitoring of market risk management system, in order to control and prevent market risks, and to enhance 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, thereby maximising risk-adjusted profits.

In the Reporting Period, the Bank further improved its market risk management framework by continuing to optimise the market risk management information system, including modifying the administrative measures on market risk limits, developing the valuation models, parameters, and market data for new businesses and new products, carrying out independent verification on the new models, optimising market risk management models and allocation, and reviewing data quality on a regular basis.

The Bank continued to improve the application of the results from market risk measurement into management's practice. The Bank was able to obtain the daily capital transaction positions of the entire bank and the 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 perspectives such as different risk factors, different investment portfolios and products, using the historical simulation method, and it was also applied to capital measurement using the internal model, monitoring of limits, performance assessment, risk monitoring and analysis. The Bank performed reverse testing on a daily basis 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 reveal that the market risk measurement model is able to timely capture the financial market changes and objectively reflect market risks which the Bank encounters.

The Bank actively responded to market changes. It carried out studies on various hot topics such as the increase in interest rate and currency appreciation of US dollars, the marketisation of Renminbi interest rate and exchange rate, and Brexit, to provide comments and suggestions as references for management's decision making. Meanwhile, the Bank closely followed the new trend of governance over market risk both domestically and internationally. It actively got involved in CBRC's quantitative testing and performed in-depth 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

The Bank's liquidity management aims to fully identify, effectively measure, continuously monitor, and appropriately control the liquidity risks of the entire bank and its products, business lines, business processes, and entities at all layers, in order to carry out the business operations in an orderly manner.

During the Reporting Period, the Bank continued to strengthen its projections on the macroeconomic financial situation and the market trend of interest rates. Through the existing communication protocols of monthly liquidity management meetings and weekly business update meetings, the Bank made necessary adjustments to optimise its asset and liability composition in order to ensure the coordinated development of the source of funds and its application. The Bank predicted possible liquidity gap and made arrangements in advance. It increased the frequency of communication on the prediction of cash positions during the day and any sudden changes in temporary fund to ensure liquidity is safe. The Bank improved its liquidity risk management framework in accordance with regulatory requirements. Limits were set based on the risk appetite on liquidity risk and funds transfer pricing (FTP) tool was used to balance the liquidity and profitability in order to establish Renminbi and foreign currency cash management system in an orderly and stable manner.

7. Operational risk management

The Group endures operational risks as they are inevitable, and it requires large-scale investments in order to manage the operational risks effectively. The Group emphasized the reasonable control of the investment cost and opportunity cost of the operational risk management.

The Group has established a comprehensive management framework for operational risks which is appropriate for its business nature, scale and product complexity to manage and regulate operational risks as well as self-assessment on controls, collection of loss data, key risk factors monitoring, and procedures over the management of operational risk incidents.

During the Reporting Period, the Group continued to enhance the level of its operational risk management. The Group re-checked and identified operational risks and controls of key business processes, and has been promoting the utilisation of operational risk management tool of direct forces. The Group strengthened management and control over illegal fund raising risks. It developed and issued opinions on management and control over illegal fund raising risks, performed special investigation on monitoring of account funds, and continuously monitored and promptly eliminated illegal fund raising risks. The Group investigated risks of several businesses such as personal pledged loan and financing of bills pool, and further improved the system process and optimised the system function based on the investigation. Besides, the Group standardised business outsourcing management and strengthened the review and evaluation of information technology risk in business outsourcing. The Group evaluated catastrophic risks, and clarified and improved contingency plans and continuity plans of key businesses.

8. Legal compliance and anti-money laundering

The Group has been striving to continually improve its legal compliance risk management framework, strengthening and improving the legal compliance management mechanism, innovating ways and enriching tools to manage legal and compliance matters, and promoting the integration management and control of legal compliance risk so that to provide strong legal compliance support and protection for deepened reform.

During the Reporting Period, the Group constantly enhanced the overall quality and efficiency of legal compliance management. Firstly, the Group strengthened the monitoring of overseas compliance risk. The Group properly responded to overseas regulatory inspection, investigated business in high risk nation and steadily implementing "Prudential standards". Secondly, the Group effectively managed and controlled the seal risks. The Group promoted electronic seal management, comprehensively optimised seal system, sorted out seals, and established a list of person in charge of seal management and special reporting system for seal risk cases. Lastly, the Group provided support and safeguard for legal compliance. The Group focused on handling risk events in key projects, innovative businesses and major lawsuits. It also strengthened the management of rules and regulations and re-examined the rules and regulations comprehensively.

The Group continued to improve the management effectiveness in terms of anti-money laundering by carrying out centralised processing, inspection and acceptance work on suspicious trades in the Bank and strengthening the management of identity information of individual customers and the risk management and control over high-risk businesses.

9. Reputational risk management

The Group continued to improve the reputational risk management framework to effectively prevent the risk of negative comments from various stakeholders in the Group's operation, management, any other behaviours or external events, and to handle different types of incidents giving rise to reputational risk appropriately.

During the Reporting Period, the Group paid close attention to strengthen the recognition, warning, assessment and monitoring of reputational risks, aimed to track and monitor the appearance and changes of the reputational risk factors in real time, and promptly adjusted corresponding strategy and measures to make sure that negative public opinions were actively responded and the reputational risk was under control.

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

The Group continued to improve its cross-industry, cross-border, risk management framework with "centralised management, clarified responsibilities, complete and adequate system tools, IT support, quantified risks, and pragmatic consolidation". It promoted all subsidiaries and overseas entities to take into account both the Group's standardised requirements and the respective requirements from local regulatory governing bodies while performing risk management in order to prevent additional risks arising from cross-industry and cross-border operations.

During the Reporting period, the Group continued to strengthen risk management over cross-industry and cross-border business. The Group regularly assessed overall risks of subsidiaries and overseas branches by incorporating them into the Group's comprehensive risk management structure and risk limit management system and carrying out unified measurement and monitoring on dimensional business exposures including correlative industries, customers and regions of the Group.

The Group enhanced the country risk management. In response to the "Belt and Road Initiatives", a state development strategy, the Group involved relevant countries and regions into the scale of country risk assessment to continuously intensify control over country risk tolerance. As at the end of June 2016, country-specific (economic units) risk exposure of the Group after risk transfer was RMB530.540 billion, which accounted for 6.67% of total assets of the Group, among which 47.47% were located in Hong Kong region. The country-specific (economic units) risks were controllable.

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.

(VII) Operations of Major Subsidiaries

1. BoCOM Fund

BoCOM Fund 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.

As at the end of the Reporting Period, BoCOM Fund's total assets was RMB456.871 billion and realised a net profit of RMB251 million.

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 Provincial Communications Investment Group Co., Ltd. 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.

As at the end of the Reporting Period, the amount of fiduciary trust managed by BoCOM International Trust was RMB586.169 billion and the net profit was RMB429 million.

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, transfer of lease receivables to commercial banks, issuing financial bonds, interbank lending and borrowings, foreign exchange loan, sale and disposal of residual value of rentals, business and financial consulting, and other businesses approved by the CBRC.

As at the end of the Reporting Period, the leasing asset balance was RMB156.329 billion, and net profit was RMB973 million.

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 were set up.

As at the end of the Reporting Period, BoCommLife Insurance's total assets were RMB18.264 billion and net assets were RMB2.367 billion. During the Reporting Period, BoCommLife Insurance's accumulated premium income was RMB8.814 billion and net profit was RMB230 million.

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; investment banking, stock brokerage services, 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 the Reporting Period, its total assets were HKD9.357 billion and its net profit was HKD138 million.

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.

As at the end of the Reporting Period, BoCOM Insurance's net profit amounted to HKD7.39 million for the year, and net assets and total insurance assets were HKD551 million and HKD665 million, respectively.

7. Dayi BoCOM Rural Bank

Dayi BoCOM Rural Bank was set up in September 2008 with a registered capital of RMB60 million and is 61% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBRC.

As at the end of the Reporting Period, its total assets were RMB1.850 billion, total due to customers were RMB1.131 billion and total loans amounted to RMB1.001 billion.

8. Anji BoCOM Rural Bank

Anji BoCOM Rural Bank was set up in April 2010 with a registered capital of RMB180 million and is 51% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlements, bill acceptances and discounts, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBRC.

At the end of the Reporting Period, its total assets were RMB1.789 billion, total due to customers were RMB1.406 billion and total loans amounted to RMB1.272 billion.

9. Xinjiang Shihezi BoCOM Rural Bank

Xinjiang Shihezi BoCOM Rural Bank was set up in May 2011 with a registered capital of RMB150 million and is 51% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlements, bill acceptances and discounts, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBRC.

As at the end of the Reporting Period, its total assets were RMB2.994 billion, total due to customers were RMB2.547 billion and total loans amounted to RMB2.276 billion.

10. Qindao Laoshan BoCOM Rural Bank

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. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlements, bill acceptances and discounts, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBRC.

As at the end of the Reporting Period, its total assets were RMB1.349 billion, total due to customers were RMB1.144 billion and total loans amounted to RMB847 million.

(VIII) OUTLOOK

In the second half of 2016, macroeconomic and financial environment will remain complex and uncertain. Affected by insufficient demands for effective financing and the lack of high-quality asset resources, banks are facing relatively high pressure to generate profits. Real economy operation is facing greater risks, which will speed up the exposure of various risks and bring severe challenges to the banks' risk management. The ongoing international and domestic financial regulation reform and the increasingly prudent and stringent regulatory policies have set higher requirements for banks' operation in compliance with laws and regulations. Meanwhile, earnings coexists with risks, and opportunities with challenges. The reinforcement in industry integration and reorganisation during "de-capacity" process has brought new opportunities for banks' asset allocation. With industrial restructuring, there is a good momentum of development in fields relating to consumption and people's livelihood, and the future development potential in consumer finance is extensive. In addition, the implementation of strategy of "Belt and Road Initiatives" and "Go Global", as well as Renminbi internationalisation, have also brought new development room for the banks' international business and overseas business.

In the second half of 2016, keeping a close eye on changes in economic situation, monetary policies, regulatory rules and market circumstances, the Group will be determined and confident to respond, take action, seek improvement in stability, and continuously improve operating efficiency and competence. We will focus on the followings. The first is to actively serve the real economy. We will discover development opportunities by effectively following the state's structural reform on the supply side, accelerate the cultivation of new momentum of development, reform and improve our traditional comparative advantages. The second is to continuously push forward reform and innovation. We will promote the optimisation of the organisational structure and process of front-stage module, deepen divisional and quasi-divisional structure reformation, and further improve the assessment and resources allocation mechanism. The third is to optimise allocation of assets and liabilities and keep level of credit spreads stable. With a view to widen profit margins, we will increase source of non-interest income by speeding up transformation and promoting innovation more vigorously. The fourth is to prevent and control risks strictly. We will improve the risk management structure of institutions directly controlled by Head Office and enhance risk prevention and mitigation capabilities to keep asset quality basically stable. The fifth is to continuously optimise "531" system. We will promote the application of the "531" system in overseas branches and subsidiaries in an orderly manner, so as to build a uniform product promotion platform, where domestic and overseas businesses are linked, all modules are combined with one another and information is shared among subsidiaries.

Strategic Cooperation with HSBC

A key point of the Bank's deepening reform is to further strengthen strategic cooperation with HSBC. During the Reporting Period, with the stable equity ties as a foundation, BoCom and HSBC steadily improved their achievements in business cooperation and realised mutual benefits and joint developments through constantly improving the top-level design of strategic cooperation, optimising the top-to-bottom cooperative communication mechanism, establishing global regulatory trends communication system and conducting two-way technical exchange and cooperation.

Continuous and close communication among top management of both banks. During the Reporting Period, BoCom and HSBC had held one top management meeting, one summit conference and one Executive Chairman regular meeting, with a view to reviewing the cooperation results of 2015 and setting quantifiable objectives for the cooperation in 2016, as well as discussing potential cooperation opportunities and strengthening cooperation consensus based on the conjunction of respective development strategy and business development. Meanwhile, top management of the two banks had held four informal meetings in respect of global banking regulatory trends, risk and compliance management, IT systems, operation management, etc., with a view to sharing regulatory information and management experience.

Further improvement on top-level design of strategic cooperation. Mr. Peter Wong Tung Shun, President of HSBC, was elected as Vice Chairman of the Bank (qualification pending for approval by CBRC), indicating that the strategic partnership between the two banks had been further strengthened and the top-level design of cooperation had been further improved. In the future, the two banks will take this opportunity to comprehensively deepen cooperation in key fields such as "1+1 Global Financial Service", overseas business, capital settlement, and custody and fund consignment.

Jointly coping with changes in domestic and overseas regulatory environments. Led by the Chairmen of both banks and the Chairman of the Group, the two banks explored and established a regular communication mechanism relating to global banking regulatory trends, had in-depth exchange of views in respect of current regulatory issues such as Hong Kong Competition Law, International Financial Reporting Standards ("IFRS") No. 9, Total Loss Absorption Capacity (TLAC), implementation of the New Basel Capital Accord and Anti-money Laundering and compliance management, and shared management and compliance experience, so as to jointly cope with challenges brought about by the profound changes in domestic and overseas regulatory environments.

Enhancement on key business cooperation. Both banks insisted on the "cooperation priority" principle and fully utilised the complementary advantages on their customers and networks, maintaining sound cooperation in fields such as credit card, "1+1 Global Financial Service", overseas syndicated loan and offshore bond issue, and fund custody and consignment.

– Credit card business maintained rapid development. Credit card business is a field in which the two banks have cooperated for the longest time and reached the most remarkable achievements. As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 3.99 million from the beginning of the year to 47.14 million. In the first half of 2016, the accumulated spending volume reached RMB885.2 billion, ranking the fourth in the market.

– "1+1 Global Financial Service" was pushed forward steadily. Through full utilisation of the complementary advantages on their customers, capital and networks, and with the implementation of the BoCom-HSBC "1+1" mode, the two banks jointly provided cross-border comprehensive financial services to customers and proactively supported Chinese enterprises to "go global". During the Reporting Period, the two banks provided overseas syndicated banking service in respect of overseas projects to three state-owned companies in total. The cooperation amount was equivalent to approximately RMB3.9 billion. Moreover, through active co-marketing activities, more training and instruction to domestic working teams and close communication and coordination, the two banks reserved multiple potential cooperation projects in key cooperation areas including Fujian, Guangdong, Shanghai and Shandong.

– Overseas cooperation was continuously deepened. The sound cooperation trend was maintained in Hong Kong, where 8 syndicated loans and 6 bonds were issued through their cooperation during the Reporting Period, with a total amount increasing year on year by 179.27% to approximately USD22.9 billion. In addition, by replicating their cooperation experience in Hong Kong, BoCom and HSBC actively carried out substantial cooperation, including medium-term notes issuance, certificates of deposits issuance and syndicated loans cooperation in Macau, Seoul, Singapore and London, as well as forfaiting and risk participation in Taipei, Singapore, New York and London.

– Share of fund custody and consignment grew rapidly. During the Reporting Period, both banks' assets under custody of each other through mutual referral of products increased by 53.32% from the beginning of the year to approximately RMB67 billion. In respect of fund consignment, as at the end of the Reporting Period, the Bank succeeded in consignment of sixteen HSBC Jintrust Fund products, an increase of one product as compared with the beginning of the year, and the corresponding consignment scale was RMB1.98 billion.

Furthermore, both banks continued to maintain positive communication and sound cooperation in fields such as direct connection of hosts, Renminbi and US dollar settlement, asset management and precious metal business.

Two-way deepening of technical exchange and cooperation. The two banks always insisted on the concept of “sharing”, and conducted comprehensive and in-depth communications under the “technical exchange and cooperation” framework. Firstly, they trained the top management and core teams of both banks in strategic thinking and domestic and overseas market experience. Secondly, they trained the working teams of both banks specifically in “1+1 Global Financial Service”. Thirdly, they conducted work exchange in fields such as Cross-border Interbank Payment, bonds underwriting and supply chain management. Fourthly, HSBC continued to provide specific training to the Bank’s management trainees, and delegated risk management experts to share HSBC’s credit risk management experience with the Bank as well as build an exchange platform for the risk management teams of both banks.

Increasingly enriched connotation of cooperation. As financial groups established over a century ago, both banks deem that vigorously fulfilling social responsibility is their common goal and development concept. In the first half of 2016, driven by the top management of both banks, the two banks extended their strategic cooperation to public charity. With the first public charity cooperation project “Caring for the Old and Serving the Ageing Community”, they shared the concept, measures and project operation experience in respect of engaging in public charity, and advocated the public charity brand of BoCom-HSBC “1+1”.

Looking into the future, fully seizing the trend that China’s economy is blending in global economy, closely following up the strategy of “Belt and Road Initiatives”, the progress of Renminbi internationalisation and the opportunities of potential cooperation, and continuing the good trend in existing cooperation fields, the two banks will continue to perfect their cooperation mode and mechanism by actively exploring new cooperation fields such as International M&A and green bonds issuance, so as to realise greater achievements through their cooperation.

(I) Changes in share capital

As at 30 June 2016, 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 accounted for 52.85% and 47.15%, respectively. All the ordinary shares issued by the Bank are shares not subject to sales restrictions.

	31 December 2015		Changes (+/-) during the Reporting Period					30 June 2016	
	Number of shares (share)	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	-	-	-	-	-	-	-	-	-
II. Shares not subject to sales restrictions	74,262,726,645	100.00	-	-	-	-	-	74,262,726,645	100.00
1. RMB ordinary shares	39,250,864,015	52.85	-	-	-	-	-	39,250,864,015	52.85
2. Domestically-listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas-listed foreign shares	35,011,862,630	47.15	-	-	-	-	-	35,011,862,630	47.15
III. Total	74,262,726,645	100.00	-	-	-	-	-	74,262,726,645	100.00

(II) Shareholdings of the shareholders (According to the Bank's register of members maintained at its share registrars)

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 432,346, of which 394,115 were holders of A shares and 38,231 were holders of H shares.

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 (share)	Percentage (%)	Number of shares held subject to sales restrictions (share)	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]	422,587	14,943,587,650	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	573,236,991	2,050,446,886	2.76	-	Nil	State-owned legal person
Capital Airports Holding Company	-	1,246,591,087	1.68	-	Nil	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	-	808,145,417	1.09	-	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	-	794,557,920	1.07	-	Nil	State-owned legal person
China FAW Group Corporation	-	663,941,711	0.89	-	Nil	State-owned legal person
Yunnan Hongta Group Co., Ltd.	-	658,467,013	0.89	-	Nil	State-owned legal person

Notes:

1. Unless otherwise stated, the Bank is not aware 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 30 June 2016.
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at 30 June 2016. 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 30 June 2016, 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 SFO for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the information provided by SSF to the Bank, as at 30 June 2016, 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 30 June 2016, 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.

(III) Controlling shareholders/actual controllers

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

During the Reporting Period, the Bank's shareholders with shareholding of 5% or more had no changes.

(IV) Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the SFO

As at 30 June 2016, 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 (share)	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 (share)	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 30 June 2016, 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 Note 3, Note 4, and Note 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 30 June 2016, 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 as at the End of the Reporting Period

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 RMB14.982 billion. After deduction of commission and issuance expenses, the issuance of overseas preference shares has raised net proceeds of approximately RMB14.924 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 per share)	Nominal dividend yield (%)	Number of shares issued (share)	Total amount of shares issued (USD)	Listing date	Number of shares approved for trading (share)
4605	BOCOM 15USDPREF	29/07/2015	20	5.00	122,500,000	2,450,000,000	30/07/2015	122,500,000

On 10 December 2015, the Bank received *Approval on the Issuance of Domestic Preference shares by Bank of Communications Co., Ltd.* (Yin Jian Fu [2015] No. 660) issued by CBRC, and on 22 June 2016, the Bank received *Approval on the Private Placement of Preference Shares by Bank of Communications Co., Ltd.* (Zheng Jian Xu Ke [2016] No. 1312) issued by CSRC, pursuant to which the Bank is permitted to conduct a private placement of no more than 450 million domestic preference shares. Currently, relevant work regarding the non-public issuance of domestic preference shares is still in progress.

(II) Preference Shareholders

1. Total number of preference shareholders

Total number of preference shareholders as at the end of the Reporting Period	1

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

Unit: Share

Shareholdings of the Top 10 Preference Shareholders							
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	Number of shares pledged or frozen: Status of shares	Number of shares pledged or frozen: 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 shareholders 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 30 June 2016.
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

On 28 April 2016, the 20th Meeting of the Seventh Session of the Board of Directors of the Bank approved the Bank's plan for the first-time dividend distribution of overseas preference shares. The total dividends in respect of overseas preference shares paid by the Bank for this time were USD136,111,111, including the actual payment of USD122,500,000 to preference shareholders at the (after-tax) dividend rate (i.e., 5%) agreed under the issuance clauses of overseas preference shares, and the income tax withholding of USD13,611,111 at the tax rate of 10% in accordance with relevant laws and regulations, which was borne by the Bank. Above dividends were fully paid in cash on 29 July 2016.

(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 recognised as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

(I) Members of the Board of Directors

Name	Position	Name	Position
Niu Ximing	Chairman of the Board of Directors and Executive Director	Liu Haoyang	Non-executive Director (designate)
Peng Chun	Vice Chairman of the Board of Directors, Executive Director and President	Peter Hugh Nolan	Independent Non-executive Director
Yu Yali	Executive Director and Executive Vice President	Chen Zhiwu	Independent Non-executive Director
Hou Weidong	Executive Director, Executive Vice President and Chief Information Officer	Choi Yiu Kwan	Independent Non-executive Director
Hu Huating	Non-executive Director	Yu Yongshun	Independent Non-executive Director
Wang Taiyin	Non-executive Director	Li Jian	Independent Non-executive Director
Liu Changshun	Non-executive Director	Liu Li	Independent Non-executive Director
Peter Wong Tung Shun	Vice Chairman of the Board of Directors (designate), Non-executive Director	Jason Yeung Chi Wai	Independent Non-executive Director (designate)
Helen Wong Pik Kuen	Non-executive Director	Danny Quah	Independent Non-executive Director (designate)
Liu Hanxing	Non-executive Director (designate)	Wang Neng	Independent Non-executive Director (designate)
Luo Mingde	Non-executive Director (designate)		

Note:

1. Qualifications for designate Directors were pending for approval by CBRC.
2. According to the resolutions of 2015 annual general meeting, the term of office of Mr. Choi Yiu Kwan, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu, the Independent Non-executive Directors of the Seventh Session of the Board of Directors, will expire on the date when qualifications of Mr. Jason Yeung Chi Wai, Mr. Danny Quah and Mr. Wang Neng are approved by CBRC, so as to comply with the regulations on the proportion of number of independent non-executive directors.

(II) Members of the Supervisory Committee

Name	Position	Name	Position
Song Shuguang	Chairman of the Supervisory Committee	Tang Xinyu	External Supervisor
Gu Huizhong	Shareholder Representative Supervisor	Xia Zhihua	External Supervisor
Yan Hong	Shareholder Representative Supervisor	Chen Qing	Employee Representative Supervisor
Zhao Yuguo	Shareholder Representative Supervisor	Du Yarong	Employee Representative Supervisor
Liu Mingxing	Shareholder Representative Supervisor	Fan Jun	Employee Representative Supervisor
Zhang Lili	Shareholder Representative Supervisor	Xu Ming	Employee Representative Supervisor

(III) Senior Management

Name	Position	Name	Position
Peng Chun	President	Wang Jiang	Executive Vice President
Yu Yali	Executive Vice President	Du Jianglong	Secretary of the Board of Directors
Shou Meisheng	Secretary of Commission for Discipline Inspection	Lv Benxian	Director of Corporate Banking Business
Hou Weidong	Executive Vice President and Chief Information Officer	Wu Wei	Chief Financial Officer
Yang Dongping	Chief Risk Officer	Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant
Shen Rujun	Executive Vice President		

Note: Mr. Shou Meisheng no longer held a concurrent post as Executive Vice President of the Bank since July 2016.

(IV) Changes in Directors, Supervisors, Senior Management

Name	Position	Change
Peter Wong Tung Shun	Vice Chairman of the Board of Directors	Elected
Helen Wong Pik Kuen	Non-executive Director	Elected
Liu Hanxing	Non-executive Director	Elected
Luo Mingde	Non-executive Director	Elected
Liu Haoyang	Non-executive Director	Elected
Jason Yeung Chi Wai	Independent Non-executive Director	Elected
Danny Quah	Independent Non-executive Director	Elected
Wang Neng	Independent Non-executive Director	Elected
Zhao Yuguo	Shareholder Representative Supervisor	Elected
Liu Mingxing	Shareholder Representative Supervisor	Elected
Zhang Lili	Shareholder Representative Supervisor	Elected
Xia Zhihua	External Supervisor	Elected
Xu Ming	Employee Representative Supervisor	Elected
Ma Qiang	Non-executive Director	Retired (due to election of new session of the Board of Directors)
Zhang Yuxia	Non-executive Director	Retired (due to election of new session of the Board of Directors)
Lu Jiahui	External Supervisor	Retired (due to election of new session of the Supervisory Committee)
Teng Tieqi	Shareholder Representative Supervisor	Retired (due to election of new session of the Supervisory Committee)
Dong Wenhua	Shareholder Representative Supervisor	Retired (due to election of new session of the Supervisory Committee)
Li Jin	Shareholder Representative Supervisor	Retired (due to election of new session of the Supervisory Committee)
Gao Zhongyuan	Shareholder Representative Supervisor	Retired (due to election of new session of the Supervisory Committee)
Shuai Shi	Employee Representative Supervisor	Retired (due to election of new session of the Supervisory Committee)

Notes:

1. As considered and approved at the Twentieth Meeting of the Seventh Session of the Board of Directors, Mr. Peter Wong Tung Shun was elected as Vice Chairman of the Board of Directors, while his qualification was pending for approval by CBRC.
2. As considered and approved at the 2015 annual general meeting of the Bank, Ms. Helen Wong Pik Kuen, Mr. Liu Hanxing, Mr. Luo Mingde and Mr. Liu Haoyang were elected as the non-executive Directors and Mr. Jason Yeung Chi Wai, Mr. Danny Quah and Mr. Wang Neng as the independent non-executive Directors. As at the date of this report, the qualification of Ms. Helen Wong Pik Kuen has been approved by the CBRC, while the qualifications of the other above-mentioned elected Directors were pending for approval by CBRC.
3. As considered and approved at the 2015 annual general meeting of the Bank, Mr. Zhao Yuguo, Mr. Liu Mingxing and Ms. Zhang Lili were elected as the Shareholder Representative Supervisors, and Ms. Xia Zhihua as External Supervisor. In the general meeting of Employee Representatives, Mr. Xu Ming was elected as Employee Representative Supervisor.
4. Upon the end of 2015 annual general meeting of the Bank, Mr. Ma Qiang and Ms. Zhang Yuxia retired as the non-executive Directors; Mr. Lu Jiahui retired as the External Supervisor; Mr. Teng Tieqi, Mr. Dong Wenhua, Mr. Li Jin and Mr. Gao Zhongyuan retired as Shareholder Representative Supervisors; Mr. Shuai Shi retired as the Employee Representative Supervisor.

(V) Shareholdings of Directors, Supervisors and Senior Management

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Reason for changes
Mr. Niu Ximing	Chairman and Executive Director	A share	210,000	–	210,000	–
		H share	310,000	–	310,000	–
Peng Chun	Vice Chairman, Executive Director and President	A share	150,000	–	150,000	–
		H share	50,000	–	50,000	–
Song Shuguang	Chairman of the Supervisory Committee	A share	130,000	–	130,000	–
		H share	50,000	–	50,000	–
Yu Yali	Executive Director and Executive Vice President	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Hou Weidong	Executive Director, Executive Vice President and Chief Information Officer	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Hu Huating	Non-executive Director	A share	80,000	–	80,000	–
		H share	30,000	–	30,000	–

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Reason for changes
Wang Taiyin	Non-executive Director	A share	80,000	–	80,000	–
		H share	30,000	–	30,000	–
Liu Changshun	Non-executive Director	A share	50,000	–	50,000	–
		H share	30,000	–	30,000	–
Shou Meisheng	Secretary of Commission of Discipline Inspection	A share	79,100	–	79,100	–
		H share	20,000	–	20,000	–
Yang Dongping	Chief Risk Officer	A share	150,000	–	150,000	–
		H share	20,000	–	20,000	–
Shen Rujun	Executive Vice President	A share	0	–	0	–
		H share	20,000	–	20,000	–
Wang Jiang	Executive Vice President	A share	0	–	0	–
		H share	30,000	–	30,000	–
Du Jianglong	Secretary of the Board of Directors	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Lv Benxian	Director of Corporate Banking Business	A share	80,000	–	80,000	–
		H share	40,000	–	40,000	–
Wu Wei	Chief Financial Officer	A share	46,000	–	46,000	–
		H share	20,000	–	20,000	–
Ng Sin On	HSBC-Bocom Strategic Cooperation Consultant	A share	0	–	0	–
		H share	30,000	–	30,000	–
Chen Qing	Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Du Yarong	Employee Representative Supervisor	A share	60,000	–	60,000	–
		H share	20,000	–	20,000	–

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Reason for changes
Fan Jun	Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Xu Ming	Employee Representative Supervisor	A share	0	40,000	40,000	Purchased from secondary market
		H share	180,000	–	180,000	–
Shuai Shi	Former Employee Representative Supervisor	A share	40,600	–	40,600	–
		H share	31,000	–	31,000	–

Note: In the Bank's general meeting of Employee Representatives, Mr. Xu Ming was elected as Employee Representative Supervisor, with effect from the date of the 2015 annual general meeting. On the date of 2015 annual general meeting, Mr. Shuai Shi retired as the Employee Representative Supervisor.

Save as disclosed above, as at 30 June 2016, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 as set out in Appendix 10 to the Hong Kong Listing Rules to be notified to the Bank and the Hong Kong Stock Exchange.

(VI) Basic Information of Employees and institutions

As at 30 June 2016, the Bank had a total of 90,891 domestic and overseas employees, of which 88,565 employees were based domestically and 2,326 were local employees in overseas branches.

	30 June 2016					
	Assets (In millions of RMB)	Percentage (%)	Number of institutions	Percentage (%)	Number of employees	Percentage (%)
Northern China	1,138,921	14.31	464	14.19	11,200	12.32
North Eastern China	371,671	4.67	386	11.80	9,241	10.16
Eastern China	2,465,053	30.98	1,183	36.18	38,052	41.87
Central and Southern China	1,399,258	17.59	710	21.71	17,611	19.38
Western China	713,751	8.97	470	14.38	9,846	10.83
Overseas	755,571	9.50	56	1.71	2,326	2.56
Head Office	3,564,054	44.80	1	0.03	2,615	2.88
Offset and undistributed assets	(2,451,957)	(30.82)				
Total	7,956,322	100.00	3,270	100.00	90,891	100.00

The Bank had strictly complied with the relevant laws, regulations and regulatory rules such as the *Company Law*, the *Securities Law* and the *Commercial Banking Law*, and continued to improve the effectiveness of the corporate governance, fully ensuring and safeguarding the legitimate interests and benefits of the domestic and foreign shareholders and other stakeholders.

During the Reporting Period, the Board of Directors confirmed that the Bank has fully complied with the code provisions under the *Corporate Governance Code* as set out in Appendix 14 of the *Hong Kong Listing Rules*, and had followed most of the recommended best practices contained in the *Corporate Governance Code*.

(I) Annual General Meeting

During the Reporting Period, the Bank held 2015 annual general meeting, reviewed and passed resolutions to 11 proposals, including, among others, *Work Report of the Board of Directors for 2015, Report of the Supervisory Committee of Bank of Communications Co., Ltd. for 2015, 2015 Financial Account of Report of Bank of Communications Co., Ltd., Resolutions on Election Plan of the Board of Directors* and *Resolutions on the Election Plan of the Supervisory Committee*.

The Seventh Session of the Board of Directors and Supervisory Committee came to the expiration of their terms of office in the 2015 annual general meeting in which the new session of the Board of Directors and Supervisory Committee were elected. The Bank hereby would like to express our gratitude to every retired Directors and Supervisors for their hard work and great contribution to deepening reform and transformation development, continuous improvement of effectiveness of corporate governance, regulation on the operation of the Board of Directors and Supervisory Committee.

(II) Board of Directors

During the Reporting Period, the Board of Directors held 4 meetings, and considered and approved 45 resolutions. The five Special Committees under the Board of Directors held 14 meetings during the Reporting Period, and considered and passed 48 resolutions or reports. All the Directors actively attended the meetings of the Board of Directors and Special Committees under the Board of Directors and fulfilled their duties diligently, giving full play to the strategic decision-making function of the Board of Directors and decision consulting function of the Special Committees.

1. Continually enhanced the effectiveness of corporate governance. Firstly, new session of the Board of Directors was successfully elected in compliance with laws and regulations. Members of the new session of the Board of Directors had years of working experience and professional background in economic and finance sector, which continuously preserved the international, professional and diversified characteristics of the Board of Directors and the Special Committees. Secondly, in accordance with the domestic and overseas regulatory requirements, the former Risk Management Committee and Social Responsibility Committee

was renamed as Risk Management and Related Party Transactions Control Committee, and Social Responsibility and Consumer Protection Committee by the Board of Directors with corresponding update on the rules of work and duties of the Committee amended to continuously strengthen the related party transactions management and protection of customers' rights. Thirdly, the strategic decision-making role of Board of Directors, supervisory role of Supervisory Committee and full authority of Senior Management for authorised operation were fully performed, steadily advancing the authorised operation mechanism reform in the level of corporation governance and operation management.

2. Pushed forward the "BoCom strategy". As an internationalised and integrated bank featuring wealth management business, the Bank further improved the overseas layout of banking entities. During the Reporting Period, the Board of Directors approved to set up banking entities in Prague, Czech Republic and Warsaw, Poland, and properly launched the overseas development strategy with "Asia-Pacific as basis and Europe and America as two wings to expand the global layout", so as to continuously improve the overseas operation and service capabilities. At the end of the Reporting Period, the AUM of overseas banking entities increased by 6.09% from the beginning of the year to RMB743.907 billion, the net profits of which during the Reporting Period increased by 29.67% on a year-on-year basis to RMB2.679 billion, accounted for 7.11% of the Group's net profit, representing an increase of 1.57 percentage points on a year-on-year basis. Secondly, the Bank increased the integrated business advantage. Business interactivity between subsidiaries and the Group continued to deepen and maintain a good momentum of development. During the Reporting Period, net profit attributable to the parent company from the subsidiaries (excluding Bank of Communications (UK) Limited and Bank of Communications (Luxembourg) Limited) amounted to RMB1.909 billion, representing a year-on-year increase of 22.77%, the proportion of which to the net profit of the Group increased by 0.90 percentage point to 5.07% on a year-on-year basis. Thirdly, the Bank strengthened the capital strength of subsidiaries. During the Reporting Period, the Board of Directors approved to increase the capitals of BoCOM International Trust, BoCOM Leasing and BoCommLife Insurance, further improving the capital strength and transformation development capability of the three subsidiaries.

3. Comprehensively enhanced the risk management. Firstly, the Bank intensified the decision-making leadership role of risk management of the Board of Directors. Actively coping with situation changes, the Bank focused on comprehensive risk management with the core elements of "Full Coverage, Whole Process, Responsibility Tracing and Risk Management Culture" to continuously upgrade risk management techniques and improve risk management process, so as to continuously strengthen the Group's capability of comprehensive risk management. Secondly, the Bank strengthened risk management and control over key business fields. The Bank continued to focus on risk investigation in key business fields such as domestic factoring, coal, steel, bulk commodity financing, financial bills and internet

finance, so as to ensure the authenticity and stability of asset quality. Thirdly, the Bank enhanced the compliance management of overseas banking entities. The Bank paid highly attention to the compliance operation of overseas banking entities, enhanced the level of risk management of overseas banking entities and urged to strengthen the compliance and anti-money laundering management of overseas banking entities, providing safeguard to support the internationalisation strategy. Fourthly, the Bank performed solid internal control. During the Reporting Period, the Board of Directors continued to perform internal control management, and considered and formulated the Internal Control Outline, so as to further improve the internal control system and continue to enhance the internal control work.

4. Actively implemented capital management functions. Firstly, as considered and approved at the 2015 annual general meeting, the Bank proposed to issue eligible Tier-2 capital bonds with write-down features in interbank bond market in China with a total amount no more than RMB30 billion, to supplement Tier-2 capital, optimise the capital structure and promote steady business development. Secondly, with the aim of actively promote the national concept of green development and expanding the funding source, the Board of Directors approved to issue green finance bonds with a total amount no more than RMB70 billion, so as to optimise the liability structure and enhance the Bank's capacity of serving the real economy.

(III) Supervisory Committee

During the Reporting Period, the Bank's Supervisory Committee held 3 meetings, and considered and approved 15 proposals, such as Periodic Report, Report of Financial Account, Profit Distribution Plan, *Opinion of the Supervisory Committee on the Discharge of Duty by the Board of Directors and Senior Management in 2015, Internal Control Self-Appraisal Report for 2015, Corporate Social Responsibilities Report for 2015, Report of the Supervisory Committee for 2015, 2016 Work Plan of the Supervisory Committee,* and *2015 Report of Self-evaluation on Duties Performed by the Supervisory Committee.* Furthermore, the Bank established the Eighth Session of the Supervisory Committee and Performance and Due Diligence Committee, Nomination Remuneration Committee, and Financial and Internal Control Supervision Committee. The Supervisory Committee continued to innovate work mode, gradually improved the overall work layout "directed by strategic supervision, based on financial supervision, risk and internal control supervision and emphasised on fulfilling responsibility supervision", explored and built a work system that organically connected "two supervisions and one evaluation, two meetings and one review, connected supervision and self-development", and improved the breadth and depth of supervision.

All the Supervisors earnestly attended the Supervisory Committee's meetings and Special Committees' meetings, and also attended the Board of Directors' meetings and other Special Committees' meetings as observers. They diligently fulfilled their duties to exert positive effects on maintenance of shareholders' interest and improvement of the level of governance.

(IV) Senior Management

The Bank's Senior Management consists of President, Executive Vice President, Secretary of Commission for Discipline Inspection, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Secretary of the Board of Directors, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. During the Reporting Period, Senior Management diligently implemented the resolutions of the Board of Directors and conducted the Bank's operation and management activities in accordance with laws, regulations, the Articles of Association and the authorisation of the Board of Directors.

(V) Internal control

1 Statement of the Board of Directors on internal control responsibility

The Board is responsible for 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, the *Corporate Governance Code* as set out in Appendix 14 of the *Hong Kong Listing Rules* and relevant guidelines, as well as other regulatory requirements on internal control, assessing its effectiveness and disclosing the internal control assessment report truthfully. 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 and Related Party Transactions Control 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 Bank's internal control aims to ensure compliance of the Bank's business activities with the provisions of national laws and the Bank'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 Bank 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, the *Corporate Governance Code* as set unit in Appendix 14 of the *Hong Kong Listing Rules* 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, which remained stable and effective.

(VI) Investor Relations

During the Reporting Period, following the principle of improving information transparency and maintaining legal right and interest of investors, the Group continued to keep smooth communication with the market and investors by means of multiple channels and methods such as “bring in and go out” and “online + offline”, so as to maintain its image as an active bank in the capital market.

The Bank enriched communication channels to keep smooth communication with the market. It dynamically delivered its development status including strategy, operation and management in an all-around way through various activities including analyst meeting, international roadshow, receiving visits from investors and participating in investment forum. During the Reporting Period, the Group held 2 results release press conferences in Hong Kong and Shanghai and 1 European and American global roadshow; the investor relation team received 25 daily visits from institutional investors and analysts, held 3 cross-border telephone meetings and participated in 5 domestic and overseas investors’ forums.

The Bank expanded the communication platform to achieve a good interaction with the investors. It delivered important information such as operation development to the market via investor mailbox, investor hotline, investor relation column on the website, SSE e-interaction Platform and WeChat official account, etc., and answered investor-concerned problems. In July 2016, the Bank actively participated in activities on the collective reception date of listed companies investors under Shanghai jurisdiction, and the Senior Management team responded to several investor-concerned hot issues.

During the Reporting Period, 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 Group proactively performed its corporate social responsibilities and maximised the interests of all stakeholders, including shareholders, clients and employees, reaching the world's top class level in carrying out its social responsibilities. The Bank was re-awarded the "Best Social Responsibility Award for Financial Institution" by the China Banking Association.

(I) Economic Responsibility

The Group gave proactive support to the real economy, promoted all-inclusive financial services, actively adhered to major national strategies, served key fields of real economy and constantly optimised credit structure. The Bank supported financial areas that are beneficial to people's livelihood such as SMEs, agriculture-related enterprises, the science, education, culture and public health sectors, and affordable housing projects, to demonstrate the Bank's strong commitment to fulfilling its corporate social responsibilities.

1. The Group earnestly implemented the national macro-economic financial policies and continued to perfect industry (region) policies and investment guidance and credit and risk policy outline, and optimised its level in serving real economy in combination with its own business development. The Bank proactively implemented the national strategies and supported the key construction projects under "three support belts", i.e. "Belt and Road Initiatives", "Coordinated Development of the Beijing, Tianjin, and Hebei Region" and Yangtze River Economic Zone. The Bank made great efforts to explore major projects with profound influence and beneficial to the society, such as urban infrastructures, road and railway transportation and power and energy which are procured by the government. In addition, the Bank strengthened its support to the people's livelihood areas such as gas, water, health care and education, expanded basic customers, provided comprehensive financial service solutions for high-quality customers as well as explored diversified cooperation modes between banks and hospitals and between banks and schools, with an view to enhancing the customer contribution. As at the end of the Reporting Period, the financing made to agriculture, forestry, husbandry and fishing, gas and water, the science, education, culture and public health sectors grew at a faster pace than the average of the whole bank industry.

2. The Group made constant innovation to financial services and financial products, strengthening its financial support to SMEs. As at the end of the Reporting Period, the balance of loans to SMEs in domestic branches that met the qualification of four national ministries and commissions increased by RMB30.333 billion from the beginning of the year to RMB654.791 billion; number of customers increased by 285 from the beginning of the year to 141,642; the loan acquisition rate of SMEs increased by 1.75 percentage points from the beginning of the year to 88.71%. During the Reporting Period, relying on the project-based system, the Bank innovated the business mode to reduce the financing costs of SMEs. Focusing on livelihood security, the science, education, culture and public health as well as consumption upgrading, the Bank reinforced the credit policies and investment guidance to SMEs and actively expanded characteristic industrial customers. Applying new technologies such as big data analysis, the Bank promoted its innovative products such as "POS loans" and "Wo Yi Loans", which effectively reduced the operating costs of SME businesses. The Bank strengthened the resource support and built specialised institutions to enhance the professionalism of financial services to technological innovation-based enterprises. Moreover, the Bank proactively connected with the third-party data platform, developed the customers in batch through integration of customer resources and reinforced the data mining and precise marketing to enhance the comprehensive financial services to SMEs.

(II) Environmental Responsibility

The Bank made further progress in the implementation of its "Green Credit" project, and continued to improve the related management system. Meanwhile, the Group was dedicated to reducing the negative impact on the environment by official means. The Youth League Committee of the Bank launched "BoCom Youth Tree-planting" project and "Blue Sky Credits" micro public activity, as part of the effort to build a beautiful China.

1. The Group thoroughly implemented the system and policy requirements relevant to "Green Credit", constantly deepened "Green Credit" policy, actively mitigated risk of overcapacity and constantly reinforced the environmental and social performance. In the first half of 2016, the green finance business developed healthily across the Bank, where number of "green" customers and the relative credit balance remained at high levels while energy-saving and environmental protection sector continued to increase steadily. As at the end of the Reporting Period, the proportion of "green" customers and the relative credit loan balance remained above 99%. The loans to "green" customers characterised by low-carbon consumption, environmental protection and integrated use of natural resources increased by 7.35% from the beginning of the year to RMB219.842 billion. Meanwhile, the Bank actively implemented the "de-capacity" requirements in China by constantly strengthening management and control over risks in overcapacity industry and high energy-consumption industry and continued to optimise the credit structure.

2. The Group was 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. As at the end of the Reporting Period, the channel diversion rate and substitution rate of e-banking services of domestic branches increased significantly by 2.29 percentage points and 2.13 percentage points from the beginning of the year to 90.42% and 82.08% respectively. The Bank continued to consummate the institution layout and proactively developed community branch outlet service, pilot outlet service and innovative business mode. "Intelligent self-service counter" has substituted 10 high-frequency daily transactions, which fundamentally realised a new service model of "Self-service on machines by customers and cooperation for identification verification by relationship manager", a convenient financial service mode for customers.

(III) Social Responsibility

While the Group carried out steady operations and rewarded its shareholders with good financial results, it also actively addressed the concerns of various stakeholders and achieved new progress in areas such as customer services, caring for employees and devotion to public welfare.

1. The Group put efforts into improving service quality and efficiency and constantly enhancing the service brand recognition. According to the 2016 retail banking customer satisfaction ranking published by J.D. Power Asia Pacific, the Bank ranked No. 1 with a total score of 846 in three consecutive years. The Bank attached great importance to daily customer opinion management, required that all customer complaints must be addressed in 5 working days and included the handling timeliness and quality in performance appraisal. During the Reporting Period, the Bank earnestly consolidated the protection of customer rights. Pursuant to the first resolution of 8th meeting of the Board of BoCom, the former Corporate Social Responsibility Committee under the Board of Directors was renamed Social Responsibility and Consumer Protection Committee. In addition, the Bank amended rules of work of customer rights protection to further improve the management on customer rights protection system. The Bank also set the national complaint hotline and tipoff hotline in all business institutions, set sales specialised area and comprehensively carried out "video and radio recoding" for the sales.

2. The Bank paid constant attention to the development of its employees, strengthened the complete process management of education and training of the whole bank and provided comprehensive training programs for employees at various levels, segments and positions. During the Reporting Period, the Group solidly carried out education of "Learning party rules and president Xi Jinping's speeches to be a qualified party member" and strengthened professional training for transformation development. The Bank smoothly held seminars for principals of departments directly under the State Council, rotation training for secretary of the Communist Party Committee of banks directly managed by provinces and orientation training for manager level cadre. In addition, the Bank launched 8 expert talents trainings for personal financing, operation, budget and finance, assets and liabilities and IT fields, promoted trainings for elite relationship managers and "Youth Talents" with 1,180 trainees determined as well as made great efforts to put forward Internet training and training for newly recruited bank employees, aiming to improve the professional ethics of the employees. At the same time, the Bank's caring for employees work was innovated and upgraded. During the Reporting Period, the Bank released the happiness index of BoCom in 2015 which increased by 1.4 scores from 2014 to 66.09 scores and continued to optimise the "Healthy BoCom" platform. In total 102,645 employees (including dispatched and outsourced employees) logged onto the platform, which broke through the 100 thousand mark for the first time, and the total number of sports individuals reached 65,668 with accumulated sports mileage of 55.024 million kilometres, equivalent to the distance of going around the globe for 1,373 times. The Bank upgrades the "healthy hut" version 2.0 to form a brand-new service mode of "intensive chronic disease management + health product offering". As at the end of the Reporting Period, the number of employees participating in one-to-one health management services reached 2,682 and a total of 15,318 people used various devices for detecting blood sugar, blood oxygen, blood pressure, heart rate and body mass index ("BMI"). The Bank also extended condolence themed "Tie to the workers and warm the workers" to 3,989 employees suffering from low income by donating RMB14.34 million. The employee mutual aid committee continued to operate orderly. It gave subsidies to 93 employees suffering from serious illness and difficulties, with subsidy amount of RMB1,075.1 thousand, to help them out. Moreover, the Bank carried out various cultural, art and sports activities to enrich employees' personal life.

3. The Group actively participated in social charity projects, made great efforts to eliminate poverty and improve people's livelihood, provided long-term investment in special education and put great efforts to help those who suffer from sudden natural disasters. During the Reporting Period, the Bank set up a poverty alleviation leadership team with Head Office and branches in charge and made five-year plan and annual plan for the poverty alleviation. The Bank leaders took the lead to conduct field investigation on the impoverished locations and selected outstanding cadre to take temporary posts at the impoverished locations. The Bank invested RMB2 million in the construction of 95 solar greenhouses in Shengou village, Dachaigou Town in Tianzhu County, Gansu Province. It is estimated that 420 people of 95 households will be benefited from the projects after greenhouses are put into use, with an income increase of RMB16 thousand for each household. The Bank drew on strengths to attract investments and explored to introduce the combination of solar photovoltaic power generation and agricultural planting technology as well as photovoltaic power generation and husbandry technology from Qingdao New Energy Solutions Inc. The total installed capacity is expected to reach 50MW with total investment of approximately RMB1 billion, expected to provide tax revenue of approximately RMB6.25 million per year for Litang County with at least 300 jobs and RMB3,000 a year for each household of 2,000 recorded poor households. Recently, the Company has signed an investment cooperation framework agreement with the Government of Litang County and proactively promoted the "Internet +" poverty alleviation through initiating employees to purchase agricultural byproducts amounting to over RMB1.4 million on the electronic poverty alleviation centre of the county, opening the market for the agricultural products from the impoverished locations. Moreover, the Bank actively aided in poverty alleviation in multiple modes such as poverty alleviation through education and through technology, aiming to accelerate the pace in alleviating poverty and increasing income in the poverty-stricken county. During the Reporting Period, the "Gateway to Tomorrow" – BoCom award to distinguished disabled students on special education programme entered the last phase, with RMB8 million donated to support poor or disabled students, teacher training and to award distinguished special education instructors, with "change collection box" project continued. The Bank donated over RMB1.2 million to the earthquake stricken areas in south Tibet and Kumamoto, Japan and tornado-stricken area in Yancheng, Jiangsu Province, manifesting the Bank's good image of corporate citizenship.

(I) Profit distribution

1 Implementation of the Profit Distribution Plan during the Reporting Period

The profit distribution plan of the Bank for the year of 2015 was considered and approved at the 2015 annual general meeting of the Bank held on 27 June 2016. Based on the total issued shares of 74.263 billion common shares as at 31 December 2015, a cash dividend of RMB0.27 (before tax) per share was distributed, totalling RMB20.051 billion. The aforesaid final dividends have been paid to holders of H shares and A shares of the Bank on 29 July 2016 and 13 July 2016, respectively.

On 28 April 2016, the 20th Meeting of the Seventh Session of the Board of Directors approved the Bank's plan for the first-time dividend distribution of overseas preference shares. The total dividends in respect of overseas preference shares paid by the Bank for this time were USD136,111,111, including the actual payment of USD122,500,000 to preference shareholders at the (after-tax) dividend rate (i.e., 5%) agreed under the issuance clauses of overseas preference shares, and the income tax withholding of USD13,611,111 at the tax rate of 10% in accordance with relevant laws and regulations, which was borne by the Bank. Above dividends were fully paid in cash on 29 July 2016.

2 Proposal on payment of semi-annual dividend and proposal on conversion of capital reserve into share capital

The Bank will not distribute an interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2016.

3 Implementation of the Bank's cash dividend distribution policy during the Reporting Period

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

(II) Shareholdings in other companies

1 Holdings of equity interest in other listed companies

(Unless otherwise stated, in RMB)

Stock code	Stock short name	Initial investment amount	Shareholding as at the beginning of the Reporting Period (%)	Shareholding as at the end of the Reporting Period (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
400061	CHANGYOU5	434,579,719.46	5.83	3.95	611,971,298.76	–	(180,224,557.24)	Financial investments – available-for-sale	Foreclosed assets
400062	ERZHONG5	701,956,676.49	5.79	5.44	398,085,075.00	–	54,404,960.25	Financial investments – available-for-sale	Foreclosed assets
00354	Chinasoft International Ltd.	72,552,120.00	1.26	1.16	64,527,585.00	–	(2,704,260.00)	Financial investments – available-for-sale	Equity investment
V	Visa Inc.	6,066,233.02	–	–	45,768,663.04	–	(1,575,438.08)	Financial investments – available-for-sale	Equity investment
600068	GEZHOUBA	17,784,002.74	0.14	0.14	37,830,005.82	–	(13,325,002.05)	Financial investments – available-for-sale	Foreclosed assets
600066	YUTONG BUS	12,185,581.64	0.03	0.03	12,897,739.80	(309,119.73)	–	Financial assets at fair value through profit or loss	Equity investment
601939	CCB	11,668,984.37	–	–	11,738,960.00	836,870.07	–	Financial assets at fair value through profit or loss	Equity investment
000568	Luzhou Laojiao	7,643,743.26	–	0.02	8,910,000.00	671,082.00	578,385.74	Financial assets at fair value through profit or loss/Financial investments – available-for-sale	Equity investment
000002	Vanke A	3,818,250.18	–	–	6,636,727.09	–	–	Financial assets at fair value through profit or loss	Equity investment
002408	Qixiang Tengda	6,391,549.23	–	0.06	6,039,000.00	142,775.53	(352,549.23)	Financial investments – available-for-sale	Equity investment
000043	AVIC Real Estate	5,847,502.95	–	0.01	5,775,000.00	–	(72,502.95)	Financial investments – available-for-sale	Equity investment
600663	Lujiazui	6,366,589.78	–	0.01	5,687,500.00	353,691.95	(679,089.78)	Financial investments – available-for-sale	Equity investment
600109	Sinolink Securities	5,548,485.83	–	0.01	5,661,600.00	(6,655.10)	113,114.17	Financial investments – available-for-sale	Equity investment
600115	China Eastern Airlines	5,098,045.44	–	0.01	5,288,000.00	225,046.21	189,954.56	Financial investments – available-for-sale	Equity investment
	Others	97,845,087.43			100,877,467.49	(2,892,336.39)	3,645,960.62		
	Total	**1,395,352,571.82**			**1,327,694,622.00**	**(978,645.46)**	**(140,001,023.99)**		

2 Holdings of equity interest in unlisted financial institutions

(Unless otherwise stated, in RMB)

Name of institution	Initial investment amount	Shareholding as at the beginning of the Reporting Period (%)	Shareholding as at the end of the Reporting (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Bank of Tibet Co., Ltd.	300,000,000.00	10.60	10.60	561,133,054.33	38,172,960.00	-	Investments in associates	Equity investment
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	10.00	10.00	489,500,000.00	-	-	Financial investments – available-for-sale	Equity investment
Bank of Hainan	408,000,000.00	10.00	10.00	408,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
China UnionPay Co., Ltd.	146,250,000.00	3.90	3.90	146,250,000.00	-	-	Financial investments – available-for-sale	Equity investment
China National Aviation Fuel Finance Corporation	120,000,000.00	10.00	10.00	120,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
Shaanxi Coal and Chemical Industry Group Finance Corporation	100,000,000.00	10.00	10.00	100,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
Shanghai Sinopharm M&A Equity Investment Fund Partnership	16,000,000.00	1.96	1.96	16,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
Shanghai Chengding Xin Yangzi Investment Partnership	15,000,000.00	2.49	2.49	15,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
Hunan Yangtze River Economic Zone Industrial Fund Management Co., Ltd.	8,000,000.00	-	4.00	8,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
Shanghai Jinxiang Investment Management Co., Ltd.	4,900,000.00	-	49.00	4,900,000.00	-	-	Investments in associates	Equity investment
Henan Civil aviation Industrial Fund Management Co., Ltd.	3,000,000.00	-	30.00	3,000,000.00	-	-	Investments in associates	Equity investment
Guangxi Guangtou Jiaoyin Equity Investment Fund Management Centre (Limited Partnership)	1,000,000.00	-	0.03	1,000,000.00	-	-	Financial investments – available-for-sale	Equity investment
Hangzhou Toufa Jiaoyin Investment Management Co., Ltd.	490,000.00	49.00	49.00	490,000.00	-	-	Investments in associates	Equity investment
Hangzhou Dongyuan Investment Management Co., Ltd.	180,000.00	18.00	18.00	408,153.52	228,153.52	-	Investments in associates	Equity investment
Total	**1,612,320,000.00**			**1,873,681,207.85**	**38,401,113.52**	**-**		

3 Use of proceeds

The Bank conducted a private placement of preference shares of USD2.45 billion in the overseas market in July 2015, the proceeds from which, less issuance expenses, were used to replenish Other Tier-1 Capital of the Bank and increase capital adequacy ratio, so as to support sustainable development of business.

(III) 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 the end of the Reporting Period, the Bank was a defendant or third party of certain outstanding litigations/arbitrations with an aggregate amount of approximately RMB1.587 billion. The Bank anticipated that the above litigations/arbitrations will not have any significant impact on the business, financial position or operating performance of the Group.

(IV) Material contracts and performance of obligations thereunder

1 Material trust, sub-contract and leasing matters

During the Reporting Period, the Group has not entered into any material trust, sub-contract or leasing arrangement in respect of assets of other corporations, nor any trust, sub-contract or leasing arrangement with other corporations with 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 had not provided 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.

(V) Related party transactions

During the Reporting Period, all the transactions between the Group and its related parties were ordinary course of business at arms-length. No significant related party transactions 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 42 to the Financial Statements set out in this Report. Directors, Supervisors and Senior Management of the Bank had outstanding loan balance of RMB4 million in the Bank as at the end of the Reporting Period.

(VI) Asset acquisitions, sales and merger by absorption

On 19 May 2015, the Bank entered into a share transfer agreement and other commitment letters with related thereof the controlling family shareholders of BBM. For further information about the acquisition of shares of BBM, please refer to the Announcement of BoCom on Acquisition of Shares of BBM published on the SSE website, the Hong Kong Stock Exchange HKExnews website and the Bank's official website.

(VII) Asset pledged

Part of the Bank's assets are used as collaterals related to repurchase transactions with other banks and financial institutions, short-position business, and member qualifications of local stock exchanges. Saved as stated, during the Reporting Period, the Bank has no other significant pledged asset which are required to be disclosed.

(VIII) Audit Committee

The Bank has established an Audit Committee under the Board of Directors in accordance with the requirements of the Hong Kong Listing Rules. The main responsibilities of the Audit Committee are to propose the appointment, rotation or termination of the external auditors, to oversee the Bank's internal control policies and its implementation, to communicate between internal and external auditors, to examine and approve financial reports and related disclosures, to examine accounting policies, financial situation and financial reporting process, and examine the operating effectiveness of the Bank's internal control policy. As at the end of the Reporting Period, the six members of the Audit Committee are Mr. Liu Li, Mr. Wang Taiyin, Mr. Liu Changshun, Mr. Choi Yiu Kwan, Mr. Yu Yongshun and Ms. Li Jian, with Mr. Liu Li, an Independent Non-executive Director, being the Chairman. The Audit Committee and Senior Management reviewed the Bank's accounting policies and practices and discussed on issues relating to internal controls and financial reporting, and also reviewed this interim report.

(IX) 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.

(X) Securities transactions by Directors, Supervisors and Senior Management

The Bank requires the Directors, Supervisors and Senior Management of the Bank to strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares issued by the CSRC*, and the *Model Code* as set out in Appendix 10 to the Hong Kong Listing Rules. In addition, the Bank has adopted the *Model Code* as the code of conduct of the Bank in relation to securities trading by the Directors, Supervisors and Senior Management of the Bank. The Bank has made specific enquiries of all the Directors, Supervisors and Senior Management of the Bank and all of them confirmed that they had complied with the above-mentioned rules during the Reporting Period.

(XI) Appointment of accounting firm

With the approval at the 2015 annual general meeting, the Bank has continued to appoint PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Group in accordance with China Accounting Standards and to provide other related professional services, and appoint PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Bank in accordance with IFRS and to provide other related professional services. The term of appointment starts upon the approval on the date of the Bank's 2015 annual general meeting, and ceases at the end of day of 2016 annual general meeting. The overall remuneration is RMB28.88 million.

(XII) Share incentive

As at 30 June 2016, the exercise amount of the share appreciation rights of 2.724 million shares granted by the Bank to its Senior Management in 2006 has not changed. Details of the share appreciation rights are set out in Note 12 to the Financial Statements in this Report.

(XIII) Disciplinary actions against the listed company, its Directors, Supervisors, Senior Management, shareholders with more than 5% shareholdings, actual Controllers and acquirers

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors, Senior Management or shareholders with more than 5% shareholdings was subject to any investigation, administrative penalty or circulation of criticism by CSRC or public reprimand by the stock exchanges.

(XIV) Major Events after the Reporting Period

On 25 August 2016, the Board of Directors approved the proposed application for quotation and open transfer of the shares of Xinjiang Shihezi BoCOM Rural Bank Ltd., a subsidiary of the Bank, on the National Equities Exchange and Quotations. The proposed quotation does not involve any issue of new shares by Xinjiang Shihezi BoCOM Rural Bank Ltd., the shareholding structure of which will remain unchanged immediately upon the completion of the proposed quotation. The implementation of the proposed quotation will be subject to, among other things, approvals from the Hong Kong Stock Exchange and the National Equities Exchange and Quotations Co. Ltd. For detailed information, please refer to the announcements of the Bank published on the websites of Shanghai Stock Exchange, and the official website of the Bank on 25 August 2016.

On 25 August 2016, the Board of Director approved the proposed listing of BOCOM international on main board of the Hong Kong Stock Exchange, pursuant to which the shares to be issued by BOCOM international under the initial public offering will not exceed 28% of the total shares after the offering (after exercise of over-allotment option), and the specific time for the offering is subject to the conditions of overseas capital market, the approval progress and other conditions. The overseas listing arrangement is subject to the approval of shareholders of the Bank and relevant regulatory authorities. Upon completion of the initial public offering, the Bank will continue to be the absolute controlling shareholder of BOCOM international, and BOCOM international will continue to be a subsidiary of the Bank. For detailed information, please refer to the announcements of the Bank published on the websites of Shanghai Stock Exchange, HKEx, and the official website of the Bank on 25 August 2016.

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

SN	Name	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. 5 Qingnian 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

SN	Name	Address
20	Bank of Communications Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province
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	Shijihui Plaza, No. 3018 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 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 Rue de la Chapelle, Luxembourg, L1325
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.	Oriental Financial Centre, No.333 Lujiazui Ring Road, Pudong New District, Shanghai Ruitong Square, No. 847 Jianshe Avenue, Wuhan
5	Bank of Communications Financial Leasing Co., Ltd.	Oriental Financial Centre, No.333 Lujiazui Ring Road, Pudong New District, Shanghai
6	BoCommLife Insurance Company Limited	Oriental Financial Centre, No.333 Lujiazui Ring Road, Pudong New District, 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	Qindao Laoshan BoCOM Rural Bank Ltd.	No. 458 Xianggang East Road, Laoshan District, Qingdao City, Shandong Province

羅兵咸永道

REVIEW REPORT ON CONDENSED INTERIM FINANCIAL INFORMATION
TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 105 to 213, which comprises the interim condensed consolidated statement of financial position of Bank of Communications Co., Ltd (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
25 August 2016

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	Six months ended 30 June	
		2016	2015
Interest income		144,361	152,283
Interest expense		(76,213)	(81,224)
Net interest income	4	68,148	71,059
Fee and commission income	5	22,238	20,972
Fee and commission expense	6	(1,274)	(1,586)
Net fee and commission income		20,964	19,386
Net gains/(losses) arising from trading activities	7	1,095	(336)
Net gains arising from financial investments		520	944
Share of profit of associates		38	43
Insurance business income		8,764	3,028
Other operating income	8	4,080	3,022
Impairment losses on loans and advances to customers	9	(14,807)	(11,454)
Insurance business expense		(8,161)	(3,576)
Other operating expenses	10	(32,144)	(33,827)
Profit before tax		48,497	48,289
Income tax	13	(10,574)	(10,783)
Net profit for the period		37,923	37,506
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		364	490
Changes in fair value reclassified from equity to profit or loss		(225)	58
Net gains/(losses) arising from cash flow hedge		(9)	(5)
Translation difference on foreign operations		754	(36)
		884	507
Item that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on pension benefits		(24)	19
Other comprehensive income for the period	37	860	526
Comprehensive income for the period		38,783	38,032
Net profit attributable to:			
Shareholders of the Bank		37,661	37,324
Non-controlling interests		262	182
		37,923	37,506
Total comprehensive income attributable to:			
Shareholders of the Bank		38,609	37,828
Non-controlling interests		174	204
		38,783	38,032
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	0.50	0.50

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

Unaudited Condensed Consolidated Statement of Financial Position

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

	Notes	As at 30 June 2016	As at 31 December 2015
ASSETS			
Cash and balances with central banks	15	1,040,308	920,228
Due from banks and other financial institutions	16	651,493	611,191
Financial assets at fair value through profit or loss	17	196,012	173,309
Loans and advances to customers	19	3,891,431	3,634,568
Financial investments – loans and receivables	20	341,771	323,679
Financial investments – available-for-sale	20	295,075	264,739
Financial investments – held-to-maturity	20	1,205,326	933,683
Investments in associates	21	623	577
Property and equipment	22	98,170	90,393
Deferred income tax assets	23	15,564	16,684
Other assets	24	220,549	186,311
Total assets		7,956,322	7,155,362
LIABILITIES			
Due to banks and other financial institutions	25	2,024,521	1,641,239
Financial liabilities at fair value through profit or loss	26	73,194	62,461
Due to customers	27	4,734,627	4,484,814
Certificates of deposits issued	28	183,508	89,265
Current tax liabilities		8,282	8,604
Deferred income tax liabilities	23	130	119
Debt securities issued	29	179,250	170,106
Other liabilities	30	197,316	160,662
Total liabilities		7,400,828	6,617,270
EQUITY			
Share capital	31	74,263	74,263
Preference shares	32	14,924	14,924
Capital surplus	31	113,392	113,392
Other reserves		271,842	259,208
Retained earnings		78,094	73,098
Equity attributable to shareholders of the bank		552,515	534,885
Non-controlling interests		2,979	3,207
Total equity		555,494	538,092
Total equity and liabilities		7,956,322	7,155,362

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 25 August 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.

Unaudited Condensed Consolidated Statement of Changes in Equity

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

				Other reserves										
	Share capital Note 31	Preference shares Note 32	Capital surplus Note 31	Statutory reserve Note 33	Discretionary reserve Note 33	Statutory general reserve Note 33	Revaluation reserve for available-for-sale financial assets	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Retained earnings Note 33,34	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2016	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
Net profit for the period	–	–	–	–	–	–	–	–	–	–	37,661	37,661	262	37,923
Other comprehensive income	–	–	–	–	–	–	227	(9)	754	(24)	–	948	(88)	860
Total comprehensive income	–	–	–	–	–	–	227	(9)	754	(24)	37,661	38,609	174	38,783
Purchase of non-controlling interest	–	–	–	–	–	–	–	–	–	–	(44)	(44)	(367)	(411)
Distribution of dividends on ordinary shares	–	–	–	–	–	–	–	–	–	–	(20,051)	(20,051)	(35)	(20,086)
Distribution of dividends on preference shares	–	–	–	–	–	–	–	–	–	–	(884)	(884)	–	(884)
Transfer to reserves	–	–	–	61	–	11,625	–	–	–	–	(11,686)	–	–	–
Balance at 30 June 2016	74,263	14,924	113,392	44,159	139,764	87,278	1,835	(73)	(1,114)	(7)	78,094	552,515	2,979	555,494
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 period	–	–	–	–	–	–	–	–	–	–	37,324	37,324	182	37,506
Other comprehensive income	–	–	–	–	–	–	526	(5)	(36)	19	–	504	22	526
Total comprehensive income	–	–	–	–	–	–	526	(5)	(36)	19	37,324	37,828	204	38,032
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	267	267
Distribution of dividends on ordinary shares	–	–	–	–	–	–	–	–	–	–	(20,051)	(20,051)	–	(20,051)
Transfer to reserves	–	–	–	51	34,522	3,197	–	–	–	–	(37,770)	–	–	–
Others	–	–	(53)	–	–	–	–	–	–	–	–	(53)	–	(53)
Balance at 30 June 2015	74,263	–	113,443	37,573	139,764	74,746	657	(5)	(3,020)	30	51,328	488,779	3,021	491,800

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

Unaudited Condensed Consolidated Statement of Cash Flows

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

	Notes	Six months ended 30 June	
		2016	2015
Cash flows from operating activities:			
Profit before tax:		48,497	48,289
Adjustments for:			
Impairment allowances on loans and advances to customers		14,807	11,454
Impairment of finance lease receivables		320	138
Provision for/(reversal of) impairment of financial investments		(5)	581
Provision for/(reversal of) impairment of other receivables		30	(153)
Provision for impairment losses on foreclosed assets		16	23
Impairment allowances on repossessed assets		–	2
Insurance contracts reserve		5,555	1,681
Depreciation and amortization		3,786	3,439
Provision for/(reversal of) outstanding litigation and unsettled obligation		10	30
Net gains on disposal of property and equipment		(12)	(2)
Net gains on disposal of foreclosed assets		(1)	(108)
Interest income from financial investments		(31,162)	(22,859)
Unwind of discount on allowances during the period		(955)	(989)
Fair value losses/(gains)		(724)	460
Share of profit of associates		(38)	(43)
Net gains arising from financial investments		(520)	(944)
Interest expense on debt securities issued		3,718	2,982
Interest expense on certificates of deposits issued		1,663	703
Operating cash flows before movements in operating assets and liabilities		44,985	44,684
Net decrease/(increase) in mandatory reserve deposits		(28,423)	6,410
Net increase in due from banks and other financial institutions		(100,991)	(127,102)
Net increase in financial assets at fair value through profit or loss		(32,718)	(46,223)
Net increase in loans and advances to customers		(270,715)	(279,366)
Net increase in other assets		(35,362)	(29,629)
Net increase in due to banks and other financial institutions		383,282	290,933
Net increase in financial liabilities at fair value through profit or loss		20,004	3,033
Net increase in due to customers		249,813	484,898
Net increase in other liabilities		6,462	17,600
Net increase/(decrease) in value added tax and other taxes payable		(837)	444
Income tax paid		(9,498)	(9,735)
Net cash generated from operating activities		226,002	355,947

Unaudited Condensed Consolidated Statement of Cash Flows *(Continued)*

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

	Notes	Six months ended 30 June	
		2016	2015
Cash flows from investing activities:			
Purchase of financial investments		(728,017)	(369,090)
Disposal or redemption of financial investments		408,715	182,623
Dividends received		208	54
Interest received from financial investments		31,867	23,706
Purchase of non-controlling interests		(411)	–
Acquisition of intangible assets and other assets		(298)	(653)
Disposal of intangible assets and other assets		14	110
Purchase and construction of property and equipment		(11,552)	(9,429)
Disposal of property and equipment		68	293
Net cash used in investing activities		(299,406)	(172,386)
Cash flows from financing activities:			
Proceeds from debt securities and certificates of deposits issued		192,332	50,565
Interest paid on debt securities and certificates of deposits issued		(1,492)	(1,903)
Dividends paid to ordinary shareholders of the Bank		–	(10,593)
Capital contribution by non-controlling interests of subsidiaries		–	267
Repayment of the principals of debts securities and certificates of deposits issued		(88,360)	(41,676)
Dividends paid to non-controlling interests		(35)	–
Net cash flows from financing activities		102,445	(3,340)
Effect of exchange rate changes on cash and cash equivalents		1,927	(58)
Net increase in cash and cash equivalents		30,968	180,163
Cash and cash equivalents at the beginning of the period		330,435	313,626
Cash and cash equivalents at the end of the period	38	361,403	493,789
Net cash flows from operating activities include:			
Interest received		114,882	131,022
Interest paid		(70,153)	(74,044)

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 reorganized 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 231 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 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

2.1 Basis of preparation and principal accounting policies

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

The Group adopt the going concern basis in preparing its condensed consolidated interim financial information.

These unaudited condensed consolidated financial statements of the Group should be read in conjunction with the 2015 annual consolidated financial statements.

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

Except as described below, the Group's accounting policies applied in preparing these unaudited condensed consolidated financial statements are consistent with those policies applied in preparing the financial reports as at 31 December 2015.

2.1.1 New and revised IFRSs effective by 1 January 2016 applied by the Group

Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
IFRS 14	Regulatory deferral accounts
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

2.1 Basis of preparation and principal accounting policies *(Continued)*

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendments to IAS 7	Statement of cash flows	1 January 2017
Amendments to IAS 12	Income taxes	1 January 2017
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
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.
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Lease	1 January 2019

The Group is considering the impact of IFRS 9, IFRS 16 and IAS 7 on the consolidated financial statements.

Except the above mentioned impact of IFRS 9, IFRS 16 and 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.

2.2 Critical accounting estimates and judgments in applying accounting policies

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

2.3 Critical taxation

Since 1 May 2016, according to the "Notice of Overall Implementation of Pilot Program for Value Added Tax Replacing Business Tax". (Cai Shui [2016] No. 36) which issued by MOF, value added tax replacing the existing business tax will be levied for certain pilot industries, including financial industry, on a national-wide basis. The applicable tax rate is 6%. The business tax is applicable before 1 May 2016 and the tax rate is 5%.

Except for the statements above, the Group has no other significant changes of taxation.

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 analyze 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. 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 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.

3.1 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 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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, interests 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.

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.

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 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.

(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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(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.

3.1.2 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.

(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)*

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.

The value of collaterals at the time of loan origination is determined by the Credit Authorization 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation measures *(Continued)*

(a) Collateral (Continued)

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.

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.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Impairment and provision policies *(Continued)*

The Group periodically identifies potential risks in the corporate loan 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 expected 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.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2016	As at 31 December 2015
Assets		
Balances with central banks	1,023,961	902,581
Due from banks and other financial institutions	651,493	611,191
Financial assets at fair value through profit or loss (debt securities and derivatives)	129,336	133,328
Loans and advances to customers		
– Loans to corporate entities	2,828,996	2,658,147
– Loans to individuals	1,062,435	976,421
Financial investments – loans and receivables	341,771	323,679
Financial investments – available-for-sale (debt securities)	289,649	259,322
Financial investments – held-to-maturity	1,205,326	933,683
Other financial assets	199,096	164,682
Total	7,732,063	6,963,034
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	677,178	778,644
Other credit related commitments	609,314	529,855
Total	1,286,492	1,308,499

(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 (Continued)*

The above table represents a worst case scenario of credit risk exposure to the Group as at 30 June 2016 and 31 December 2015, 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, 50% of the total on-balance sheet exposure is derived from loans and advances to customers (2015: 52%).

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;
- 97.31% of the loans and advances portfolio are neither past due nor impaired (2015: 96.94%);
- The impaired loans to total loans and advances to customers are 1.54% (2015: 1.51%).

3.1.5 *Loans and advances to customers*

	As at 30 June 2016		As at 31 December 2015	
	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	3,876,696	651,493	3,608,277	611,191
Past due but not impaired	45,696	–	57,523	–
Individually impaired	61,364	–	56,206	–
Gross	3,983,756	651,493	3,722,006	611,191
Less: allowance for collectively assessed impairment losses	(64,674)	–	(64,004)	–
allowance for individually assessed impairment losses	(27,651)	–	(23,434)	–
Net	3,891,431	651,493	3,634,568	611,191

Further information of the impairment allowances for loans and advances to customers is provided in Note 19.

(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)*

As at 30 June 2016, the Group's total loans and advances to customers increased by 7.03% 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 30 June 2016		
	Normal	Special-mention	Total
Corporate loans and advances	2,730,753	82,343	2,813,096
Individual loans and advances	1,063,316	284	1,063,600
Total	3,794,069	82,627	3,876,696

	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

(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 30 June 2016					
	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	6,965	3,228	2,461	24,240	36,894	23,114
Individual						
– Mortgages	2,126	682	389	62	3,259	3,114
– Credit Cards	2,909	686	421	2	4,018	–
– Others	518	249	231	527	1,525	1,548
Total	12,518	4,845	3,502	24,831	45,696	27,806
Due from banks and other financial institutions	–	–	–	–	–	–

	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	–
– Others	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	–	–	–	–	–	–

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 realization 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 30 June 2016, impaired loans and advances to customers before taking into consideration the collaterals held are RMB61,364 million (31 December 2015: RMB56,206 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 30 June 2016	As at 31 December 2015
Corporate entities	47,541	44,284
Individual	13,823	11,922
Impaired loans	61,364	56,206
Fair value of collaterals		
Corporate entities	16,794	13,782
Individual	8,003	7,577
Impaired loans	24,797	21,359

No individually impaired due from banks and other financial institutions are held by the Group as at 30 June 2016 and 31 December 2015.

(d) *Loans and advances to customers analysed by security type*

	As at 30 June 2016	As at 31 December 2015
Unsecured loans	1,187,973	1,064,595
Guaranteed loans	812,082	799,315
Collateralised and other secured loans	1,983,701	1,858,096
Including: Loans secured by collateral	1,514,443	1,427,607
Pledged loans	469,258	430,489
Gross amount of loans and advances before impairment allowances	3,983,756	3,722,006

(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 30 June 2016		As at 31 December 2015	
		%		%
North of China (1)	557,012	13.98	544,823	14.64
Northeast (2)	196,156	4.92	190,285	5.11
East of China (3)	1,720,859	43.20	1,590,358	42.73
South and middle of China (4)	746,001	18.73	687,517	18.47
West of China (5)	410,184	10.30	382,623	10.28
Overseas (6)	353,544	8.87	326,400	8.77
Gross amount of loans and advances	3,983,756	100.00	3,722,006	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 30 June 2016		As at 31 December 2015	
		%		%
Corporate loans				
Mining	106,484	2.67	101,647	2.73
Manufacturing				
– Petroleum and chemical	119,708	3.00	125,952	3.38
– Electronics	72,962	1.83	75,424	2.03
– Steel	35,967	0.90	36,879	0.99
– Machinery	122,811	3.08	105,187	2.83
– Textile and clothing	35,870	0.90	40,680	1.09
– Other manufacturing	234,898	5.90	238,027	6.40
Electricity, gas and water production and supply	141,451	3.55	138,256	3.71
Construction	105,027	2.64	109,893	2.95
Transportation, storage and postal service	464,006	11.65	418,057	11.23
Telecommunication, IT service and software	19,083	0.48	13,413	0.36
Wholesale and retail	292,775	7.35	333,903	8.97
Accommodation and catering	36,471	0.92	35,070	0.94
Financial institutions	101,665	2.55	50,832	1.37
Real estate	223,805	5.62	227,061	6.10
Services	295,503	7.42	262,750	7.06
Water conservancy, environmental and other public services	156,183	3.92	132,061	3.55
Education, science, culture and public health	80,733	2.03	71,731	1.93
Others	112,429	2.82	94,420	2.53
Discounted bills	137,917	3.46	117,444	3.16
Total corporate loans	2,895,748	72.69	2,728,687	73.31
Individual loans				
Mortgage	687,711	17.26	604,357	16.24
Credit cards	288,072	7.23	271,542	7.30
Others	112,225	2.82	117,420	3.15
Total individual loans	1,088,008	27.31	993,319	26.69
Gross amount of loans and advances before impairment allowance	3,983,756	100.00	3,722,006	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 30 June 2016	As at 31 December 2015
Neither past due nor impaired	(a)	1,948,091	1,618,254
Past due but not impaired		–	–
Impaired	(b)	1,660	1,661
Gross		1,949,751	1,619,915
Less:	(c)		
Allowance for collectively assessed impairment losses		(2,689)	(2,691)
Allowance for individually assessed impairment losses		(1,556)	(1,522)
Net		1,945,506	1,615,702

(a) *The table below presents an analysis of debt investments that are neither past due nor impaired by independent rating agencies designation as at 30 June 2016 and 31 December 2015*

	As at 30 June 2016				
	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	20,175	42,514	282,661	58,338	403,688
AA- to AA+	7,619	10,523	6,760	21,617	46,519
A- to A+	–	1,401	573	119	2,093
BBB- to BBB+	–	1,117	–	–	1,117
Unrated (1)	315,169	79,387	902,641	10,700	1,307,897
Sub-total	342,963	134,942	1,192,635	90,774	1,761,314
Foreign currency securities					
AAA	–	10,860	39	1,971	12,870
AA- to AA+	–	30,627	2,977	2,931	36,535
A- to A+	–	42,629	4,872	7,590	55,091
BBB- to BBB+	–	19,915	1,576	855	22,346
Unrated (1)	1,393	50,676	3,227	4,639	59,935
Sub-total	1,393	154,707	12,691	17,986	186,777
Total	344,356	289,649	1,205,326	108,760	1,948,091

(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 30 June 2016 and 31 December 2015 (Continued)

	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

[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 30 June 2016				
	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-	–	23	339	–	362
Unrated (1)	–	1,098	–	200	1,298
Total	–	1,121	339	200	1,660

	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

(1) The unrated impaired debt investments were foreign currency denominated bonds and loans and receivables.

(c) *Impairment allowance for debt investments*

	As at 30 June 2016	As at 31 December 2015
Allowance for collectively assessed impairment losses	2,689	2,691
Allowance for individually assessed impairment losses	1,556	1,522
	4,245	4,213

The impaired debt investments were individual impaired loans and receivables, held to maturity and available-for-sale bond investments. As at 30 June 2016 (as at 31 December 2015: Nil), 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, commodities 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 30 June 2016	As at 31 December 2015
Derivatives		
– Foreign exchange and commodity contracts	5,975	16,553
– Interest rate contracts and others	425	455
	6,400	17,008

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 30 June 2016	As at 31 December 2015
Buildings	731	756
Land use rights	155	154
Others	15	15
Gross	901	925
Impairment allowance	(131)	(138)
Net	770	787

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 30 June 2016				
Financial assets				
Balances with central banks	951,714	4,039	68,208	1,023,961
Due from banks and other financial institutions	489,858	81,186	80,449	651,493
Financial assets at fair value through profit or loss (debt securities and derivatives)	101,725	11,676	15,935	129,336
Loans and advances to customers	3,540,558	187,525	163,348	3,891,431
Financial investments – loans and receivables	340,392	–	1,379	341,771
Financial investments – available-for-sale (debt securities)	117,904	41,295	130,450	289,649
Financial investments – held-to-maturity	1,192,267	74	12,985	1,205,326
Other financial assets	183,403	13,823	1,870	199,096
	6,917,821	339,618	474,624	7,732,063
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	651,084	8,882	17,212	677,178
Loan commitments and other credit related commitments	553,068	22,000	34,246	609,314
	1,204,152	30,882	51,458	1,286,492

(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 *(Continued)*

Geographical sectors (Continued)

	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
Loan commitments and other credit related commitments	475,775	21,998	32,082	529,855
	1,235,343	30,605	42,551	1,308,499

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 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 centralized 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, precious metals trading center department, domestic and overseas branches and subsidiaries 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 Net Position, Risk Sensitivity, Value at Risk (VaR) and other indicators. 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 maximize its rate of return while keeping its risks under control.

The Group continuously improved the management system of market risk in 2016. 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	Six months ended 30 June 2016			
	30 June 2016	Average	Maximum	Minimum
VaR	518	385	632	158
– Interest rate risk	165	143	173	111
– Foreign exchange risk	562	355	580	147

Items	Six months ended 30 June 2015			
	30 June 2015	Average	Maximum	Minimum
VaR	125	132	215	118
– Interest rate risk	119	111	244	100
– Foreign exchange risk	66	69	140	31

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 the coming year of the Group based on the structure of interest bearing assets and liabilities as at 30 June 2016 and 31 December 2015, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Expected change in net interest income	
	As at 30 June 2016	As at 31 December 2015
+100 basis points parallel shift in yield curves	13,019	12,652
–100 basis points parallel shift in yield curves	(13,019)	(12,652)

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.

(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)

	Change of other comprehensive income	
	As at 30 June 2016	As at 31 December 2015
+100 basis points parallel shift in yield curves	(4,140)	(3,402)
−100 basis points parallel shift in yield curves	4,219	3,586

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)	
	As at 30 June 2016	As at 31 December 2015
5% appreciation of RMB	(2,256)	(2,768)
5% depreciation of RMB	2,256	2,768

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	
	As at 30 June 2016	As at 31 December 2015
5% appreciation of RMB	(696)	(825)
5% depreciation of RMB	696	825

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

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 cap 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 30 June 2016							
Assets							
Cash and balances with central banks	1,008,811	–	–	81	102	31,314	1,040,308
Due from banks and other financial institutions	344,883	81,234	210,172	15,202	2	–	651,493
Financial assets at fair value through profit or loss	12,571	14,194	84,798	41,444	12,463	30,542	196,012
Loans and advances to customers	1,803,485	496,287	1,392,251	143,435	55,973	–	3,891,431
Financial investments – loans and receivables	19,295	24,896	48,457	175,979	73,144	–	341,771
Financial investments – available-for-sale	40,294	68,055	45,487	96,693	39,120	5,426	295,075
Financial investments – held-to-maturity	18,172	29,741	104,420	654,042	398,951	–	1,205,326
Other assets	6,374	5,521	22,633	69,881	16,449	214,048	334,906
Total assets	3,253,885	719,928	1,908,218	1,196,757	596,204	281,330	7,956,322
Liabilities							
Due to banks and other financial institutions	(833,555)	(301,808)	(655,125)	(217,509)	(16,524)	–	(2,024,521)
Financial liabilities at fair value through profit or loss	(7,828)	(5,733)	(29,909)	(4,584)	–	(25,140)	(73,194)
Due to customers	(2,741,895)	(689,280)	(879,710)	(414,451)	(4)	(9,287)	(4,734,627)
Other liabilities	(20,980)	(39,584)	(67,246)	(144,420)	(114,330)	(181,926)	(568,486)
Total liabilities	(3,604,258)	(1,036,405)	(1,631,990)	(780,964)	(130,858)	(216,353)	(7,400,828)
Total interest sensitivity gap	(350,373)	(316,477)	276,228	415,793	465,346	64,977	555,494

(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)*

3.2.5 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 30 June 2016, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.6312 (31 December 2015: 6.4936) and 1 HK dollar to RMB0.85467 (31 December 2015: 0.83778), 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 30 June 2016					
Assets					
Cash and balances with central banks	965,857	46,724	4,540	23,187	1,040,308
Due from banks and other financial institutions	418,403	209,423	13,302	10,365	651,493
Financial assets at fair value through profit or loss	172,343	16,219	4,975	2,475	196,012
Loans and advances to customers	3,451,499	313,943	99,472	26,517	3,891,431
Financial investments – loans and receivables	340,378	1,393	–	–	341,771
Financial investments – available-for-sale	139,384	89,929	38,455	27,307	295,075
Financial investments – held-to-maturity	1,192,635	9,178	85	3,428	1,205,326
Other assets	256,203	72,247	4,930	1,526	334,906
Total assets	6,936,702	759,056	165,759	94,805	7,956,322
Liabilities					
Due to banks and other financial institutions	(1,704,311)	(269,210)	(19,991)	(31,009)	(2,024,521)
Financial liabilities at fair value through profit or loss	(25,512)	(33,771)	(10,687)	(3,224)	(73,194)
Due to customers	(4,190,401)	(357,684)	(152,473)	(34,069)	(4,734,627)
Other liabilities	(475,805)	(65,446)	(7,878)	(19,357)	(568,486)
Total liabilities	(6,396,029)	(726,111)	(191,029)	(87,659)	(7,400,828)
Net position	540,673	32,945	(25,270)	7,146	555,494
Financial guarantees and credit related commitments	1,060,297	187,821	21,059	17,315	1,286,492

(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 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

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. The equity investments mostly arise from taking possession of foreclosed assets due to historical reasons and from the proprietary trading of the Group's subsidiaries which hold the license 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 30 June 2016, 17.0% (31 December 2015: 17.5%) of the Group's total RMB denominated customer deposits and 5% (31 December 2015: 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 30 June 2016									
Liabilities									
Due to banks and other financial institutions	–	–	(373,031)	(470,888)	(308,229)	(673,891)	(269,438)	(22,208)	(2,117,685)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(435)	(7,838)	(5,740)	(29,997)	(4,692)	–	(48,702)
Due to customers	–	–	(2,357,343)	(481,491)	(744,437)	(974,826)	(436,392)	(4)	(4,994,493)
Certificates of deposits issued	–	–	–	(20,881)	(39,538)	(57,534)	(73,119)	–	(191,072)
Debts securities issued	–	–	–	–	–	(9,004)	(80,912)	(119,900)	(209,816)
Other financial liabilities	–	–	(31,445)	(106)	(126)	(1,505)	(6,950)	(15,115)	(55,247)
Total liabilities (contractual maturity dates)	–	–	(2,762,254)	(981,204)	(1,098,070)	(1,746,757)	(871,503)	(157,227)	(7,617,015)
Assets									
Cash and balances with central banks	–	783,822	256,040	264	–	82	102	–	1,040,310
Due from banks and other financial institutions	–	–	93,680	250,496	81,161	214,732	16,645	2	656,716
Non-derivative financial assets at fair value through profit or loss	–	7,556	2,411	7,589	11,684	85,406	52,974	14,948	182,568
Loans and advances to customers	76,997	–	–	418,463	317,691	1,131,749	1,326,255	1,713,853	4,985,008
Financial investments – loans and receivables	2,482	–	–	17,821	25,391	49,449	200,598	83,938	379,679
Financial investments – available-for-sale	–	5,426	–	6,398	14,202	39,729	197,205	48,437	311,397
Financial investments – held-to-maturity	–	–	–	9,410	15,346	100,960	744,049	450,184	1,319,949
Other financial assets	238	–	40,823	3,726	6,226	26,029	78,207	18,882	174,131
Assets held for managing liquidity risk (contractual maturity dates)	79,717	796,804	392,954	714,167	471,701	1,648,136	2,616,035	2,330,244	9,049,758
Net Position	79,717	796,804	(2,369,300)	(267,037)	(626,369)	(98,621)	1,744,532	2,173,017	1,432,743

(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 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)	(47)	(72)	(978)	(9,672)	(7,275)	(48,650)
Total liabilities (contractual maturity dates)	–	–	(2,486,366)	(805,792)	(927,862)	(1,447,634)	(789,546)	(140,900)	(6,598,100)
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
Net Position	66,748	770,703	(2,185,271)	(122,805)	(464,702)	96,800	1,451,802	1,991,855	1,605,130

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 and commodity contracts: non-deliverable forward.
- Interest rate contracts 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 30 June 2016						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	–	–	3	–	–	3
– Interest rate contracts and others	37	105	492	1,023	192	1,849
Total	37	105	495	1,023	192	1,852
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(146)	(336)	(1,689)	–	–	(2,171)
– Interest rate contracts and others	(15)	(89)	(604)	(1,772)	(1,075)	(3,555)
Total	(161)	(425)	(2,293)	(1,772)	(1,075)	(5,726)

(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 financial instruments 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 2015						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity 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 and commodity 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)*

(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, commodity forward and commodity 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
As at 30 June 2016						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(259,789)	(180,697)	(422,076)	(38,444)	(120)	(901,126)
– Inflow	259,972	180,621	420,656	38,226	119	899,594
Total	183	(76)	(1,420)	(218)	(1)	(1,532)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2015						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(413,991)	(230,803)	(602,712)	(53,759)	(27,484)	(1,328,749)
– Inflow	414,708	230,706	604,502	52,780	27,402	1,330,098
Total	717	(97)	1,790	(979)	(82)	1,349

(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 30 June 2016									
Assets									
Cash and balances with central banks	256,039	264	–	81	102	–	–	783,822	1,040,308
Due from banks and other financial institutions	93,686	251,197	81,234	210,172	15,202	2	–	–	651,493
Financial assets at fair value through profit or loss	2,411	10,956	16,205	93,874	50,830	14,181	–	7,555	196,012
Loans and advances to customers	–	417,970	279,283	1,039,022	1,002,033	1,076,154	76,969	–	3,891,431
Financial investments – loans and receivables	–	17,567	24,896	47,857	176,579	73,144	1,728	–	341,771
Financial investments – available-for-sale	–	6,237	13,811	38,804	188,675	42,397	–	5,151	295,075
Financial investments – held-to-maturity	–	9,158	14,817	97,391	682,126	401,834	–	–	1,205,326
Other assets	36,089	9,339	17,587	29,251	94,723	23,771	1,063	123,083	334,906
Total assets	388,225	722,688	447,833	1,556,452	2,210,270	1,631,483	79,760	919,611	7,956,322
Liabilities									
Due to banks and other financial institutions	(373,020)	(462,978)	(302,644)	(649,170)	(217,993)	(18,716)	–	–	(2,024,521)
Financial liabilities at fair value through profit or loss	(435)	(11,619)	(9,639)	(42,521)	(7,274)	(1,706)	–	–	(73,194)
Due to customers	(2,357,338)	(436,643)	(646,144)	(880,387)	(414,111)	(4)	–	–	(4,734,627)
Other liabilities	(73,187)	(28,785)	(54,480)	(101,736)	(192,458)	(117,840)	–	–	(568,486)
Total liabilities	(2,803,980)	(940,025)	(1,012,907)	(1,673,814)	(831,836)	(138,266)	–	–	(7,400,828)
Net amount on liquidity gap	(2,415,755)	(217,337)	(565,074)	(117,362)	1,378,434	1,493,217	79,760	919,611	555,494

(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 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)*

3.3.6 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 30 June 2016				
Loan commitments and credit related commitments	562,473	43,009	3,832	609,314
Guarantees, acceptances and letters of credit	543,298	105,986	27,894	677,178
Total	1,105,771	148,995	31,726	1,286,492
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

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:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) 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

(3) Level 3 inputs are unobservable inputs for the asset or liability.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(a) ***Determination of fair value and valuation techniques*** *(Continued)*

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 Futures 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 30 June 2016		As at 31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments – loans and receivables	341,771	344,309	323,679	328,809
Financial investments – held-to-maturity	1,205,326	1,227,931	933,683	965,328
Financial liabilities				
Certificates of deposits issued	(183,508)	(185,478)	(89,265)	(90,149)
Debt securities issued	(162,905)	(169,402)	(157,465)	(164,830)

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 30 June 2016				
Financial assets				
Financial investments – loans and receivables	–	67,268	277,041	344,309
Financial investments – held-to-maturity	11,146	1,216,785	–	1,227,931
Financial liabilities				
Certificates of deposits issued	–	–	(185,478)	(185,478)
Debt securities issued	–	(169,402)	–	(169,402)

	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)

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 summarizes 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 30 June 2016				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	7,196	11,434	–	18,630
– Public sector entities	94	1,555	–	1,649
– Banks and other financial institutions	4,215	23,871	–	28,086
– Corporate entities	2,235	58,160	–	60,395
Fund investments	77	7,438	–	7,515
Equity securities	41	–	–	41
Derivatives				
– Foreign exchange and commodity contracts	–	19,010	–	19,010
– Interest rate contracts and others	–	1,566	–	1,566
Precious metal contracts	–	59,120	–	59,120
	13,858	182,154	–	196,012
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	11,868	22,306	–	34,174
– Public sector entities	73	4,677	–	4,750
– Banks and other financial institutions	66,699	125,935	–	192,634
– Corporate entities	20,449	37,642	–	58,091
Fund investments	592	1,203	–	1,795
Equity securities (1)	1,894	202	1,535	3,631
	101,575	191,965	1,535	295,075
Total assets	115,433	374,119	1,535	491,087
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(3,980)	–	–	(3,980)
Certificates of deposits issued	–	(13,324)	–	(13,324)
Derivatives				
– Foreign exchange and commodity contracts	–	(21,426)	–	(21,426)
– Interest rate contracts and others	–	(3,279)	–	(3,279)
Financial liabilities related to precious metal contracts	–	(31,185)	–	(31,185)
Debt securities issued	–	(16,345)	–	(16,345)
Total liabilities	(3,980)	(85,559)	–	(89,539)

(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 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 and commodity 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
Fund investments	1,793	208	–	2,001
Equity securities [(1)]	1,863	32	1,521	3,416
	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 and commodity 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	–	(12,640)	–	(12,640)
Total liabilities	(825)	(74,276)	–	(75,101)

(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 period.

(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 2016	–	1,521	1,521
Total gains or losses			
– Net gains arising from trading activities	–	3	3
– Other comprehensive income	–	–	–
Additions	–	11	11
Disposals	–	–	–
Balance at 30 June 2016	–	1,535	1,535
Total gains/(losses) for consolidated financial assets/ liabilities held at 30 June 2016			
– Realized gains/(losses)	–	3	3
– Unrealized gains/(losses)	–	–	–

	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/(losses) for consolidated financial assets/ liabilities held at 31 December 2015			
– Realized gains/(losses)	–	18	18
– Unrealized gains/(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 30 June 2016, 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.

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

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 a mutual consent, 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 30 June 2016, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

4 NET INTEREST INCOME

	Six months ended 30 June	
	2016	2015
Interest income		
Balances with central banks	6,969	6,565
Due from banks and other financial institutions	7,224	11,021
Loans and advances to customers	96,895	109,081
Financial investment	33,273	25,616
	144,361	152,283
Interest expense		
Due to banks and other financial institutions	(25,843)	(27,189)
Due to customers	(44,989)	(50,350)
Debt securities issued	(3,718)	(2,982)
Certificates of deposits issued	(1,663)	(703)
	(76,213)	(81,224)
Net interest income	68,148	71,059
Including: Interest income on impaired financial assets	955	989
Interest income on financial investments at fair value through profit or loss	2,112	2,757
Interest expense on financial liabilities at fair value through profit or loss	258	123

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

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2016	2015
Settlement service and bank cards	6,610	7,249
Investment banking	3,392	4,686
Guarantee and commitment	1,689	2,109
Management service	6,783	5,028
Agency service	3,395	1,568
Others	369	332
	22,238	20,972

	Six months ended 30 June	
	2016	2015
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	661	427
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,308	1,109

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2016	2015
Settlement service and bank cards	1,215	1,523
Others	59	63
	1,274	1,586

	Six months ended 30 June	
	2016	2015
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	7	8

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

7 NET GAINS/(LOSSES) ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2016	2015
Foreign exchange	1,963	(406)
Interest rate instruments and others	(411)	(737)
Trading securities	(457)	807
	1,095	(336)

Net gains on foreign exchange include 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 include trading gains and losses and fair value changes of interest rate swaps, interest rate options and other derivatives.

Net gains arising from trading activities for the six months ended 30 June 2016 include an income of RMB111 million (for the six months ended 30 June 2015: an income of RMB14 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2016	2015
Profit on sales of property and equipment	18	5
Revaluation of investment property	12	13
Income from sales of precious metal merchandise	1,150	1,174
Leasing income	1,984	879
Other miscellaneous income	916	951
	4,080	3,022

Other miscellaneous income mainly includes income arising from miscellaneous banking services provided to the Group's customers.

9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Six months ended 30 June	
	2016	2015
Loans and advances to customers (Note 19.2)		
– Collectively assessed losses provision	6,107	6,677
– Individually assessed losses provision	8,700	4,777
	14,807	11,454

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

10 OTHER OPERATING EXPENSE

	Six months ended 30 June	
	2016	2015
Staff costs (Note 11)	12,106	11,539
Functional expenses	9,756	9,225
Depreciations and amortizations	3,786	3,439
Taxes	318	303
Business tax and surcharges	4,489	7,290
Impairment of finance lease receivables	320	138
Provision for/(reversal of) impairment of financial investments ((a), Note 20)	(5)	581
Charge of reserve for litigations	10	30
Provision for/(reversal of) Impairment of other receivables	30	(153)
Others	1,334	1,435
	32,144	33,827

(a) Provision for/(reversal of) impairment of financial investments

	Six months ended 30 June	
	2016	2015
Loans and receivables (Note 20)	(5)	608
Available-for-sale (Note 20)	–	(27)
Total	(5)	581

11 STAFF COSTS

	Six months ended 30 June	
	2016	2015
Salaries and bonuses	8,681	8,175
Post-employment benefit (a)	1,515	1,481
Housing benefits and subsidies	20	62
Other social security and benefit costs	1,890	1,821
	12,106	11,539

(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 organized 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 which is recognized in profit or loss as incurred.

The amount recognized in profit or loss is as follows:

	Six months ended 30 June	
	2016	2015
Expenses incurred for retirement benefit plans and unemployment insurance	1,158	1,145
Expenses incurred for annuity plan	346	324
Total	1,504	1,469

The amount payable at the period/year end is as follows:

	As at 30 June 2016	As at 31 December 2015
Expenses incurred for retirement benefit plans and unemployment insurance	51	37
Expenses incurred for annuity plan	46	40
Total	97	77

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

11 STAFF COSTS *(Continued)*

(a) Post-employment benefit *(Continued)*

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.

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 30 June 2016	As at 31 December 2015
Statement of financial position		
– Obligations for pension benefits	453	443

Amounts recognized in comprehensive income in respect of the supplementary retirement benefits are as follows:

	Six months ended 30 June	
	2016	2015
Components of defined benefit costs recognized in profit or loss	11	12
Components of defined benefit costs recognized in other comprehensive income	24	(26)
Total	35	(14)

Past service cost and net interest expense were recognized in other operating expense.

The average duration of the supplementary retirement benefits plan at 30 June 2016 is 13.04 years (31 December 2015: 13.44 years).

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 principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.24% (31 December 2015: 3.30%) and 2.05% (31 December 2015: 1.43%) respectively as at 30 June 2016. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 30 June 2016, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2015: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2015: 28.70 years).

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

	Six months ended 30 June	
	2016	2015
Remuneration	5	5

No director waived or agreed to waive any emoluments during the above periods.

For the six months ended 30 June 2016, RMB625,000 was accrued for independent non-executive directors' emolument (six months ended 30 June 2015: RMB625,000).

On 18 November 2005, the Board of Directors resolved to grant certain cash settled SARs (Stock Appreciation Rights) 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. As at 30 June 2016, the plan expired and all the 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.

	Six months ended 30 June 2016 Number of shares (In millions)	Year ended 31 December 2015 Number of shares (In millions)
Outstanding at the beginning of the period/year	3	11
Expired in the period/year	–	(8)
Outstanding at the end of the period/year	3	3

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

13 INCOME TAX

	Six months ended 30 June	
	2016	2015
Current tax		
– PRC enterprise income tax	8,874	10,146
– Hong Kong profits tax	402	403
– Other overseas taxations	219	175
	9,495	10,724
Deferred income tax (Note 23)	1,079	59
	10,574	10,783

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2015: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the PRC tax rate shall be reported and paid by the PRC head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2015: 25%). The major reconciliation items are as follows:

	Six months ended 30 June	
	2016	2015
Profit before tax	48,497	48,289
Tax calculated at a tax rate of 25%	12,124	12,072
Effect of different tax rates in other countries (or regions)	66	74
Tax effect of expenses not deductible for tax purposes (1)	84	76
Tax effect arising from income not subject to tax (2)	(1,738)	(1,518)
Income tax adjustment for prior years	38	79
Income tax expense	10,574	10,783

(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 PRC 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 period.

	Six months ended 30 June	
	2016	2015
Net profit attributable to shareholders of the Bank	37,661	37,324
Less: net profit attributable to preference shareholders of the Bank	(884)	–
Net profit attributable to ordinary shareholders of the Bank	36,777	37,324
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)	0.50	0.50

The Bank issued non-cumulative preference shares on 29 July 2015 under the terms and conditions as detailed in Note 32 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB884 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2016 and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2016	As at 31 December 2015
Cash	16,347	17,647
Mandatory reserve deposits	774,260	749,068
Excess reserve deposits	239,692	146,735
Balances with central banks other than reserve deposits	10,009	6,778
	1,040,308	920,228

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 30 June 2016 %	As at 31 December 2015 %
Domestic mandatory reserve rate for deposits denominated in RMB	17.00	17.50
Domestic mandatory reserve rate for deposits denominated in foreign currencies	5.00	5.00

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

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2016	As at 31 December 2015
Due from banks and other financial institutions		
– Banks operating in Mainland China	106,367	141,810
– Banks operating outside Mainland China	55,028	36,277
Financial assets held under resale agreements		
– Securities	65,162	4,606
– Bills	16,225	71,686
Placements with and loans to banks		
– Banks operating in Mainland China	56,958	60,385
– Banks operating outside Mainland China	102,506	80,536
Placements with and loans to other financial institutions operating in Mainland China	249,247	215,891
	651,493	611,191

As at 30 June 2016, the Group's placements with certain wealth management products sponsored and not consolidated by the Group amounted to RMB48,500 million (31 December 2015: RMB50,000 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 for the six months ended 30 June 2016 was RMB7,300 million and the weighted-average outstanding period was 1.20 days (The average exposure during 2015 was RMB27,427 million and the weighted-average outstanding period was 6.44 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 30 June 2016	As at 31 December 2015
Derivative financial instruments (Note 18)	20,576	34,310
Financial investment held for trading		
Government bonds		
– Listed in Hong Kong	2,666	2,510
– Listed outside Hong Kong	662	1,001
– Unlisted	15,302	14,877
Other debt securities		
– Listed in Hong Kong	5,182	4,348
– Listed outside Hong Kong	12,107	10,611
– Unlisted – corporate entities	54,888	49,408
– Unlisted – public sector	1,555	1,833
– Unlisted – banking sector	16,398	14,430
Equity securities		
– Listed in Hong Kong	1	1
– Listed outside Hong Kong	40	85
Fund investments		
– Listed in Hong Kong	47	–
– Listed outside Hong Kong	131	–
– Unlisted	7,337	9,354
Precious metal contracts	59,120	30,541
	196,012	173,309

Financial investment at fair value through profit or loss are analysed by issuer as follows:

	As at 30 June 2016	As at 31 December 2015
Financial investment held for trading		
– Governments and central banks	18,630	18,388
– Public sector entities	1,649	1,924
– Banks and other financial institutions	35,613	34,298
– Corporate entities	60,424	53,848
	116,316	108,458

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.

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.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As at 30 June 2016	Contractual/ notional amount	Fair values Assets	Fair values Liabilities
Foreign exchange and commodity contracts	1,449,354	19,010	(21,426)
Interest rate contracts and others	598,279	1,566	(3,279)
Total amount of derivative instruments recognized	2,047,633	20,576	(24,705)

As at 31 December 2015	Contractual/ notional amount	Fair values Assets	Fair values Liabilities
Foreign exchange and commodity 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)

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

The Group undertakes 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 30 June 2016	As at 31 December 2015
RMB	839,902	938,269
US dollar	984,288	955,992
HK dollar	92,266	103,905
Others	131,177	115,873
Total	2,047,633	2,114,039

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

As at 30 June 2016	Contractual/ notional amount	Fair values Assets	Fair values Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	13,342	130	(147)
Derivative financial instruments designated as hedging instruments in fair value hedges	42,403	1	(1,320)
Total	55,745	131	(1,467)

As at 31 December 2015	Contractual/ notional amount	Fair values Assets	Fair values 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)

(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:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Gains/(losses) on hedging instruments	(1,159)	63
Gains/(losses) on hedged items attributable to the hedge risk	1,102	(79)
Net losses from fair value hedges	(57)	(16)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(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 placements with banks, certificates of deposits issued, loans and financial instruments sold under repurchase agreements. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the six months ended 30 June 2016, the Group's net loss from the cash flow hedge of RMB12 million(for the six months ended 30 June 2015: RMB7 million) were recognized in other comprehensive income and the gain and loss arising from ineffective portion of cash flow hedge was immaterial for the period ended 30 June 2016.There were no transactions for which cash flow hedge accounting had to be ceased for the period ended 30 June 2016 as a result of the highly probable cash flows no longer being expected to occur.

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

	As at 30 June 2016	As at 31 December 2015
Loans and advances to customers	3,983,756	3,722,006
Less: allowance for collectively assessed impairment losses	(64,674)	(64,004)
allowance for individually assessed impairment losses	(27,651)	(23,434)
	3,891,431	3,634,568

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements in allowance for losses on loans and advances

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the period	64,004	23,434	58,908	18,040
Net impairment allowance for loans charged to profit or loss (Note 9)	6,107	8,700	6,677	4,777
– Impairment allowance for loans	6,107	9,782	6,677	5,917
– Reversal of impairment allowance for loans	–	(1,082)	–	(1,140)
Recoveries of loans written-off in previous years	–	307	–	160
Unwind of discount on allowance during the period	–	(955)	–	(989)
Loans written off during the period as uncollectible	–	(9,438)	–	(2,109)
Other transfer (out)/in	(5,548)	5,548	(2,395)	2,395
Exchange difference	111	55	11	3
Balance at the end of the period	64,674	27,651	63,201	22,277

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the period	70,540	16,898	62,863	14,085
Net impairment allowance for loans charged to profit or loss	12,419	2,388	8,510	2,944
– Impairment allowance for loans	13,466	2,423	9,437	3,157
– Reversal of impairment allowance for loans	(1,047)	(35)	(927)	(213)
Recoveries of loans written-off in previous years	113	194	66	94
Unwinding discount on allowance during the period	(852)	(103)	(895)	(94)
Loans written off during the period as uncollectible	(8,671)	(767)	(1,578)	(531)
Exchange difference	111	55	12	2
Balance at the end of the period	73,660	18,665	68,978	16,500

(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

	Loans 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	Sub-total	Total	Identified impairment Gross loans and advances as a % of total gross loans and advances
As at 30 June 2016						
Gross loans and advances	3,922,392	7,221	54,143	61,364	3,983,756	1.54
Allowance for impairment losses	(57,942)	(6,732)	(27,651)	(34,383)	(92,325)	
Net loans and advances to customers	3,864,450	489	26,492	26,981	3,891,431	
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	

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

20 FINANCIAL INVESTMENTS

	As at 30 June 2016	As at 31 December 2015
Loans and receivables – at amortized cost		
– Unlisted	344,556	326,470
Impairment allowance	(2,785)	(2,791)
Loans and receivables (net)	341,771	323,679
Available-for-sale debt securities – at fair value		
– Listed in Hong Kong	35,933	26,959
– Listed outside Hong Kong	80,857	77,544
– Unlisted	172,859	154,819
Debt securities	289,649	259,322
Available-for-sale equity securities – at fair value		
– Listed in Hong Kong	94	87
– Listed outside Hong Kong	1,166	1,418
– Unlisted	2,371	1,911
Equity securities	3,631	3,416
Available-for-sale fund investments – at fair value		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	160	64
– Unlisted	1,635	1,937
Fund investments	1,795	2,001
Total available-for-sale financial investments	295,075	264,739
Held-to-maturity – at amortized cost		
– Listed in Hong Kong	3,267	1,741
– Listed outside Hong Kong	147,706	151,419
– Unlisted	1,054,692	780,862
Less: Allowance for impairment losses	(339)	(339)
Held-to-maturity investments (net)	1,205,326	933,683

(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 2016	2,791	1,232	339	4,362
Provision for impairment	23	–	–	23
Reversal of impairment allowances	(28)	(18)	–	(46)
Transfer in	–	5	–	5
Disposals	(4)	(20)	–	(24)
Write-off	–	–	–	–
Exchange differences	3	34	–	37
As at 30 June 2016	2,785	1,233	339	4,357

	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	635	–	–	635
Reversal of impairment allowances	(27)	(27)	–	(54)
Exchange differences	–	58	–	58
As at 30 June 2015	2,614	1,146	–	3,760

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

20 FINANCIAL INVESTMENTS *(Continued)*

Financial investments analyzed by issuer are as follows:

	As at 30 June 2016	As at 31 December 2015
Loans and receivables		
– Governments and central banks	62,654	39,522
– Banks and other financial institutions	52,146	28,646
– Corporate entities	229,756	258,302
Impairment allowance	(2,785)	(2,791)
Loans and receivables (net)	341,771	323,679
Securities – available-for-sale		
– Governments and central banks	34,174	36,179
– Public sector entities	4,750	3,810
– Banks and other financial institutions	195,993	160,375
– Corporate entities	60,158	64,375
Total	295,075	264,739
Securities – held-to-maturity		
– Governments and central banks	820,816	568,248
– Public sector entities	16,576	16,205
– Banks and other financial institutions	292,881	272,865
– Corporate entities	75,392	76,704
Impairment allowance	(339)	(339)
Securities – held-to-maturity (net)	1,205,326	933,683

The certificates of deposits held included in financial investments are analyzed as follows:

	As at 30 June 2016	As at 31 December 2015
Available-for-sale financial investment, at fair value – Unlisted	52,870	26,036

The maturity profile of certificate of deposits held by the remaining period as at the end of the period to the contractual maturity dates are summarized as follows:

	As at 30 June 2016	As at 31 December 2015
Within 3 months	963	6,213
3 to 12 months	12,057	5,748
1 to 5 years	39,850	14,075
	52,870	26,036

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

21 INVESTMENTS IN ASSOCIATES

	As at 30 June 2016	As at 31 December 2015
Investment cost	358	350
Net profit adjusted by the equity method	249	211
Changes in other equity	16	16
Investments in associates	623	577

The Group's investments in associates mainly represent the investment in Bank of Tibet Co., Ltd., which was registered in Tibet Autonomous Region, PRC and established on 30 December 2011. The registered capital of the entity is RMB3,018 million, and the principal activities of the entity are commercial banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2016 (31 December 2015: 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 30 June 2016	As at 31 December 2015
Assets	42,755	36,666
Liabilities	37,464	31,734
Net assets	5,291	4,932

	Six months ended 30 June	
	2016	2015
Operating revenue	313	170
Profit from continuing operations	360	223
Other comprehensive income	–	–
Total comprehensive income	360	223
Dividends received from the associate	–	–

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

22 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2016	49,275	12,067	24,151	32,850	6,299	124,642
Additions	35	747	481	10,246	43	11,552
Transfer out to investment property	(243)	–	–	–	–	(243)
Disposals	(37)	–	(183)	(20)	(4)	(244)
Transfers in/(out)	4,058	(4,523)	–	–	465	–
As at 30 June 2016	53,088	8,291	24,449	43,076	6,803	135,707
Accumulated depreciation						
As at 1 January 2016	(11,984)	–	(17,153)	(2,190)	(2,904)	(34,231)
Charge for the year	(843)	–	(1,489)	(835)	(310)	(3,477)
Disposals	17	–	162	6	4	189
As at 30 June 2016	(12,810)	–	(18,480)	(3,019)	(3,210)	(37,519)
Allowance for impairment losses						
As at 1 January 2016	–	(16)	–	(2)	–	(18)
Provision for impairment	–	–	–	–	–	–
Decrease	–	–	–	–	–	–
As at 30 June 2016	–	(16)	–	(2)	–	(18)
Net book value						
As at 30 June 2016	40,278	8,275	5,969	40,055	3,593	98,170

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

22 PROPERTY AND EQUIPMENT *(Continued)*

	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

The Group recognized the leasehold land held by Hong Kong branch and Hong Kong subsidiaries as finance lease and accounted for it as “land and buildings” which is depreciated over the shorter of the useful life of the buildings and the land’s lease term.

As at 30 June 2016, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB39,941 million (31 December 2015: RMB30,582 million).

As at 30 June 2016, the property and equipment with re-registration procedure not completed amounted to RMB213 million (31 December 2015: RMB213 million). However, this registration process does not affect the rights of the Bank to these assets.

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

23 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 six month ended 30 June 2016 (for the year ended 31 December 2015: 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 2015: 16.5%).

The movements in the deferred income tax account are as follows:

	Impairment allowances for loans	Impairment allowances for financial investments	Impairment allowances for other assets	Impairment allowances for written-off 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	Change in fair value of derivative instruments	Other temporary differences	Total
Balance at 1 January 2016	9,697	1,051	531	5,110	116	111	(555)	(273)	(77)	854	16,565
Recognized in profit or loss	(180)	340	(336)	(736)	3	2	–	1,305	(3)	(1,474)	(1,079)
Recognized in other comprehensive income	(4)	–	–	–	–	–	(51)	3	–	–	(52)
Balance at 30 June 2016	9,513	1,391	195	4,374	119	113	(606)	1,035	(80)	(620)	15,434

	Impairment allowances for loans	Impairment allowances for financial investments	Impairment allowances for other assets	Impairment allowances for written-off 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	Change in fair value of derivative instruments	Other temporary differences	Total
Balance at 1 January 2015	8,387	756	205	4,987	70	118	(195)	(130)	(45)	1,892	16,045
Recognized in profit or loss	1,310	295	326	123	46	(7)	–	(165)	(32)	(1,038)	858
Recognized in other comprehensive income	–	–	–	–	–	–	(360)	22	–	–	(338)
Balance at 31 December 2015	9,697	1,051	531	5,110	116	111	(555)	(273)	(77)	854	16,565

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

23 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets and liabilities are attributable to the following items:

	As at 30 June 2016		As at 31 December 2015	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Changes in fair value of available-for-sale financial assets	(2,379)	(612)	(2,580)	(659)
Change in fair value of investment property	(333)	(80)	(321)	(77)
Changes in fair value of derivative instruments	(20,576)	(5,142)	(34,310)	(8,607)
Other temporary differences	(6,089)	(1,493)	(844)	(212)
	(29,377)	(7,327)	(38,055)	(9,555)
Deferred income tax assets				
Impairment allowance for loans	38,068	9,513	38,789	9,697
Impairment allowance for investments	5,562	1,391	4,205	1,051
Impairment allowance for other assets	783	195	2,124	531
Impairment allowance for written-off assets	17,496	4,374	20,441	5,110
Retirement supplementary pension payable	453	113	443	111
Outstanding litigations and unsettled obligation	475	119	463	116
Changes in fair value of available-for-sale financial assets	34	6	411	104
Changes in fair value of derivative instruments	24,705	6,177	33,164	8,334
Other temporary differences	3,490	873	4,176	1,066
	91,066	22,761	104,216	26,120
Net deferred income tax assets	61,689	15,434	66,161	16,565

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities:

	As at 30 June 2016	As at 31 December 2015
Deferred income tax assets	15,564	16,684
Deferred income tax liabilities	(130)	(119)

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

24 OTHER ASSETS

	As at 30 June 2016	As at 31 December 2015
Interest receivable	40,413	41,533
Settlement accounts	7,207	3,611
Other receivables and prepayments	25,910	9,011
Less: impairment allowance (d)	(636)	(632)
Leasehold improvement	731	855
Intangible assets (a)	1,157	1,159
Land use rights and others	1,024	900
Foreclosed assets	770	787
Rental deposits	144	167
Goodwill (e)	351	351
Investment properties (b)	6,021	5,634
Finance lease receivables (c)	120,422	113,778
Less: impairment allowance (d)	(2,562)	(2,241)
Precious metal	675	2,333
Others	18,922	9,065
	220,549	186,311

(a) Intangible assets

	Software
Cost	
As at 1 January 2016	2,133
Additions	118
Disposals	(15)
As at 30 June 2016	2,236
Accumulated amortization	
As at 1 January 2016	(974)
Amortization expense	(107)
Disposals	2
As at 30 June 2016	(1,079)
Carrying amounts	1,157

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

24 OTHER ASSETS *(Continued)*

(a) Intangible assets *(Continued)*

	Software
Cost	
As at 1 January 2015	1,878
Additions	649
Disposals	(394)
As at 31 December 2015	2,133
Accumulated amortization	
As at 1 January 2015	(1,089)
Amortization expense	(268)
Disposals	383
As at 31 December 2015	(974)
Carrying amounts	1,159

(b) Investment properties

	Six months ended 30 June 2016	Year ended 31 December 2015
Balance at the beginning of the period/year	5,634	7,276
Additions (Reduction) of the year/period	243	(1,795)
Gains on property revaluation	12	140
Effect of foreign currency exchange differences	132	13
Balance at the end of the period/year	6,021	5,634

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 30 June 2016, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 30 June 2016
Commercial property units located in Hong Kong	–	–	991	991
Commercial property units located outside Hong Kong	–	–	5,030	5,030

The valuation of these investment properties in Hong Kong as at 30 June 2016 were performed by RHL Appraisal 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.

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

24 OTHER ASSETS *(Continued)*

(c) Finance lease receivables

	As at 30 June 2016	As at 31 December 2015
Minimum finance lease receivables		
Within 1 year (inclusive)	36,454	34,459
1 to 2 years (inclusive)	30,104	28,815
2 to 3 years (inclusive)	23,193	22,381
Over 3 years	46,118	42,316
	135,869	127,971
Gross investment in finance leases	135,869	127,971
Unearned finance income	(15,447)	(14,193)
Net investment in finance leases	120,422	113,778
The net investment in finance leases is analyzed as follows:		
Within 1 year (inclusive)	32,004	30,237
1 to 2 years (inclusive)	26,714	25,682
2 to 3 years (inclusive)	20,786	20,162
Over 3 years	40,918	37,697
	120,422	113,778
Allowance for uncollectible finance lease receivable	(2,562)	(2,241)
Net finance lease receivables	117,860	111,537

(d) Allowance for impairment losses

	As at 1 January 2016	Amounts accrued	Reversal	Write-off	Transfer (in)/out	Exchange differences	As at 30 June 2016
Finance lease receivables	(2,241)	(320)	–	–	–	(1)	(2,562)
Other receivables	(573)	(47)	17	15	(7)	–	(595)
Others	(59)	–	–	18	–	–	(41)
Total	(2,873)	(367)	17	33	(7)	(1)	(3,198)

	As at 1 January 2015	Amounts accrued	Reversal	Write-off	Transfer (in)/out	Exchange differences	As at 31 December 2015
Finance lease receivables	(1,680)	(569)	11	–	–	(3)	(2,241)
Other receivables	(624)	(1)	19	–	(26)	–	(632)
Total	(2,304)	(570)	30	–	(26)	(3)	(2,873)

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

24 OTHER ASSETS *(Continued)*

(e) Goodwill

	As at 1 January 2016	Addition during the period	Reduction during the period	As at 30 June 2016	Allowance for impairment losses
Bank of Communications International Trust Co., Ltd.	200	–	–	200	–
BoCommlife Insurance Company Limited	122	–	–	122	–
Others	29	–	–	29	–
Total	351	–	–	351	–

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2016	As at 31 December 2015
Loans from central banks	231,602	135,320
Deposits from other banks		
– Banks operating in Mainland China	290,616	346,359
– Banks operating outside Mainland China	18,403	10,963
– Deposits from other financial institutions operating in Mainland China	921,309	847,577
– Deposits from other financial institutions operating outside Mainland China	11,409	9,311
Loans from banks		
– Banks operating in Mainland China	135,128	133,399
– Banks operating outside Mainland China	158,228	108,445
Loans from other financial institutions	1,413	–
Financial instruments sold under repurchase agreements	256,413	49,865
Total	2,024,521	1,641,239

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

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2016	As at 31 December 2015
Derivative financial instruments (Note 18)	24,705	33,164
Short position of securities held for trading	3,980	1,801
Certificates of deposits issued	13,324	11,885
Financial liabilities related to precious metal contracts	31,185	15,611
Total	73,194	62,461

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.

Financial liabilities designated as fair value through profit or loss

	As at 30 June 2016	As at 31 December 2015
Difference between carrying amount and maturity amount		
– Fair value	13,324	11,885
– Amount payable at maturity	13,253	11,855
Difference	71	30

For the six months ended 30 June 2016 and year ended 31 December 2015, 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.

27 DUE TO CUSTOMERS

Group	As at 30 June 2016	As at 31 December 2015
Corporate demand deposits	1,643,946	1,433,773
Corporate time deposits	1,593,978	1,596,635
Individual demand deposits	677,040	594,704
Individual time deposits	816,178	855,903
Other deposits	3,485	3,799
	4,734,627	4,484,814
Including:		
Pledged deposits held as collateral	417,790	395,379

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

28 CERTIFICATES 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.

29 DEBT SECURITIES ISSUED

		As at 30 June 2016	As at 31 December 2015
Carried at amortized cost:			
Subordinated bonds	29.1	55,449	55,448
Tier 2 capital bonds	29.2	39,509	39,215
Bonds			
The Bank	29.3	45,160	46,700
Subsidiaries	29.3	22,787	16,103
Sub-total		162,905	157,466
Carried at fair value:			
Bonds	29.3	16,345	12,640
Total		179,250	170,106

Note: These debt securities are designated as fair value through profit and loss upon initiation as the Hong Kong 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.

29.1 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 End of the Period	Balance at the Beginning of the Period
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	25,949	25,948
Total								55,500	55,449	55,448

(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)

29 DEBT SECURITIES ISSUED *(Continued)*

29.2 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 End of the Period	Balance at the Beginning of the Period
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 Years	(a)	28,000	27,977	27,974
14 BoComm USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 Years	(b)	7,957	7,880	7,727
14 BoComm Euro	Euro	Hong Kong	3.63	500	2014/10/03	12 Years	(c)	3,688	3,652	3,514
Total								39,645	39,509	39,215

(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)

29 DEBT SECURITIES ISSUED *(Continued)*

29.3 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 Period	Balance at the Beginning of the Period
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
15 Bocomm	RMB	Mainland China	3.45	30,000	2015/12/17	5 Years	30,000	30,000	30,000
13 Taiwan Bond A	RMB	Taiwan	3.40	800	2013/12/10	3 Years	800	798	800
13 Taiwan Bond B	RMB	Taiwan	3.70	400	2013/12/10	5 Years	400	399	400
14 Formosa Bond A	RMB	Taiwan	3.45	1,000	2014/06/23	3 Years	1,000	998	1,000
14 Formosa Bond B	RMB	Taiwan	3.85	500	2014/06/23	5 Years	500	499	500
14 Formosa Bond C	RMB	Taiwan	4.15	500	2014/06/23	7 Years	500	499	500
P14JHTP1A	RMB	Taiwan	3.30	200	2014/12/04	2 Years	200	197	200
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 Years	900	885	900
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 Years	700	688	700
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 Years	200	197	200
Sub-total							46,700	45,160	46,700
Subsidiaries									
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 Years	3,321	3,321	3,238
14 Azure Orbit	USD	Hong Kong	3.38	500	2014/04/25	5 Years	3,321	3,321	3,246
5 Year MTN	USD	Hong Kong	3.13	385	2015/08/18	5 Years	2,557	2,557	2,500
3 Year MTN	EUR	Luxembourg	3M Euribor+1.15	100	2015/08/18	3 Years	705	705	700
3 Year USD	USD	Hong Kong	2.23	400	2016/03/15	3 Years	2,657	2,657	–
5 Year USD	USD	Hong Kong	2.75	600	2016/03/15	5 Years	3,985	3,985	–
14 Leasing 01	RMB	Mainland China	6.10	200	2014/01/17	3 Years	200	150	150
14 Leasing 02	RMB	Mainland China	5.20	3,800	2014/07/17	3 Years	3,800	2,850	2,850
14 Leasing ABS	RMB	Mainland China	6.60	664	2014/09/19	3 Years	664	42	219
15 Leasing	RMB	Mainland China	3.80	4,000	2015/10/16	3 Years	4,000	3,199	3,200
Sub-total							25,210	22,787	16,103
Total							71,910	67,947	62,803

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

29 DEBT SECURITIES ISSUED *(Continued)*

29.3 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	Amortized Cost	Fair Value at the End of the Period	Fair Value at the Beginning of the Period
14 Hong Kong medium-term notes	USD	Hong Kong	2.125	700	2014/01/15	3 Years	4,642	4,640	4,653	4,570
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 Years	427	424	453	434
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 Years	299	299	309	300
14 CHF bond	CHF	Hong Kong	0.875	300	2014/06/26	3 Years	2,032	2,033	2,062	2,002
14 SGD bond	SGD	Hong Kong	2.10	100	2014/07/24	3 Years	492	491	492	456
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 Years	4,973	4,965	5,026	4,878
16 Hong Kong medium-term notes	USD	Hong Kong	2.25	500	2016/01/25	3 Years	3,316	3,315	3,350	–
Total							16,181	16,167	16,345	12,640

30 OTHER LIABILITIES

	As at 30 June 2016	As at 31 December 2015
Interests payable	78,106	74,409
Settlement accounts	24,957	26,056
Staff compensation payable	5,250	7,271
Value Added Tax and other taxes payable	3,343	4,180
Insurance contracts reserve	12,211	6,656
Deposits received for finance lease	8,890	8,652
Provision for outstanding litigation (a)	379	369
Provision for unsettled obligation (a)	96	94
Dividends payable	21,028	63
Others	43,056	32,912
Total	197,316	160,662

30 OTHER LIABILITIES *(Continued)*

(a) The movements in the provision for outstanding litigation and unsettled obligation

	As at 1 January 2016	Amounts accrued during the period	Amounts reversed during the period	Amounts paid during the period	Exchange difference	As a 30 June 2016
Provision for outstanding litigation	369	69	(59)	–	–	379
Provision for unsettled obligation	94	–	–	–	2	96
	463	69	(59)	–	2	475

	As at 1 January 2015	Amounts accrued during the period	Amounts reversed during the period	Amounts paid during the period	Exchange difference	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 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2016	74,263	74,263	113,392	187,655
As at 30 June 2016	74,263	74,263	113,392	187,655

	Number of shares (in millions)	Ordinary shares of RMB1 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

As at 30 June 2016 and 31 December 2015, the number of A shares of the Group is 39,251 million, and the number of H shares of the Group is 35,012 million, both with par value of RMB1 per share.

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

31 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 30 June 2016 and 31 December 2015, the Group's capital surplus is listed as follows:

	As at 1 January 2016	Additions	Reductions	As at 30 June 2016
Share premium	112,769	–	–	112,769
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	28	–	–	28
Total	113,392	–	–	113,392

	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
Movements in non-controlling interests	(29)	–	(12)	(41)
Capital increase in an associate	113	–	(97)	16
Others	26	2	–	28
Total	113,496	5	(109)	113,392

32 PREFERENCE SHARES

32.1 Preference shares in issue at the end of the period

Financial instruments 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%	20 USD/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			

32 PREFERENCE SHARES *(Continued)*

32.2 Main Clauses

(1) Dividend

The preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(i) from and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(ii) 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.

(2) Conditions to distribution of dividends

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.

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. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(3) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary H Shares of the Bank at the conversion price of HK $6.51 per share(as converted into Hong Kong dollars at the fixed exchange rate of US $1.00 to HK $7.7555), partially or entirely. To balance the interest between preference shareholders and ordinary shareholders, the conversion price of the preference shares will be adjusted where certain events occur including bonus issues, capitalization of reserves, new issuances of ordinary shares and rights issues, subject to terms and formulas provided for in the offering documents.

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

32 PREFERENCE SHARES *(Continued)*

32.2 Main Clauses *(Continued)*

(4) 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.

(5) Redemption

The Offshore Preference Shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBRC approval and compliance with the redemption preconditions, redeem all or some of the preference shares on 29 July 2020 and on any dividend payment date thereafter.

32.3 Movement of preference shares issued

		Movement		
Preference shares USD	Balance at 1 January 2016	Additions	Reductions	Balance at 30 June 2016
Amount (shares)	122,500,000	–	–	122,500,000
In RMB (millions)	14,924	–	–	14,924

32.4 Interests attribute to holders of preference shares

	As at 30 June 2016	As at 31 December 2015
Total equity attribute to equity holders of the parent company	552,515	534,885
Equity attribute to ordinary shareholders of the parent company	537,591	519,961
Equity attribute to preference shareholders of the parent company	14,982	14,982
Total equity attribute to non-controlling interests	2,979	3,207
Equity attribute to non-controlling interests of ordinary shares	2,979	3,207
Equity attribute to non-controlling interests of preference shares	–	–

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

33 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 34) 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.

The movements of surplus reserve for the period are as follows:

	As at 1 January 2016	Appropriation	Reductions	As at 30 June 2016
Statutory reserve	44,098	61	–	44,159
Discretionary reserve	139,764	–	–	139,764
Total	183,862	61	–	183,923

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

34 DIVIDENDS

	Six months ended 30 June	
	2016	2015
Dividends to ordinary shareholders of the Bank	20,051	20,051
Dividends to preference shares holders of the Bank	884	–

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 29 March 2016 and the approval by the Annual General Meeting of Shareholders on 27 June 2016, the Bank appropriated RMB11,597 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.27 (before tax) for each ordinary share, totaling RMB20,051 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2015, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 28 April 2016, the Bank appropriated overseas preference dividends on 29 July 2016 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders), totaling RMB884 million.

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

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

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

	As at 30 June 2016	As at 31 December 2015
Letters of guarantee	301,648	333,725
Letters of credit commitments	131,601	150,085
Acceptances bills	243,929	294,834
Credit card commitments	528,688	438,608
Loan commitments		
– Within 1 year	24,012	32,700
– 1 year and over	56,614	58,547
	1,286,492	1,308,499

Capital expenditure commitments

	As at 30 June 2016	As at 31 December 2015
Contracted but not provided for	8,912	7,645

Operating lease commitments

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

	As at 30 June 2016	As at 31 December 2015
Within 1 year (inclusive)	3,418	3,021
1 to 2 years (inclusive)	2,761	2,485
2 to 3 years (inclusive)	2,075	1,885
3 to 5 years (inclusive)	2,418	2,282
Over 5 years	1,722	1,683
	12,394	11,356

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

35 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 30 June 2016	As at 31 December 2015
Within 1 year (inclusive)	4,454	3,442
1 to 2 years (inclusive)	4,390	2,958
2 to 3 years (inclusive)	4,346	2,955
3 to 5 years (inclusive)	8,143	5,905
Over 5 years	25,382	17,698
	46,715	32,958

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2016, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB69,814 million (31 December 2015: RMB67,952 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 30 June 2016, there was no unfulfilled issuance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2015: 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 30. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the periods are summarized as follows:

	As at 30 June 2016	As at 31 December 2015
Outstanding claims	1,587	1,397
Provision for outstanding litigation (Note 30)	379	369

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

36 COLLATERALS

(1) Assets pledged

Assets pledged are mainly collaterals under repurchase arrangements, loans from banks and central bank as well as loans from other financial institutions.

	Pledged assets		Associated liabilities	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
Investment securities	521,249	201,280	467,642	179,853
Bills	14,703	–	14,703	–

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 41 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 30 June 2016, the fair value of such collaterals amounted to RMB1,712 million (31 December 2015: RMB1,873 million). All pledges are conducted under standard and normal business terms. As at 30 June 2016 and 31 December 2015, the Group did not sell or re-pledge any collaterals received.

37 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2016		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Available-for-sale financial assets	194	(55)	139
Changes in fair value recorded in equity	494	(130)	364
Changes in fair value reclassified from equity to profit or loss	(300)	75	(225)
Cash flow hedge reserve	(12)	3	(9)
Translation difference on foreign operations	754	–	754
Actuarial gains on pension benefits	(24)	–	(24)
Other comprehensive income for the period	912	(52)	860

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

37 OTHER COMPREHENSIVE INCOME *(Continued)*

	Six months ended 30 June 2015		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Available-for-sale financial assets	731	(183)	548
Changes in fair value recorded in equity	653	(163)	490
Changes in fair value reclassified from equity to profit or loss	78	(20)	58
Cash flow hedge reserve	(7)	2	(5)
Translation difference on foreign operations	(36)	–	(36)
Actuarial gains on pension benefits	26	(7)	19
Other comprehensive income for the prior period	714	(188)	526

38 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 30 June 2016	As at 30 June 2015
Cash and balances with central banks	256,039	351,058
Due from banks and other financial institutions	105,364	142,731
	361,403	493,789

39 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 30 June 2016, the wealth management products managed and consolidated by the Group amounted to RMB880,177 million (31 December 2015: RMB788,451 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.

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

40 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or sponsors structured entities that provide specialized 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.

The unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles ("WMP Vehicles") formed to issue and distribute wealth management products ("WMPs"), which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMP Vehicles invest in a range of primarily fixed-rate assets, most typically money markets instruments, debt securities and loan assets. As the manager of WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each WMP and receives Fee and Commission Income. The variable return that the Group has in relation to the WMPs is not significant, therefore, the WMP Vehicles are not consolidated by the Group.

As at 30 June 2016, the outstanding WMPs issued by WMP Vehicles (excluding those with the principal guaranteed issued by the Group) amounted to RMB654,563 million (31 December 2015: RMB668,868 million). During the year ended 30 June 2016, the Group's interest in the WMP Vehicles included Net Fee and Commission Income of RMB1,183 million (During the year ended 30 June 2015: RMB712 million) and Net Interest Income of RMB75 million (2015: RMB382 million), which related to placements transactions by the Group with these WMP Vehicles.

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and Interest Income therefrom. As at 30 June 2016, the Group's maximum exposure to these other unconsolidated structured entities is summarized in the table below.

As at 30 June 2016	Carrying Value				
	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	7,515	1,795	–	9,310	Investment income
Trusts and asset management products	–	–	226,971	227,013	Interest income
Wealth management products	–	–	23,500	23,500	Interest income
Total	7,515	1,795	250,471	259,823	

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

40 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 31 December 2015	Carrying Value				
	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	9,289	1,789	–	11,078	Investment income
Trusts and asset management products	–	410	255,511	255,950	Interest income
Total	9,289	2,199	255,511	267,028	

41 TRANSFERS OF FINANCIAL ASSETS

41.1 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 30 June 2016 and 31 December 2015, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial instruments sold under repurchase agreements" (Note 25).

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 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
Investment securities	615	1,501	612	1,484

41 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

41.2 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 30 June 2016, the carrying value of debt securities lent to counterparties was RMB5,000 million (31 December 2015: RMB8,400 million).

41.3 Asset securitization

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 condensed consolidated interim 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 30 June 2016, 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 (31 December 2015: RMB5,022 million). As at 30 June 2016, the carrying amount of assets the Group continues to recognize was RMB252 million (31 December 2015: RMB252 million). Arising from this continuing involvement, the Group has recognized continuing involvement assets and continuing involvement liabilities of RMB252 million, respectively (31 December 2015: RMB252 million).

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

42 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2016, the MOF holds 19,703 million (31 December 2015: 19,703 million) shares of the Group which represents 26.53% (31 December 2015: 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 investment securities issued by the MOF and the deposits from the MOF.

Details of transaction volumes and outstanding balances are summarized below:

	As at 30 June 2016	As at 31 December 2015
Treasury bond and special government bond	318,566	299,525
Interests receivable	3,500	4,792
Due to customers	38,000	22,000
Interests payable	264	142

	Six months ended 30 June	
	2016	2015
Interest income	5,229	4,744
Interest expense	403	1,206

The interest rate of the transactions between the Group and MOF is summarized below:

	Six months ended 30 June	
	2016 %	2015 %
Treasury bond and special government bond	2.22~6.15	2.38~6.15
Due to customers	2.75~3.20	2.95~5.25

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 30 June 2016, National Council for Social Security Fund holds 10,311 million (31 December 2015: 10,311 million) shares in the Group which represents 13.88% (31 December 2015: 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 30 June 2016	As at 31 December 2015
Due to customers	58,000	64,500
Interests payable	155	1,083

	Six months ended 30 June	
	2016	2015
Interest expense	1,430	1,005

The interest rate of transactions between the Group and the National Council for Social Security Fund is summarized below:

	Six months ended 30 June	
	2016 %	2015 %
Due to customers	3.85~6.10	4.46~6.10

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC")

As at 30 June 2016, HSBC holds 13,886 million (31 December 2015: 13,886 million) shares of the Group which represents 18.70% (31 December 2015: 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 30 June 2016	As at 31 December 2015
On-balance sheet items		
Due from banks and other financial institutions	3,265	1,976
Loans to banks and other financial institutions	2,122	–
Financial investments	1,594	512
Derivative financial assets	718	185
Financial assets held under resale agreements	248	–
Interests receivable	23	7
Deposit from banks and other financial institutions	1,537	982
Loans from banks and other financial institutions	11,918	6,725
Financial instruments sold under repurchase agreements	–	1,999
Derivative financial liabilities	797	140
Interests payable	20	2
Off-balance sheet items		
Notional principal of derivative financial instruments	192,441	204,188

	Six months ended 30 June	
	2016	2015
Net gains arising from trading activities	(263)	(58)
Interest income	14	34
Interest expense	15	41

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries ("HSBC") *(Continued)*

The interest rate of transactions between the Group and HSBC is summarized below:

	Six months ended 30 June	
	2016 %	2015 %
Due from banks and other financial institutions	0.01~0.125	0.01~0.125
Loans to banks and other financial institutions	1.00~1.80	–
Financial investments	1.33~3.50	0.685~5.50
Deposit from banks and other financial institutions	0.05~5.75	0.01~5.15
Loans from banks and other financial institutions	0.10~2.85	0.15~4.90
Financial instruments sold under repurchase agreements	2.28	3.35~3.38
Financial assets held under resale agreements	2.02	–

(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 period, 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.

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks.

Details of transaction volumes and outstanding balances are summarized below:

Bank	As at 30 June 2016	As at 31 December 2015
Due from banks and other financial institutions	204	1,725
Loans to banks and other financial institutions	40,752	36,209
Financial investments	1,600	1,682
Loans and advances to customers	11,009	8,657
Interests receivable	678	431
Other assets	135	134
Deposits from banks and other financial institutions	3,129	4,356
Loans from banks and other financial institutions	865	825
Due to customers	1,790	809
Debt securities issued	51	52
Interests payable	5	7
Other liabilities	12	18

Bank	Six months ended 30 June	
	2016	2015
Interest income	779	528
Interest expense	25	35
Fee and commission income	404	182
Fee and commission expense	16	20
Other operating income	41	39
Other operating expense	58	43

The interest rates of transactions between the Bank and its subsidiaries are summarized below:

Bank	Six months ended 30 June	
	2016 %	2015 %
Due from banks and other financial institutions	3.50~3.53	5.54~5.56
Loans to banks and other financial institutions	1.85~3.71	1.77~4.00
Financial investments	3.80~6.10	3.80~6.10
Loans and advances to customers	2.23~3.67	2.67~3.16
Deposits from banks and other financial institutions	0.01~3.50	0.03~5.50
Loans from banks and other financial institutions	0.85~3.00	0.16~0.50
Due to customers	0.35~4.75	0.01~1.36
Debt securities issued	5.75	5.75

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(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 and loans, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarized below:

	As at 30 June 2016	As at 31 December 2015
Due to customers	57	10
Loans and advances to customers	4	–

Compensations of directors and senior management are disclosed in Note 12.

(g) Transactions with associate

As at 30 June 2016, the Group holds 10.60% (31 December 2015: 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 30 June 2016	As at 31 December 2015
Deposits from other banks and financial institutions	1,999	2,330
Interests payable	5	2

	Six months ended 30 June	
	2016	2015
Interest expenses	7	25

The interest rate of transactions between the Group and Bank of Tibet Co., Ltd. is summarized below:

	Six months ended 30 June	
	2016 %	2015 %
Deposits from other banks and financial institutions	1.35~2.85	1.35~3.80

43 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.

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 unaudited condensed consolidated statement of profit or loss and other comprehensive income.

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

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

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Six months ended 30 June 2016								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	13,400	4,848	34,619	18,866	10,360	7,168	55,100	–	144,361
External interest expense	(15,021)	(4,324)	(25,055)	(14,400)	(6,515)	(4,555)	(6,343)	–	(76,213)
Inter-segment net Interest income/(expenses)	9,981	2,581	10,737	8,418	3,554	133	(35,404)	–	–
Net Interest income	8,360	3,105	20,301	12,884	7,399	2,746	13,353	–	68,148
Fee and commission income	2,505	941	8,429	4,470	1,932	1,188	2,773	–	22,238
Fee and commission expenses	(47)	(23)	(980)	(164)	(62)	(148)	150	–	(1,274)
Net fee and commission income	2,458	918	7,449	4,306	1,870	1,040	2,923	–	20,964
Net gains/(losses) arising from trading activities	109	21	(26)	39	197	810	(55)	–	1,095
Net gains/(losses) arising from financial investments	–	–	326	34	–	160	–	–	520
Insurance business income	–	–	8,741	–	–	23	–	–	8,764
Share of profit of associates	–	–	–	–	–	–	38	–	38
Other operating income	391	102	2,008	481	276	706	116	–	4,080
Total operating revenue	11,318	4,146	38,799	17,744	9,742	5,485	16,375	–	103,609
Impairment losses on loans and advances to customers	(1,449)	(555)	(7,401)	(2,470)	(1,135)	(197)	(1,600)	–	(14,807)
Insurance business expenses	–	–	(8,154)	–	–	(7)	–	–	(8,161)
Other operating expense	(3,625)	(1,689)	(10,365)	(5,150)	(2,643)	(1,777)	(6,895)	–	(32,144)
Profit before tax	6,244	1,902	12,879	10,124	5,964	3,504	7,880	–	48,497
Income tax									(10,574)
Net profit for the period									37,923
Depreciation and amortization	(406)	(222)	(1,464)	(514)	(334)	(338)	(508)	–	(3,786)
Capital expenditure	(180)	(53)	(10,535)	(337)	(91)	(94)	(561)	–	(11,851)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group	Six months ended 30 June 2015								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	15,655	5,596	41,305	22,713	11,871	5,708	49,435	–	152,283
External interest expenses	(15,816)	(3,961)	(29,339)	(15,795)	(5,958)	(2,792)	(7,563)	–	(81,224)
Inter-segment net Interest income/(expenses)	8,984	1,505	8,737	5,582	1,550	1,398	(27,756)	–	–
Net Interest income	8,823	3,140	20,703	12,500	7,463	4,314	14,116	–	71,059
Fee and commission income	2,518	835	7,603	4,363	1,938	1,197	2,518	–	20,972
Fee and commission expenses	(211)	(45)	(659)	(271)	(179)	(201)	(20)	–	(1,586)
Net fee and commission income	2,307	790	6,944	4,092	1,759	996	2,498	–	19,386
Net gains/(losses) arising from trading activities	264	57	310	130	39	(1,096)	(40)	–	(336)
Net gains/(losses) arising from financial investments	3	–	961	23	–	3	(46)	–	944
Insurance business income	–	–	3,009	–	–	19	–	–	3,028
Share of profit of associates	–	–	–	–	–	–	43	–	43
Other operating income	354	100	1,089	509	247	491	232	–	3,022
Total operating revenue	11,751	4,087	33,016	17,254	9,508	4,727	16,803	–	97,146
Impairment losses on loans and advances to customers	(1,127)	(363)	(6,627)	(856)	(319)	(57)	(2,105)	–	(11,454)
Insurance business expense	–	–	(3,564)	–	–	(12)	–	–	(3,576)
Other operating expenses	(4,323)	(1,781)	(10,237)	(5,668)	(2,793)	(1,463)	(7,562)	–	(33,827)
Profit before tax	6,301	1,943	12,588	10,730	6,396	3,195	7,136	–	48,289
Income tax									(10,783)
Net profit for the period									37,506
Depreciation and amortization	(385)	(214)	(1,052)	(493)	(318)	(216)	(761)	–	(3,439)
Capital expenditure	(399)	(333)	(5,206)	(616)	(399)	(3,322)	(560)	–	(10,835)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 30 June 2016								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,138,921	371,671	2,465,053	1,399,258	713,751	755,571	3,564,054	(2,467,521)	7,940,758
Including:									
Investment in associates	–	–	–	9	–	53	561	–	623
Unallocated assets									15,564
Total assets									7,956,322
Segment liabilities	(1,134,555)	(369,349)	(2,392,284)	(1,386,279)	(709,685)	(744,491)	(3,131,576)	2,467,521	(7,400,698)
Unallocated liabilities									(130)
Total liabilities									(7,400,828)

	As at 31 December 2015								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	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)

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information

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

The group business information is summarized as follows:

	Six months ended 30 June 2016				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	30,178	8,724	28,669	577	68,148
Inter-segment net interest income/(expense)	4,712	10,942	(15,654)	–	–
Net interest income	34,890	19,666	13,015	577	68,148
Net fee and commission income	9,703	9,973	589	699	20,964
Net gains/(losses) arising from trading activities	364	9	392	330	1,095
Net gains arising from financial investments	–	–	520	–	520
Share of profit of associates	–	–	–	38	38
Insurance business income	–	–	–	8,764	8,764
Other operating income	2,532	1,387	81	80	4,080
Total operating revenue	47,489	31,035	14,597	10,488	103,609
Impairment losses on loans and advances to customers	(12,419)	(2,388)	–	–	(14,807)
Insurance business expense	–	–	–	(8,161)	(8,161)
Other operating expenses					
– Depreciation and amortization	(1,140)	(2,388)	(83)	(175)	(3,786)
– Others	(12,618)	(13,549)	(1,061)	(1,130)	(28,358)
Profit before tax	21,312	12,710	13,453	1,022	48,497
Income tax					(10,574)
Net profit for the period					37,923
Capital expenditure	(3,566)	(7,476)	(260)	(549)	(11,851)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Six months ended 30 June 2015				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
External net interest income	38,994	7,410	24,112	543	71,059
Inter-segment net interest income/(expense)	834	9,340	(10,174)	–	–
Net interest income	39,828	16,750	13,938	543	71,059
Net fee and commission income	10,883	7,323	126	1,054	19,386
Net gains/(losses) arising from trading activities	459	(3)	(1,594)	802	(336)
Net gains arising from financial investments	–	–	890	54	944
Share of profit of associates	–	–	–	43	43
Insurance business income	–	–	–	3,028	3,028
Other operating income	1,386	1,541	23	72	3,022
Total operating revenue	52,556	25,611	13,383	5,596	97,146
Impairment losses on loans and advances to customers	(8,510)	(2,944)	–	–	(11,454)
Insurance business expense	–	–	–	(3,576)	(3,576)
Other operating expenses					
– Depreciation and amortization	(1,036)	(2,169)	(75)	(159)	(3,439)
– Others	(14,057)	(13,751)	(1,695)	(885)	(30,388)
Profit before tax	28,953	6,747	11,613	976	48,289
Income tax					(10,783)
Net profit for the period					37,506
Capital expenditure	(3,260)	(6,836)	(237)	(502)	(10,835)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 30 June 2016				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
Segment assets	3,006,698	1,134,386	3,751,695	47,979	7,940,758
Including: Investment in associates				623	623
Unallocated assets					15,564
Total assets					7,956,322
Segment liabilities	(3,511,583)	(1,519,017)	(2,336,384)	(33,714)	(7,400,698)
Unallocated liabilities					(130)
Total liabilities					(7,400,828)

	As at 31 December 2015				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
Segment assets	2,819,081	1,043,997	3,242,760	32,840	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)

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

44 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

On 21 July 2016, the Group's subsidiary, Bank of Communications Financial Leasing, issued bonds with aggregate principal values of RMB4,000 million at a couple rate of 3.17%. These bonds will be matured on 22 July 2019 with interest payable annually.

On 10 August 2016, the Bank's Hong Kong Branch issued medium term note with total face value of USD550 million at a floating rate due 2019.

Save as above events, the Group has no other significant subsequent events.

45 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period presentation.

Unaudited Supplementary Financial Information

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

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

1 Capital Adequacy Ratio

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 standardised 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 "Administrative Measures for the Capital of Commercial Banks (Provisional)" are as follows:

Item	As at 30 June 2016	As at 31 December 2015
Net Core Tier 1 Capital	535,616	518,487
Net Tier 1 Capital	550,569	533,430
Net Capital	646,318	627,862
Core Tier 1 Capital Adequacy Ratio (%)	10.92	11.14
Tier 1 Capital Adequacy Ratio (%)	11.22	11.46
Capital Adequacy Ratio (%)	13.18	13.49

2 Liquidity Ratio

The liquidity ratios that the Group submitted to the Regulator are calculated in accordance with the formula promulgated by CBRC.

	As at 30 June 2016	As at 31 December 2015
Liquidity ratio (%)	52.68	43.12

3 Currency Concentrations

As at 30 June 2016	USD	HKD	Others	Total
Spot assets	704,986	164,158	91,499	960,643
Spot liabilities	(726,828)	(191,743)	(84,671)	(1,003,242)
Forward purchases	472,963	11,445	41,589	525,997
Forward sales	(377,788)	(16,421)	(14,449)	(408,658)
Net option position	411	7	(4)	414
Net long/(short) position	73,744	(32,554)	33,964	75,154
Net structural position	53,067	2,033	2,930	58,030

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

3 Currency Concentrations *(Continued)*

As at 31 December 2015	USD	HKD	Others	Total
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 (short)/long position	52,594	14,410	(29,433)	37,571
Net structural position	43,690	2,043	2,632	48,365

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.

4 International Claims

The Group is principally engaged in business operations within Mainland China. The international claims of the Group are 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, derivatives and corporate and individual guarantees.

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

4 International Claims *(Continued)*

As at 30 June 2016	Banks	Official sector	Non-bank private sector	Others	Total
Asia Pacific	355,522	70,789	341,006	–	767,317
– of which attributed to Hong Kong	90,312	28,782	171,563	–	290,657
North and South America	43,661	7,264	25,793	–	76,718
Africa	–	314	113	–	427
Europe	27,403	354	6,393	–	34,150
	426,586	78,721	373,305	–	878,612

As at 31 December 2015	Banks	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

5 Overdue and Rescheduled Assets

5.1 Gross amount of overdue loans

	As at 30 June 2016	As at 31 December 2015
Gross loans and advances to customers which have been overdue for:		
– Within 3 months	21,274	21,910
– 3 to 6 months	11,035	17,394
– 6 to 12 months	25,771	31,927
– Over 12 months	48,575	42,102
	106,655	113,333
Percentage (%):		
– Within 3 months	0.53	0.59
– 3 to 6 months	0.28	0.47
– 6 to 12 months	0.65	0.86
– Over 12 months	1.22	1.12
	2.68	3.04

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

5 Overdue and Rescheduled Assets *(Continued)*

5.2 Overdue and restructured loans

	As at 30 June 2016	As at 31 December 2015
Total restructured loans and advances to customers	10,828	32,907
Including: rescheduled loans and advances to customers overdue above 3 months	6,198	2,694
Percentage of restructured loans and advances to customers overdue above 3 months in total loans (%)	0.15	0.07

6 Segmental Information of Loans

6.1 Impaired loans by geographical area

	As at 30 June 2016		As at 31 December 2015	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
– Northern China	8,066	(3,644)	7,478	(2,870)
– North Eastern China	2,440	(1,212)	2,450	(1,155)
– Eastern China	35,162	(14,755)	32,795	(13,406)
– Central and Southern China	8,773	(4,613)	8,426	(3,687)
– Western China	6,304	(2,799)	4,481	(1,841)
	60,745	(27,023)	55,630	(22,959)
Hong Kong, Macau, Taipei and overseas regions	619	(628)	576	(475)
	61,364	(27,651)	56,206	(23,434)

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

6 Segmental Information of Loans *(Continued)*

6.2 Overdue loans and advances to customers by geographical area

	As at 30 June 2016			As at 31 December 2015		
	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	25,400	(3,573)	(1,510)	14,882	(2,922)	(1,735)
– North Eastern China	5,150	(1,241)	(683)	5,615	(1,113)	(776)
– Eastern China	50,417	(14,620)	(12,188)	64,724	(13,238)	(12,735)
– Central and Southern China	13,689	(4,601)	(1,151)	15,133	(3,727)	(1,624)
– Western China	11,071	(2,877)	(1,001)	12,177	(1,854)	(1,700)
	105,727	(26,912)	(16,533)	112,531	(22,854)	(18,570)
Hong Kong, Macau, Taipei and overseas regions	928	(666)	(77)	802	(475)	(41)
	106,655	(27,578)	(16,610)	113,333	(23,329)	(18,611)
Fair value of collaterals	55,661	Not applicable	Not applicable	52,437	Not applicable	Not applicable

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

7 Loans and Advances to Customers

7.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

Hong Kong	As at 30 June 2016			As at 31 December 2015		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Electronics	366	0.19	46	1,088	0.57	62
– Textile and clothing	3,669	1.94	9	3,751	1.97	6
– Other manufacturing	19,490	10.28	683	19,459	10.20	307
Electricity, gas and water production and supply	2,224	1.17	2	2,180	1.14	2
Construction	6,726	3.55	1,094	6,993	3.67	2,326
Transportation, storage and postal service	1,757	0.93	1,792	4,024	2.11	3,193
Telecommunication, IT service and software	432	0.23	–	26	0.01	–
Wholesale and retail	53,752	28.36	2,602	65,840	34.53	3,045
Accommodation and catering	124	0.07	35	119	0.06	–
Financial institutions	25,356	13.38	5,578	20,674	10.84	5,853
Real estate	5,855	3.09	8,485	9,086	4.76	3,252
Education, science, culture and public health	24	0.01	–	5	–	4
Others	45,282	23.88	11,141	32,525	17.07	5,945
Total corporate loans	165,057	87.08	31,467	165,770	86.93	23,995
Individual loans						
Mortgage	10,961	5.78	10,956	10,730	5.63	10,726
Credit cards	138	0.07	–	118	0.06	–
Others	13,405	7.07	10,286	14,075	7.38	10,824
Total individual loans	24,504	12.92	21,242	24,923	13.07	21,550
Gross amount of loans and advances before impairment allowance	189,561	100.00	52,709	190,693	100.00	45,545
Outside Hong Kong	3,794,195			3,531,313		

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 30 June 2016 (31 December 2015: 50%).

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

7 Loans and Advances to Customers *(Continued)*

7.2 Allowance on loans and advances by loan usage

	As at 30 June 2016		As at 31 December 2015	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Corporate	47,541	(21,826)	44,284	(18,852)
Individuals	13,823	(5,825)	11,922	(4,582)
	61,364	(27,651)	56,206	(23,434)
Fair value of collateral	24,797	Not applicable	21,359	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 period are disclosed below:

	Six months ended 30 June 2016			Six months ended 30 June 2015		
	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
Corporate	12,419	(8,669)	92	8,510	(1,578)	66
Individuals	2,388	(767)	189	2,944	(531)	94
	14,807	(9,436)	281	11,454	(2,109)	160

Appendices 1 to 4 are disclosed in accordance with the *Notice on Enhancing Disclosure Requirements for Composition of Capital* issued by the CBRC.

Appendix 1: Group Balance Sheet (Accounting and Regulatory Consolidation)

(In millions of RMB)

	Balance sheet of the accounting consolidation	Balance sheet of the regulatory consolidation
Assets:		
Cash and balances with central banks	1,040,308	1,040,308
Deposits with banks and other financial institutions	161,395	160,835
Placements with banks and non-bank financial institutions	408,711	429,856
Financial assets at fair value through profit or loss	175,436	174,585
Positive fair value of derivatives	20,576	20,562
Financial assets held under resale agreements	81,387	80,310
Interest receivable	40,413	40,613
Loans and advances to customers	3,891,431	3,897,878
Available-for-sale financial assets	295,075	285,120
Held-to-maturity investments	1,205,326	1,204,507
Debt securities classified as receivables	341,771	337,432
Investments to subsidiaries	623	2,480
Fixed assets	89,895	87,173
Land use rights	855	855
Deferred tax assets	15,564	15,560
Goodwill	351	230
Intangible assets	1,326	1,312
Other assets	185,879	179,884
Total assets	7,956,322	7,959,500

Appendix 1: Group Balance Sheet (Accounting and Regulatory Consolidation) (Continued)

(In millions of RMB)

	Balance sheet of the accounting consolidation	Balance sheet of the regulatory consolidation
Liabilities:		
Borrowings from central banks	231,602	231,602
Deposits from banks and non-bank financial institutions	1,241,737	1,242,143
Placements from banks and non-bank financial institutions	294,769	313,626
Financial liabilities at fair value through profit or loss	48,489	48,489
Negative fair value of derivatives	24,705	24,705
Financial assets sold under repurchase agreements	256,413	253,931
Customer deposits	4,734,627	4,735,903
Debt securities issued	179,250	179,170
Employee benefits payable	5,250	5,110
Taxes payable	11,625	11,572
Interest payable	78,106	78,515
Deferred tax liabilities	130	54
Provisions	475	475
Other liabilities	293,650	278,959
Total liabilities	7,400,828	7,404,254
Equity:		
Paid-in capital	74,263	74,263
Other equity instruments	14,924	14,924
Capital surplus	113,392	113,421
Other comprehensive income	641	725
Surplus reserve	183,923	183,923
General risk reserve	87,278	87,278
Retained earnings	78,094	78,621
Minority interests	2,979	2,091
Total equity	555,494	555,246

Appendix 2: Elaborated Balance Sheet under Regulatory Consolidation

(In millions of RMB)

	Balance sheet of the regulatory consolidation	Code[Note]
Assets:		
Cash and balances with central banks	1,040,308	
Deposits with banks and other financial institutions	160,835	
Placements with banks and non-bank financial institutions	429,856	
Financial assets at fair value through profit or loss	174,585	
Positive fair value of derivatives	20,562	
Financial assets held under resale agreements	80,310	
Interest receivable	40,613	
Loans and advances to customers	3,897,878	
Available-for-sale financial assets	285,120	
Held-to-maturity investments	1,204,507	
Debt securities classified as receivables	337,432	
Investments to subsidiaries	2,480	
Including: Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	1,779	a
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	146	b
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	1,679	c
Fixed assets	87,173	
Land use rights	855	d
Deferred tax assets	15,560	e
Including: Net deferred tax assets arising from operating losses which is expected to off-set against future profits	–	f
Including: Other net deferred tax assets relying on the Bank's future profits	15,560	g
Intangible assets	1,312	h
Goodwill	230	i
Other assets	179,884	
Total assets	7,959,500	

Appendix 2: Elaborated Balance Sheet under Regulatory Consolidation (Continued)

	Balance sheet of the regulatory consolidation	Code[Note]
Liabilities:		
Borrowings from central banks	231,602	
Deposits from banks and non-bank financial institutions	1,242,143	
Placements from banks and non-bank financial institutions	313,626	
Financial liabilities at fair value through profit or loss	48,489	
Negative fair value of derivatives	24,705	
Financial assets sold under repurchase agreements	253,931	
Customer deposits	4,735,903	
Debt securities issued	179,170	
Including: Recognised in Tier 2 Capital	79,726	j
Employee benefits payable	5,110	
Taxes payable	11,572	
Interest payable	78,515	
Deferred tax liabilities	54	k
Including: Deferred tax liabilities relating to goodwill	–	l
Including: Deferred tax liabilities relating to other intangible assets	–	m
Provisions	475	
Other liabilities	278,959	
Total liabilities	7,404,254	
Equity:		
Paid-in capital	74,263	
Including: Those to be included in Core Tier 1 Capital	74,263	n
Including: Those to be included in other Tier 1 Capital	–	o
Capital surplus	113,421	p
Surplus reserve	183,923	q
General risk reserve	87,278	r
Undistributed profits	78,621	s
Other comprehensive income	725	t
Including: Relating to capital surplus	1,561	
Including: Exchange reserve	(836)	u
Minority interests	2,091	
Including: Those to be included in Core Tier 1 Capital	633	v
Including: Those to be included in other Tier 1 Capital	29	w
Including: Recognised in Tier 2 Capital	66	x
Total equity	555,246	

Note: The code is used for matching the items in the group's composition of capital.

Appendix 3: Group's Composition of Capital

(in millions of RMB unless otherwise stated)

	Items	Amount	Code
Core Tier 1 Capital:			
1	Paid-in capital	74,263	n
2	Retained earnings	349,822	
2a	Surplus reserve	183,923	q
2b	General risk reserve	87,278	r
2c	Undistributed profits	78,621	s
3	Accumulated other comprehensive income and disclosed reserve	114,146	
3a	Capital surplus	114,982	p+t-u
3b	Others	(836)	u
4	Amount given recognition in Core Tier 1 Capital (Only applicable to non-stock companies; for joint-stock companies, to be completed with "0")	–	
5	Minority interest given recognition in Tier 2 Capital	633	v
6	Core Tier 1 Capital before regulatory adjustments	538,864	
Core Tier 1 Capital: Regulatory adjustments			
7	Prudent valuation adjustment|	–	
8	Goodwill (net of deferred tax liabilities)	230	i-l
9	Other intangible assets (excluding land use rights) (net of deferred tax liabilities)	1,312	h-m
10	Net deferred tax assets relying on future profitability and arising from operating losses	–	f
11	Cash-flow hedge reserves	(73)	
12	Gaps of loan loss provisions	–	
13	Gains from sales of asset securitisation	–	
14	Unrealised profit/loss arising from the changes in own credit risks on fair value of liability	–	
15	Net defined-benefit pension assets (excluding deferred tax liabilities)	–	
16	Direct or indirect investments in own shares	–	
17	Reciprocal cross-holdings in Core Tier 1 Capital	–	
18	Non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	–	
19	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation	–	
20	Mortgage servicing rights	–	

Appendix 3: Group's Composition of Capital (Continued)

(in millions of RMB unless otherwise stated)

	Items	Amount	Code
21	Other deferred tax assets relying on the Bank's future profitability	–	
22	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other deferred tax assets that rely on the Bank's future profitability after all regulatory adjustments (amount exceeding the 15% threshold)	–	
23	Including: Significant investments in the capital of financial institutions	–	
24	Including: Mortgage servicing rights	–	
25	Including: Other deferred tax assets that rely on the Bank's future profitability	–	
26a	Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	1,779	a
26b	Gaps of Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	–	
26c	Other deductions from Core Tier 1 Capital	–	
27	Regulatory adjustments applied to Core Tier 1 Capital due to insufficient Other Tier 1 and Tier 2 Capital to cover deductions	–	
28	Total regulatory adjustments to Core Tier 1 Capital	3,248	
29	Core Tier 1 Capital	535,616	
Other Tier 1 Capital:			
30	Directly issued qualifying Other Tier 1 instruments plus stock surplus	14,924	
31	Including: Classified as equity	–	
32	Including: Classified as liabilities	–	
33	Instruments not given recognition in Other Tier 1 Capital after the transition period	–	
34	Minority interest given recognition in Other Tier 1 Capital	29	w
35	Including: Portions not given recognition in Other Tier 1 Capital after the transition period	–	
36	Other Tier 1 Capital before regulatory adjustments	14,953	

Appendix 3: Group's Composition of Capital (Continued)

(in millions of RMB unless otherwise stated)

	Items	Amount	Code
Other Tier 1 Capital: Regulatory adjustments			
37	Directly or indirectly investments in own other Tier 1 instruments	–	
38	Reciprocal cross-holdings in other Tier 1 instruments	–	
39	Non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	–	
40	Significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	–	
41a	Investments in Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	–	
41b	Gaps of Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	–	
41c	Other deductions from Other Tier 1 Capital	–	
42	Regulatory adjustments applied to Other Tier 1 Capital due to insufficient Tier 2 Capital to cover deductions	–	
43	Total regulatory adjustments to Other Tier 1 Capital	–	
44	Other Tier 1 capital	14,953	
45	Tier 1 Capital (Core Tier 1 Capital + Other Tier 1 Capital)	550,569	
Tier 2 Capital:			
46	Directly issued qualifying Tier 2 instruments plus stock surplus	79,726	j
47	Portions not given recognition in Tier 2 Capital after the transition period	–	
48	Minority interest given recognition in Tier 2 Capital	66	x
49	Including: Portions not given recognition after the transition period	–	
50	Provisions in Tier 2	15,957	
51	Tier 2 Capital before regulatory adjustments	95,749	
Tier 2 Capital: Regulatory adjustments			
52	Directly or indirectly investments in own Tier 2 instruments	–	
53	Reciprocal cross-holdings in Tier 2 instruments	–	
54	Non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	–	
55	Significant investments in the Tier 2 Capital of financial institutions outside the scope of regulatory consolidation	–	
56a	Investments in Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	–	

Appendix 3: Group's Composition of Capital (Continued)

(in millions of RMB unless otherwise stated)

	Items	Amount	Code
56b	Gaps of Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	–	
56c	Other deductions from Tier 2 Capital	–	
57	Total regulatory adjustments to Tier 2 Capital	–	
58	Tier 2 capital	95,749	
59	Total capital (Tier 1 Capital + Tier 2 Capital)	646,318	
60	Total risk-weighted assets	4,905,041	
Capital adequacy ratio and reserve capital requirements			
61	Core Tier 1 Capital adequacy ratio (%)	10.92	
62	Tier 1 Capital adequacy ratio (%)	11.22	
63	Capital adequacy ratio (%)	13.18	
64	Specific buffer requirements of regulators (%)	3.50	
65	Including: Capital conservation buffer requirements (%)	2.50	
66	Including: Countercyclical buffer requirements (%)	–	
67	Including: Additional buffer requirements of global systemically important banks (%)	1.00	
68	Core Tier 1 Capital available to meet buffers as a percentage of risk-weighted assets (%)	5.92	
Domestic minimum regulatory capital requirements			
69	Core Tier 1 Capital adequacy ratio (%)	5	
70	Tier 1 Capital adequacy ratio (%)	6	
71	Capital adequacy ratio (%)	8	
Amounts below the threshold deductions			
72	Non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	146	b
73	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation	1,679	c
74	Mortgage servicing rights (net of deferred tax liabilities)	–	
75	Other net deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	15,506	e-k
Limit of provisions in Tier 2 Capital			
76	Provisions actually made in respect of exposures subject to risk-weighted approach	14,363	
77	Provisions eligible for inclusion in Tier 2 Capital under risk-weighted approach	13,643	
78	Provisions actually made in respect of exposures subject to internal ratings-based approach	77,962	

Appendix 3: Group's Composition of Capital (Continued)

(in millions of RMB unless otherwise stated)

	Items	Amount	Code
79	Provisions eligible for inclusion in Tier 2 Capital under internal ratings-based approach	2,314	
Capital instruments subject to phase-out arrangements			
80	Amount given recognition in current-period Core Tier 1 Capital due to transitional arrangements	–	
81	Amount not given recognition in current-period Core Tier 1 Capital due to transitional arrangements	–	
82	Amount given recognition in current-period Other Tier 1 Capital due to transitional arrangements	–	
83	Amount not given recognition in current-period Other Tier 1 Capital due to transitional arrangements	–	
84	Amount given recognition in current-period Tier 2 Capital due to transitional arrangements	40,200	
85	Amount not given recognition in current-period Tier 2 Capital due to transitional arrangements	15,300	

Appendix 4: Main Features of Qualified Regulatory Capital Instruments

1	Issuer	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications
2	Unique identifier	3328	601328	1428013	XS1113240268	XS1115459528	4605
3	Governing law(s)	China Hong Kong/Hong Kong Securities and Futures Ordinance	China/Securities Law of China	China/Securities Law of China, Measures for Capital Management of Commercial Banks (Provisional)	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Overseas preference shares and accompanying rights and obligations are governed by and construed in accordance with Chinese laws.
Regulatory treatment							
4	Transitional rules under the *Measures for Capital Management of Commercial Banks (Provisional)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 Capital
5	Post-transitional rules under the *Measures for Capital Management of Commercial Banks (Provisional)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 Capital
6	Eligible at Bank/ Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level
7	Instrument type	Equity instruments	Equity instruments	Tier 2 Capital bonds	Tier 2 Capital bonds	Tier 2 Capital bonds	Preference shares

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

8	Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date)	RMB89,498	RMB97,534	RMB27,977	Equivalent to RMB7,894	Equivalent to RMB3,655	Equivalent to RMB14,924
9	Par value of instrument (in millions of RMB)	RMB35,012	RMB39,251	RMB28,000	USD1,200	EUR500	USD2,450
10	Accounting treatment	Share capital and capital reserve	Share capital and capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments
11	Original date of issuance	2005/6/23	2007/4/24	2014/8/19	2014/10/3	2014/10/3	2015/7/29
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual
13	Original maturity date	No maturity date	No maturity date	2024/8/19	2024/10/3	2026/10/3	No maturity date
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	2019/8/19; full or partial.	2019/10/3; full.	2021/10/3; full.	First call date 2020/7/29, full or partial.
16	Subsequent call dates, if applicable	N/A	N/A	Nil	Nil	Nil	29 July of each year subsequent to the first call date
Coupons/dividends							
17	Fixed or floating dividend/coupon	Floating	Floating	Fixed	Floating (coupon rate is fixed for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year, the coupon rate will be reset)	Floating (coupon rate is fixed for the first 7 years; if issuer does not exercise the right of redemption at the end of the fifth year, the coupon rate will be reset)	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

18	Coupon rate and any related index	N/A	N/A	5.80%	It is 4.5% for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year (3 October 2019), the coupon rate will be reset based on the interest rate of 5-year US treasury bond, plus 285 basis points	It is 3.625% for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year (3 October 2021), the coupon rate will be reset based on the 7-year EUR swaps median value, plus 300 basis points	It is 5% for the first 5 years. The dividend rate will be reset every 5 years based on the yield rate of 5-year US treasury bond plus 334.4 basis points
19	Existence of a dividend stopper	N/A	N/A	No	No	No	Yes
20	Fully discretionary, partially discretionary or mandatory dividends	Totally at discretion	Totally at discretion	Without discretion	Without discretion	Without discretion	Totally at discretion
21	Existence of incentive to redeem	No	No	No	No	No	No
22	Cumulative or non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	No	No	No	Yes

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	If a other Tier 1 Capital instrument trigger event occurs, i.e. adequacy of core Tier 1 Capital reduced to 5.125% (or below); or if a Tier 2 Capital instrument trigger event occurs, i.e. earlier of the following: (1) CBRC identifies that the Bank is unable to survive if conversion or write-down is not carried out; (2) Relevant departments identify that the Bank is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	When other Tier 1 Capital instrument trigger event occurs, the Bank is entitled to fully or partially convert the issued and outstanding overseas preference shares to H ordinary shares based on the total amount without prior consent from the shareholders of preference shares; when Tier 2 Capital instrument trigger event occurs, the Bank is entitled to fully convert the issued and outstanding overseas preference shares to H ordinary shares based on the total amount without prior consent from the shareholders of preference shares.

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	The average stock transaction price of H ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing overseas preference shares is deemed as initial conversion price and the mandatory conversion price adjustment is conducted in accordance with Paragraph 9(5) "Mandatory Conversion Price Adjustment Mode" under Proposals on the Plan for Private Placement of Offshore Preference Shares by Bank of Communications Co., Ltd.
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	Mandatory
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	H ordinary shares
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	Bank of Communications

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

30	Write-down feature	No	No	Yes	Yes	Yes	No
31	If write-down, write-down trigger(s)	N/A	N/A	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	N/A
32	If write-down, full or partial	N/A	N/A	Full	Full	Full	N/A
33	If write-down, permanent or temporary	N/A	N/A	Permanent	Permanent	Permanent	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A

Appendix 4: Main Features of Qualified Regulatory Capital Instruments (Continued)

35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Ranking after depositors, normal creditors and subordinated debt and other Tier 1 Capital holders	Ranking after depositors, normal creditors and subordinated debt and other Tier 1 Capital holders	Ranking after depositors and normal creditors, ranking before equity capital, other Tier 1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future	Ranking after depositors and normal creditors, ranking before equity capital, other Tier 1 instruments and mixed capital bonds, at least ranking at the same sequence as all other subordinated debts that are issued by the issuer currently and in future (including other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future)	Ranking after depositors and normal creditors, ranking before equity capital, other Tier 1 instruments and mixed capital bonds, at least ranking at the same sequence as all other subordinated debts that are issued by the issuer currently and in future (including other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future)	Ranking after all debts of the Bank (including subordinated debts) and obligations that are issued, guaranteed, ranked prior to or expressively prior to the overseas preference shares as well as ranking before ordinary share holders; all overseas preference share holders rank at the same sequence without priority among them and have the same repayment sequence as holders of obligations with equivalent repayment sequence.
36	Non-compliant transitioned features	No	No	No	No	No	No
	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

Appendix 5 and Appendix 6 are information disclosed according to requirements of *Rules on Leverage Ratio of Commercial Banks issued* by the CBRC.

Appendix 5: Difference of Items between Regulatory Consolidation and Accounting Consolidation

(In millions of RMB)

SN	Item	Balance
1	Total consolidation assets	7,956,322
2	Adjusted item of consolidation	3,178
3	Adjusted item of customer's assets	–
4	Adjusted item of derivatives	24,773
5	Adjusted item of securities financing transactions	–
6	Adjusted item of off-balance sheet item	758,858
7	Other adjusted items	(3,248)
8	Balance of adjusted on-and-off-balance sheet assets	8,739,883

Appendix 6: 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)	7,604,696
2	Less: Deduction of Tier 1 Capital	(3,248)
3	**Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	7,601,448
4	Replacement costs of derivatives (less eligible margin)	20,562
5	Potential risk exposure of derivatives	24,395
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	(284)
9	Notional principal of sold credit derivatives	663
10	Less: Balance of deductible sold credit derivatives	–
11	**Balance of derivatives**	45,336
12	Accounting asset balance of securities financing transactions	334,241
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**	334,241
17	Balance of off-balance sheet items	1,517,264
18	Less: Balance of off-balance sheet items from reduction of credit transfer	(758,406)
19	**Balance of adjusted off-balance sheet items**	758,858
20	Net Tier 1 Capital	550,569
21	Balance of adjusted on-and-off-balance sheet assets	8,739,883
22	**Leverage ratio (%)**	6.30

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