交通银行
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 ANNUAL REPORT

Stock Code: 03328

# COMPANY PROFILE

Founded in 1908, BoCom is one of the note-issuing banks with the longest history in modern China. BoCom reopened after reorganization on 1 April 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with Head Office located in Shanghai. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007.

BoCom's development strategy is "becoming a first class listed comprehensive banking group focusing on international expansion and specializing in wealth management" (hereinafter referred to as "BoCom Strategy"); its corporate vision is "building the best wealth management bank in China"; its corporate spirit is "promote development with unremitting effort, consolidate enterprise with absolute responsibility, transcend limitations with endless creatively"; its corporate mission is to create shared value; its business philosophy is "One BoCom for One Customer"; its slogan is "A century of BoCom, your best wealth management bank".

Currently, BoCom is one of the major financial services providers in China. The Bank's business scope includes commercial banking, securities services, trust services, financial leasing, fund management, insurance, offshore financial services. As at the end of 2016, 232 domestic branches have been set up, including 30 Tier-1 branches, 7 directly operating branches of Head Office and 195 Tier-2 branches. 3,285 banking outlets have been set up in 236 prefecture-level cities or above and 167 county-level cities nationwide. There are three wholly-owned subsidiaries including BoCom International, BoCom Insurance and BoCom Leasing, and subsidiaries with controlling stake including BoCom Fund, BoCom International Trust, BoCommLife Insurance and four rural banks. Moreover, the Bank has been the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd. and the paratactic largest shareholder of Bank of Tibet Co., Ltd., and has strategically invested in stake of Bank of Hainan.

Currently, BoCom has set up 20 overseas banking entities in over 16 countries and regions, including branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney and Taipei, London Branch of BoCom/Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited/Luxembourg Branch of BoCom, Brisbane Branch of BoCom, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Banco BBM (BoCom BBM) and representative office in Toronto, and has established 65 overseas banking outlets in total (excluding the representative office).

In 2015, the State Council approved *BoCom's Plan to Strengthen Reformation*. The strengthened reformation concentrates on three key areas including refining corporate governance mechanism as a large commercial bank, reinforcing operational improvements and promoting transformation, and innovating operating model. BoCom implemented reform programs steadily. The positive effect of reforms, stimulation of transformation forces and the enhancement of core development indicator are anticipated. In 2016, BoCom was honored "Top 500 Global Companies" for the eighth consecutive year and was ranked No. 153 in terms of revenue by *FORTUNE*. It was ranked No. 13 among the global top 1,000 banks in terms of Tier-1 Capital rated by *The Banker* and was ranked top 20 among global banks for the third consecutive year.

As a large state-owned banking group with long history, distinct strategy, normative governance, moderate operation and high-quality services, BoCom will always adhere to state's strategies and serve the real economy. We will continually deepen reform, promote transformation development and strengthen Party self-discipline, and will do our best to provide better services to customers and reward the shareholders and the society.

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Bank of Communications Co., Ltd.
Annual Report 2016 H Share



## IMPORTANT REMINDERS

I. The Board of Directors, the Board of Supervisors and Directors, Supervisors, Senior Management of the Bank guarantee the authenticity, accuracy and completeness of the Annual Report, free of false records, misleading statements or material omissions, and assume individual and joint legal responsibilities.

II. Mr. Niu Ximing, the Chairman 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 annual report.

III. The Group's financial statements that were prepared in accordance with China Accounting Standards was audited by PricewaterhouseCoopers Zhong Tian LLP, and those prepared in accordance with IFRSs was audited by PricewaterhouseCoopers, with unqualified auditor's reports issued.

IV. Proposal on distribution of dividend during the Reporting Period or proposal on conversion of capital reserve into share capital considered by the Board of Directors:
Based on the total issued ordinary shares of 74.263 billion as at 31 December 2016, a cash dividend of RMB0.2715 (before tax) per share will be distributed to the registered shareholders of A share and H share, totaling RMB20.162 billion. There is no proposal on bonus share or proposal on conversion of capital reserve into share capital for the current year.

V. Prospective statement involved in the report, such as future plans, development strategies do not constitute a real commitment of the Bank to investors. Investors and stakeholders are required to keep sufficient risk awareness, and understand the differences among the plan, forecasting and commitment.

VI. The Group is mainly exposed to credit risk, market risk, operational risk and compliance risk during the operations. The Group has taken and will continue to take various steps to effectively manage risks. Please refer to section headed "Management Discussion and Analysis – Risk Management".

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

# DEFINITIONS

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

| | |
|---|---|
| "Model Code" | 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" | the Company Law of the People's Republic of China |
| "Articles of Associations" | the Articles of Association of Bank of Communications Co., Ltd. as approved by CBRC |
| "Securities Law" | Securities Law of the People's Republic of China |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time |
| "Reporting Period" | the period from 1 January 2016 to 31 December 2016 |
| "Group" | the Bank and its subsidiaries |
| "Bank" | Bank of Communications Co., Ltd. |
| "Ministry of Finance" | Ministry of Finance of the People's Republic of China |
| "North Eastern China" | Includes Liaoning Province, Jilin Province and Heilongjiang Province |
| "Overseas" | Includes Hong Kong Branch, New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch Sydney Branch, Taipei Branch, London Branch of BoCom/Bank of Communications (UK) Co., Ltd., Bank of Communications (Luxembourg) Co., Ltd./Luxembourg Branch of BoCom, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Banco BBM (BoCom BBM), Toronto representative office and other overseas subsidiaries |
| "Northern China" | Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region |
| "Eastern China" | Includes Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province |
| "Central and Southern China" | Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region |
| "HSBC" | The Hong Kong and Shanghai Banking Corporation Limited |
| "basis point" | One in ten thousand |

| | |
|---|---|
| "BoCom Insurance" | China BoCom Insurance Co., Ltd. |
| "BoCom International" | BoCom International Holdings Company Limited |
| "BoCom International Trust" | Bank of Communications International Trust Co., Ltd. |
| "BoCommLife Insurance" | BoCommLife Insurance Company Limited |
| "BoCom Fund" | Bank of Communications Schroder Fund Management Co., Ltd. |
| "BoCom Leasing" | Bank of Communications Financial Leasing Co., Ltd. |
| "Banco BBM (BoCom BBM)" | Banco BBM S.A. |
| "SSE" | the Shanghai Stock Exchange |
| "SSF" | the National Council for Social Security Fund |
| "Western China" | 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" | the Stock Exchange of Hong Kong Limited |
| "Hong Kong Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited |
| "CBRC" | China Banking Regulatory Commission |
| "CSRC" | China Securities Regulatory Commission |
| "Head Office" | the Group's Head Office in Shanghai |

# 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 |
| Fax | 86-21-58798398 |
| E-mail | investor@bankcomm.com |
| Postal code | 200120 |

## ADDRESS AND OFFICIAL WEBSITE

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

## INFORMATION DISCLOSURE AND PLACES WHERE THE ANNUAL REPORT IS AVAILABLE

Newspapers for information disclosure (A share)
China Securities Journal, Shanghai Securities News, Securities Times
Designated website for information disclosure (A share)
Website of the SSE at www.sse.com.cn
Designated website for information disclosure (H share)
Website of HKEx at www.hkexnews.hk
Places where the annual report is available
Head Office of the Bank, principal business locations and the SSE

## 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 |
| Domestic Preference Share | SSE | BOCOM PREF1 | 360021 |
| Overseas Preference Share | HKEx | BOCOM 15USDPREF | 4605 |

## AUDITORS

Accounting firm employed (domestic)

| | |
|---|---|
| Name | PricewaterhouseCoopers Zhong Tian LLP |
| Office address | 11th Floor PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC |
| Name of auditor signed | Hu Liang, Yeung Sheung Yuen |

Accounting firm employed (overseas)

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

## SPONSOR INSTITUTION OF DOMESTIC PREFERENCE SHARES

Sponsor institution employed

| | |
|---|---|
| Name | Guotai Junan Securities Co., Ltd. |
| Office address | 5/F, China Financial Information Center, 18 Dongyuan Road, Pudong New District, Shanghai, PRC |
| Name of sponsor representative signed | Zhang Xingming, Wu Guomei |
| Duration of continuous supervision | From 29 September 2016 to 31 December 2017 |

## AUTHORISED REPRESENTATIVES

Yu Yali

Du Jianglong

## LEGAL ADVISORS

PRC legal advisor: King & Wood Mallesons

Hong Kong legal advisor: DLA Piper Hong Kong

## SHARE REGISTER 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

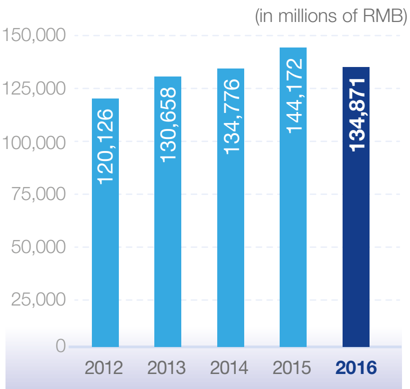
H Share: Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong

## OTHER INFORMATION

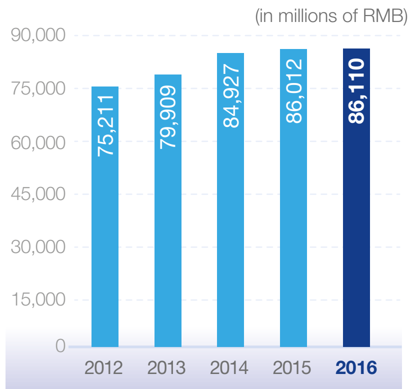
Unified social credit identifier: 9131000010000595XD

# FINANCIAL HIGHLIGHTS

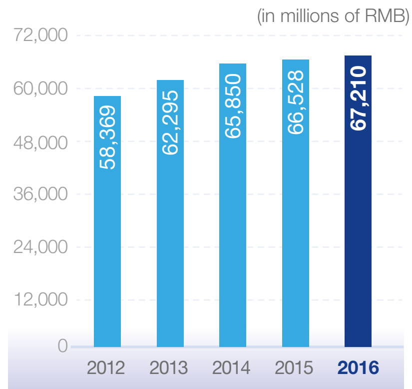
### Net interest income



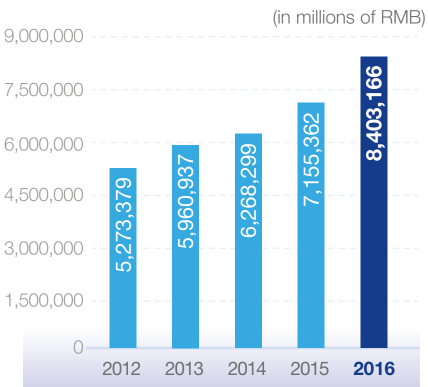

### Profit before tax



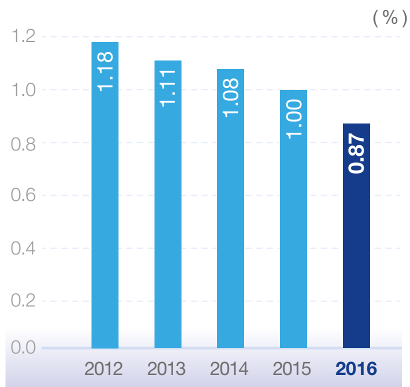

### Net profit (attributable to shareholders of the Bank)



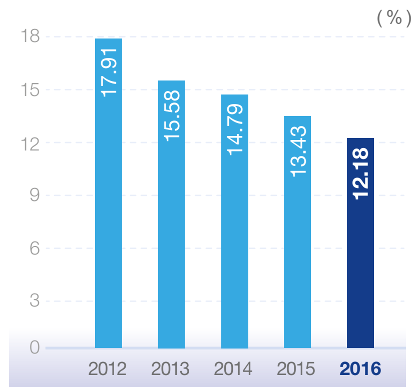

### Total assets



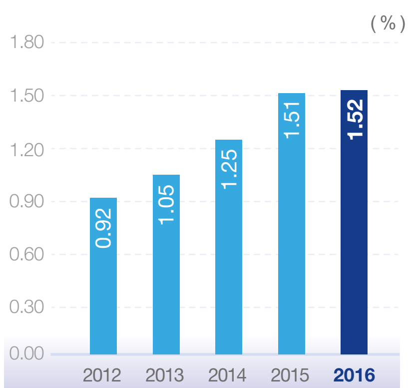

### Return on average assets



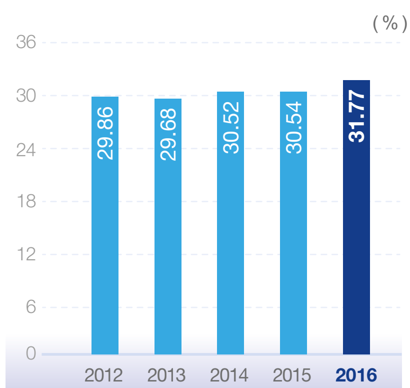

### Return on average shareholders' equity



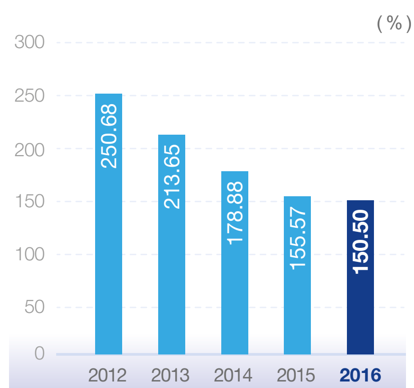

### Impaired loan ratio




### Cost-to-income ratio




### Provision coverage of impaired loans



## I. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

As at 31 December 2016, key financial data and financial indicators prepared by the Group under International Financial Reporting Standards (the "IFRSs") are as follows:

| Description | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Full year results** | | | | | *(In millions of RMB)* |
| Net interest income | **134,871** | 144,172 | 134,776 | 130,658 | 120,126 |
| Profit before tax | **86,110** | 86,012 | 84,927 | 79,909 | 75,211 |
| Net profit (attributable to shareholders of the Bank) | **67,210** | 66,528 | 65,850 | 62,295 | 58,369 |
| **As at the end of the year** | | | | | *(In millions of RMB)* |
| Total assets | **8,403,166** | 7,155,362 | 6,268,299 | 5,960,937 | 5,273,379 |
| Including: Loans and advances to customers | **4,102,959** | 3,722,006 | 3,431,735 | 3,266,368 | 2,947,299 |
| Total liabilities | **7,770,759** | 6,617,270 | 5,794,694 | 5,539,453 | 4,891,932 |
| Including: Due to customers | **4,728,589** | 4,484,814 | 4,029,668 | 4,157,833 | 3,728,412 |
| Shareholders' equity (attributable to shareholders of the Bank) | **629,142** | 534,885 | 471,055 | 419,561 | 379,918 |
| **Per share** | | | | | *(in RMB)* |
| Earnings per share (attributable to shareholders of the Bank) | **0.89** | 0.90 | 0.89 | 0.84 | 0.88 |
| Net assets per share (attributable to shareholders of the Bank)[1] | **7.67** | 7.00 | 6.34 | 5.65 | 5.12 |
| **Key financial ratios** | | | | | *(%)* |
| Return on average assets | **0.87** | 1.00 | 1.08 | 1.11 | 1.18 |
| Return on average shareholders' equity | **12.18** | 13.43 | 14.79 | 15.58 | 17.91 |
| Cost-to-income ratio[2] | **31.77** | 30.54 | 30.52 | 29.68 | 29.86 |
| Impaired loan ratio | **1.52** | 1.51 | 1.25 | 1.05 | 0.92 |
| Provision coverage of impaired loans | **150.50** | 155.57 | 178.88 | 213.65 | 250.68 |
| **Capital adequacy indicators** | | | | | *(In millions of RMB unless otherwise stated)* |
| Net Capital[3] | **723,961** | 627,862 | 584,502 | 516,482 | N/A |
| Including: Net Core Tier-1 capital[3] | **568,131** | 518,487 | 470,456 | 416,961 | N/A |
| Other Tier-1 capital[3] | **59,920** | 14,943 | 10 | 4 | N/A |
| Tier-2 capital[3] | **95,910** | 94,432 | 114,036 | 99,517 | N/A |
| Risk weighted assets[3] | **5,163,250** | 4,653,723 | 4,164,477 | 4,274,068 | N/A |
| Capital adequacy ratio (%)[3] | **14.02** | 13.49 | 14.04 | 12.08 | N/A |
| Tier-1 Capital adequacy ratio (%)[3] | **12.16** | 11.46 | 11.30 | 9.76 | N/A |
| Core Tier-1 Capital adequacy ratio (%)[3] | **11.00** | 11.14 | 11.30 | 9.76 | N/A |

Notes:

1. Refers to shareholders' equity attributable to shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares as at the end of the period.
2. Refers to operating expenses against the total of various net income.
3. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the China Banking Regulatory Commission. As the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the China Banking Regulatory Commission has been effective since 2013, no comparative figures for previous year are presented. In addition, upon the approval from regulatory authorities, the Group has used the Advanced Measurement Approach of Capital Management for the measurement of capital adequacy ratio since April 2014.

## II. CREDIT RATING IN THE LAST THREE YEARS

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Standard & Poor's | **A-/A2/Stable** | 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 is "long-term deposit rating"/"short-term deposit rating"/"rating outlook".

# STATEMENT FROM THE CHAIRMAN

During 2016, China's development was confronted by challenges related to a range of evolving risks and uncertainties, as well their interdependency, both at home and abroad. China's economy maintained stable growth, albeit at a slightly lower rate, with continuing economic transformation and upgrading providing momentum to sustain continued development. The Group proactively pursued the myriad opportunities and actively managed the challenges related to the current environment. As at the end of the year, the Group's assets exceeded RMB8 trillion and net profit increased by 1.03% year on year for 2016, maintaining a trend of stable development. In particular, the decrease in net interest margin, resulting from ongoing interest rate liberalization, was offset by robust non-interest income growth and effective cost reduction, resulting in an unchanged level of profit growth compared to last year. The Group has made remarkable progress in restructuring its businesses and developing its management.

**Niu Ximing** | Chairman

An ancient Chinese poem reads, "Colorful flowers always dazzle the eyes". In this regard, it is critical to establish a proper direction of growth and development in the current complex environment based on of the Group's demonstrated capability and strategic interests. In support of the state's "13th Five-Year-Plan", the Bank released *Outline of BoCom Development Plan for the Period of the 13th Five-Year Plan* (the "Plan") upon deliberation by the Board of Directors. The Plan sets out three key tasks – deepening reform, promoting transformation development and strengthening Party self-discipline, three key points – risk management, interest spread management and cost management – and three key targets – stable profit growth, steady asset quality and new achievements in risk event prevention and control. We further detailed the Plan to include three customer oriented development agenda – corporate, retail and interbank, and sub-sections of credit authorization, risk management and information technology. This refinement has been reflected in every aspect of the Group's development transformation and Party building.

Based on both past experience and looking forward into the future, the following key areas are crucial to the success of the Plan and they will continue to serve as a firm foundation for BoCom well into the future.

First, we maintained an intense focus on serving the real economy. We firmly implemented the decisions of Party Central Committee and State Council and closely adhered to their most fundamental objective, serving the real economy. We continued to increase financing levels to advance supply-side structural reforms and support five major tasks – de-capacity, de-stocking, de-leveraging, cost reduction, and weakness remediation. Specifically, during 2016, the Group's Renminbi-dominated loans increased by RMB300.883 billion, refinancing of existing debt reached RMB687.279 billion, and investments in local bonds amounted to RMB418.957 billion, all supporting the real economy. Further, in order to calibrate our efforts to more effectively promote supply-side structural reforms, we closely monitored changes in government policies and corporate demands. We also made efforts to reduce borrower financing costs and improved our ability to meet the needs of small and micro enterprise businesses by establishing the Small Enterprise Finance Department at both Head Office and branches, and building specialized teams responsible for small and micro enterprises in bank outlets. We also provided strong support to enterprises engaged in technology innovation by creating the Technology Finance Business Division at Head Office. Our persistence enabled us to achieve the goal of "Three No Less Than". Loans granted to industries with significant overcapacity decreased by 0.4 percentage point from the beginning of the year. We passionately believe that innovation is the source of sustainable development, but, financial innovation separating from the real economy will be a rootless tree. Going forward, consistent with the State's regional policies and industrial policies, we will increase efforts to advance innovation in products and services to meet the demands of the real economy, enhancing the relevance and flexibility of financial services, to more effectively allocate financial resources to the real economy. Areas of special focus include "agriculture, rural areas and farmers" and small and micro enterprises.

Second, we will deepen reform by intensifying the forces driving it. BoCom was restructured under China's broader economic reform and opening and had successful experience in several significant reform areas in China's banking sector restructuring. Under the State's strategic objective of comprehensively deepening reform, the State Council approved the *BoCom's Plan to Strengthen Reformation* in 2015, which has enabled BoCom to maintain a leading position. We focused on three key areas of reform during the past two years – refining our corporate governance mechanism as a large commercial bank, reinforcing operational improvements and promoting transformation, and innovating our operating model. Since then we have very deliberately and successfully implemented 20 key reform projects each year and steadily advanced reform. We actively explored refining the divisional structure of large commercial banks, with an emphasis on those of the front office. In this regard, a new operating framework has been developed, comprising three divisions – VIP Institutional Customer, Specialized Businesses, and Support. This enabled us to promote the "Head Office to Head Office" levels of professional services and operating skills. The resulting growth in profits of 12 directly operating units in 2016 was 19.23%, based on our internal performance assessment, making this an important area of growth point for the Group. As we will be introducing 20 new projects in 2017, with the objectives of advancing reform, accountability and operating effectiveness, we believe that the positive effects will continue and support BoCom's transformation and development.

Third, we will promote transformation through the "BoCom Strategy", becoming a first-class listed comprehensive banking group, focusing on international expansion and specializing in wealth management, and positioning BoCom for success. We strictly adhered to the State's strategic initiative "Belt and Road" and achieved five successful "international expansion" targets in 2016, including the establishment of branches in London and Luxembourg, the Bank of Communications (Luxembourg) S.A. Rome and Paris branches, and the acquisition of a controlling stake in Banco BBM, which promoted our capability in supporting China's enterprises to "Go Global". Significant milestones also included the smooth progress of listing of BoCom International and listing of Xinjiang Shihezi BoCom Rural Bank on the National Equities Exchanges and Quotations (NEEQ), and the successful A-share listing of Jiangsu Changshu Rural Commercial Bank as the Bank is the strategic investor. Assets under management ("AUM") have been fully integrated into the Group's performance evaluation process. After years of dedicated operations, the Group's assets of overseas operations and non-banking subsidiaries exceeded RMB1 trillion in 2016, accounting for 13.39% of the Group's profit contribution, representing an increase of 2.77 percentage points over the previous year. Going forward, we will follow the "BoCom Strategy" through extending our service network and delivery channels; increasing integration among overseas businesses, non-banking businesses and domestic banking businesses; improving the internationalized and diversified profit contribution; accelerating the development of trading and wealth management businesses; and promoting substantial launch of the internet finance. This will enable us to develop new core competencies through the "BoCom Strategy".

Fourth, we will pursue stability through effective risk prevention and management. With the experience of successfully managing through the global financial crisis, we have a more profound and thorough understanding of the relationship between current profits and hysteretic nature of certain commercial banking risks. As the Group is still exposed to risk from significant lines of credit granted in prior years and the increasing uncertainties of the economy, risk prevention and management are crucial to meeting our objectives, and could be a top priority of our operational management. The Group has spent decades improving its enterprise wide risk management system through "Full coverage, whole process, accountability and risk management culture". We emphasize risk prevention and management in key areas, addressing both risks and their root cause. This will enable us to firmly safeguard against systemic financial risks. All of us fully understand and follow the risk management culture of "stable, lawful and prudent operation", the risk diversification principle of "not leaving all the eggs in one basket", the code of conduct of "process-and-procedure-orientation", and the internal control principle of "dual control and mutual supervision". We are confident in our ability to manage emerging challenges and implementing new regulatory requirements to create opportunity in an uncertain and volatile environment, ensuring stable operations over the long-term.

Fifth, we will continue to develop our brand through improving service quality. With the objective of "becoming a bank providing best services", since 2011, we have put tremendous effort into promoting our services, focusing on the service evaluation and promoting an image of professionalism, standardization, and optimization. BoCom was ranked No. 1 in the China Retail Banking Satisfaction Study for three consecutive years. Further, 140 of the Group's outlets were awarded "Top 1,000 model" by the China Banking Association for providing good services to customers, ranking No. 1 in the banking industry in 2016. We value our customers' trust and believe that the promotion of our services has progressed a long way. Going forward, we will establish and improve the tiered and hierarchical management framework related to corporate, retail, and interbank customers; continue to improve the efficiency and effectiveness of our services; improve the customer experiences of online and offline services; and reinforce BoCom's brand in China's financial services industry.

Looking forward, the established geopolitical and economic relationships have been globally foreshadowed. The Chinese economy is still in the status of "three period superimposed". China's banking industry will face multiple challenges, including more intense competition across a broad range of financial products from both banking and emerging non-banking competitors. The latter is fundamentally changing operating model and profit pattern of commercial banks. The liberalization of interest rates and tighter liquidity will result in the higher costs of lines of credit, as well as further narrow the interest spread and profit margin. The emerging financial risks are becoming more prominent and their interdependencies and complexity are increasing, likely resulting in a deterioration of asset quality.

"A new historical mission awaits us and, with hard work, we will achieve great success." We should be well-prepared for this complex endeavor. At the same time, though, we should be confident that the Chinese economy possesses potential, resilience, and strengths with long-term sustainability and promise. Rooted in the fertile ground of China's economy, China's banking industry still has myriad strategic opportunities. With the attention and support of our shareholders and the society, combined with our mission of creating long-term value, we will always adhere to our foundation of serving the real economy, firmly pursue the strategic interests of the "BoCom Strategy", always follow the principle of stable and prudent operation, promote long-term development through reforms, seek reasonable return through innovations, and create greater value for investors and the society.

*Chairman*

牛锡明

"Only equipped with new feathers, can one fly far; only with the old foundation removed, can one build magnificently." 2016 was a crucial year of our deepening reform and we successfully launched the Group's new development plan. Facing with volatile market conditions, we continued sticking to our strategic interests, maintained stable operation and prudent risk management, which enabled us to quickly respond to the changing market. We proactively pursued opportunities emerged from the structural adjustment and continued our transformation accordingly. It enabled us to maintain a stable growth and embrace new opportunities. Our operating performance demonstrated tremendous promise.

**Peng Chun** | President

First, we continued to upgrade traditional businesses, optimize operating structure, and explore new potential.

Higher standards were applied to allocate and manage assets and liabilities in the new normal economy. We focused our asset liability management on increasing asset utilization, non-interest income, and asset quality; and by reducing financing costs, capital consumption, and operating costs. These structural transformation activities are referred as "Three Increases and Three Reductions". With respect to asset deployment, we embraced self-development and supported the real economy. We grasped the opportunity in time to develop new businesses of good quality, while simultaneously strengthened and increased the efficiency of the existing assets, optimized the operating structure, which fundamentally enabled both the quality and efficiency of the assets to keep improving. At the end of 2016, the Group's Renminbi-dominated loans increased by RMB300.883 billion, refinancing of existing debt reached RMB687.279 billion, and investments in local bonds amounted to RMB418.957 billion. The Group's assets exceeded RMB8 trillion to RMB8.40 trillion, which provided a solid foundation for future profit growth and created additional opportunities for transformation and development. In particular, the rate of increase in risk-weighted assets ("RWA") was lower than that in total assets by 6.49 percentage points in 2016, and the proportion of the RWA in the total assets decreased during the last three consecutive years. In terms of the Group's liability profile, we seized the market opportunity to expand the stable funds at low-cost and moved the liability structure adjustment to a new level. As at the end of 2016, the Group's deposits increased by 9.72% to RMB5.38 trillion. The daily average balance of demand deposits accounted for 40.09% of total deposits, further safeguarding our interest margin taken consideration of the accelerated interest rate liberalization.

Second, we further strengthened transformation to diversify businesses and promote growth.

Following the "BoCom Strategy", and leveraging unique international and domestic competitive advantages with reference to comprehensive operation, we have developed a sustainable and customer core "one-stop shop" for services, and the positive effect of the strategy has been visible. Non-interest income kept increasing. Specifically, net fee and commission amounted to RMB36.795 billion, representing an increase of 5.05%. Focusing on wealth management, through a diverse operating platform, we made remarkable progress in the businesses of financial markets, asset management, transaction and agency. Overseas branches and subsidiaries have made progress side by side, together contributing 13.39% of the Group's profits, reflecting an increase of 2.77 percentage points. The Group also achieved five successful "international expansion" targets in 2016, including the establishment of branches in London and Luxembourg, the Bank of Communications (Luxembourg) S.A. Rome and Paris branches, and the acquisition of a controlling stake in Banco BBM (BoCom BBM). As at the end of the year the assets of Hong Kong branch exceeded USD60 billion. The assets of New York and Tokyo exceeded USD10 billion respectively. Our comprehensive services have been an advantage. Coordination and cooperation capabilities among subsidiaries improved significantly. It included the smooth progress of listing of BoCom International and the successful A-share listing of Jiangsu Changshu Rural Commercial Bank as the Bank is the strategic investor. In particular, we established an online financial center in the Reporting Period to maximize the strength of divisional structure operation based on the creation of an online direct-selling and a profit center to be in accordance with the development trend of the financial network. These accomplishments predict a promising future.

Third, we steadily consolidated our customer base and created additional value through tiered and hierarchical customer management framework.

Success in the financial services sector is, to a great extent, dependent on the understanding of the customers' needs and providing them with services that exceed their expectations. In this regard, we provide differentiated service portfolios to a range of customer groups, taking into consideration their preferences and risk appetites. Accordingly, we promoted the tiered management of corporate, retail, and interbank customers. Different customers have varied risk appetites. Based on specific customer segments and markets, the Group processed customer transactions case by case through tailored credit extension, special authorization, and relevant risk management policies. For VIP customers of corporate and interbank banking, the Group maintained comprehensive "top-down" sales and service plans through dedicated divisions at Head Office and branches, in order to enable more direct contact and provide a "one-stop shop" for services. With respect to corporate customers, as at the end of the year, the growth rate of active customers grew over 10% for the fourth consecutive year, with significant increase in the number of high-quality and strategic corporate customers. Regarding interbank customers, the Group has realized the cooperation between head-office level banking customers and other financial sector customers with reference to service provision. As for retail customers, the number of qualified BoCom Fortune Standard customers, qualified OTO Fortune Standard customers, and qualified private banking customers increased by a robust 5.41%, 17.73% and 18.83%, respectively. In particular, we are in the leading position of the retail market, ranking No. 1 in the China Retail Banking Satisfaction Study for three consecutive years, awarded "Top 1,000 model" by the China Banking Association for providing good services to customers, ranking No. 1 in the banking industry in 2016.

Fourth, we maintained overall controllability of the asset quality, operated in stable and prudent manner, effectively responded to risk challenges.

BoCom has experienced a century of ups and downs but has always focused on prudent operations. In light of the increasingly complex global economy and the evolving nature of risks in financial markets, risk management has been the top priority of the Group. Effectively assessing and managing risks exposed in relation to certain challenging areas and key sectors that has provided us with the confidence to embrace new challenges. In recent years, the Group has established dedicated teams to maintain safeguards over assets in critical regions. Standardized internal control procedures have been implemented related to targeted risk areas and transactions. Personalized risk strategies are recommended for VIP customers. The progressive launch of the application of new methods, technology and tools significantly improved the customer experience. Led by dedicated teams, with motivated people, the Group was able to connect with customers more effectively in assessing and responding to potential risks. At the end of 2016, the Group's impaired loan ratio was 1.52%, increased 0.01 percentage point from the beginning of the year, which maintained relatively advantageous position in the banking industry. Impressive results were achieved in the management of overdue loans, as both the balance and the proportion of the overdue loans decreased. Specifically, the balance of overdue loans has decreased by RMB5.15 billion or 4.54%, and the proportion of overdue loans to balance of pre-provision loans declined by 0.40 percentage point. The Group has made solid progress in its overseas operations and risk management. The internal management of overseas branches has been prudent and effective, and our efforts put into anti-money laundering and compliance management were well recognized by regulatory authorities in countries. None significant regulatory penalty incurred in recent years.

Fifth, we gradually moved forward the reform and innovative measures by motivating the internal force.

The acceleration of transformation and reform is crucial to the Bank. In the past year, the Bank accelerated its pace on strengthen reformation. We are now at its "construction peak". Incremental actions are taken at a faster pace, but in a stable manner. A number of projects already have an excellent start. In particular, the Bank put tremendous effort into forming the development model driven by "two engines" of "divisional structure operation and branch operation", established a number of divisions operated directly by Head Office in recent years to sustain continued and rapid growth of relevant businesses. In 2016, the growth of operating profits of 12 directly operating units was 19.23%, based on our internal performance evaluation. In addition, we launched several significant innovation projects at Head Office level including mobile banking, which were granted specialized authorization and resource allocation, implemented specialized evaluation system and policies. These innovation projects lined up with different departments, simplified innovative research procedures to a large extent, enabled the financial innovation to better meet the customers' needs and the markets. Taken Mobile Banking 3.0, as an example, who has become quite popular as a mobile banking application upon the launch.

"Seek challenging opportunities and overcome obstacles firmly can one progress and achieve success". The year of 2017 will still be full of challenges and difficulties for the Bank and the entire banking industry. We will develop thorough plans before taking action, and pursue our objectives with caution and persistence. We are determined and confident that we will achieve higher quality and more sustainable development in the new year, and will do our best to reward the shareholders and the society.

*President*

# STATEMENT FROM THE CHAIRMAN OF THE BOARD OF SUPERVISORS

**In a crucial period of implementation of BoCom's "13th Five-Year Plan", we will closely combine our advantages together with the market trend, focus on the key operational strategies, continuously improve the strategy implementation, enhance the efficiency of resource utilization, keep steady development and support the real economy. In 2017, the reform and development of the banking industry are still challenged by tough domestic and overseas economic environment and extremely evolving risks. We shall place risk prevention and management as our top priority in order to eliminate any possibility of systemic risk.**

**Song Shuguang** | Chairman of the Board of Supervisors

## I. DESCRIPTION OF PRIMARY BUSINESSES AND INDUSTRY

### (I) Primary Businesses

The Group's primary businesses include corporate banking businesses, personal banking businesses, treasury businesses and other businesses. Corporate banking businesses include providing financial products and services for enterprises, government agencies and financial institutions, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses, etc. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Treasury businesses mainly include money market transactions, trading book businesses, banking book investments and precious metal businesses, etc. In addition, the Group involved in fund, trust, financial leasing, insurance and overseas securities businesses through its subsidiaries, including BoCom Fund, BoCom International Trust, BoCom Leasing, BoCommLife Insurance, BoCom Insurance and BoCom International. Please see "Operating Results by Business Segments" on Page 60 for the information of revenue and total profit of principal businesses.

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

### (II) Industry Overview

According to data published by CBRC, as at the end of 2016, total domestic and overseas assets of financial institutions in China's banking sector denominated in Renminbi and foreign currencies increased by 15.8% from the beginning of the year to RMB232.3 trillion, among which total assets of large-scale commercial banks increased by 10.8% on a year-on-year basis to RMB86.6 trillion, accounting for 37.3% of the total assets of financial institutions in China's banking sector; total assets of joint-stock commercial banks increased by 17.5% on a year-on-year basis to RMB43.5 trillion, accounting for 18.7% of the total assets of financial institutions in China's banking sector. Total domestic and overseas liabilities of financial institutions in China's banking sector denominated in Renminbi and foreign currencies increased by 16% on a year-on-year basis to RMB214.8 trillion, among which total liabilities of large-scale commercial banks increased by 11% from the beginning of the year to RMB79.9 trillion, accounting for 37.2% of the total liabilities of financial institutions in China's banking sector; total liabilities of joint-stock commercial banks increased by 17.7% on a year-on-year basis to RMB40.8 trillion, accounting for 19% of the total liabilities of financial institutions in China's banking sector. As one of the large-scale financial institutions in banking industry, as at the end of 2016, the Group's total assets increased by 17.44% from the beginning of the year to RMB8.40 trillion, and the total liabilities increased by 17.43% from the beginning of the year to RMB7.77 trillion.

## II. ANALYSIS OF CORE COMPETITIVENESS

**– Organized an effective corporate governance system.** The Bank has commitment to high-level corporate governance. We have established a modern corporate governance system with independent operation, coordination and appropriate segregation of duties between the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and Senior Management. While deepening the reform, the Bank adheres to the Party's core leadership, the strategic decision by the Board of Directors, the independent supervision of the Board of Supervisors and full authority to senior management over business operations. The Bank's corporate governance has covered and extended to many areas such as the development of the Party's building, "BoCom Strategy" management, authorized operation, comprehensive risk management, capital management, market value management, information disclosure and social responsibilities, fully safeguarding the legitimate interests and benefits of shareholders and other stakeholders.

**– Mega bank with spirit of reformation.** The Bank has always been a pioneer of China's financial system reformation. The Bank is the first among domestic comprehensive commercial banks to carry out banking, insurance and securities businesses, and the first among domestic large-scale commercial banks to successfully attract foreign capital and list overseas. In the new era, the Bank takes the initiatives to be responsible for the financial pilot reform in China once again. The Bank actively promotes the *BoCom's plan to strengthen Reformation* approved by the State Council, focusing on the exploration of corporate governance mechanism of large-scale commercial banks, reform in internal operation mechanism and transformation of operating mode. The Bank has made significant progress in areas such as enhancing corporate governance mechanism with Chinese characteristics, exercising the strategic investors role of HSBC, piloting the professional manager system, reforming divisional structure, innovating the research and development mechanism of technology, enhancing the subsidiaries' capital management, and transforming outlet operating mode.

**– Continuous improvement of comprehensive financial services.** The Bank was committed to becoming a comprehensive financial service group focusing on banking industry to serve the real economy through multiple channels and across the regions. In recent years, the Bank firstly started pilot reform in comprehensive and diversified operations among all commercial banks. The Bank has become one of the large-scale commercial banks which provides the most comprehensive and diversified financial services in China. Besides the banking businesses, the Bank extends its businesses to the areas of trust, financial leasing, fund management, insurance and securities. There are wholly-owned subsidiaries include BoCom Leasing, BoCom International and BoCom Insurance, and subsidiaries controlled by the Bank include BoCom Fund, BoCom International Trust and BoCommLife Insurance. Additionally, the Bank controls four rural banks including Dayi BoCom Xingmin Rural Bank Ltd., Zhejiang Anji BoCom Rural Bank Ltd., Xinjiang Shihezi BoCom Rural Bank Ltd. and Qingdao Laoshan BoCom Rural Bank Ltd. The Bank is the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd. And is one of two largest shareholders of Bank of Tibet Co., Ltd and strategic investor in Bank of Hainan.

**– Constant enhancement of global service ability.** The Bank was committed to becoming a first-class international bank with remarkable advantages in international businesses, advanced operation and management level and delivery of global financial services. The Bank is one of the most internationalized domestic banks in China. Currently, the overseas banking institution "Asia-Pacific as basis and Europe and America as two wings to expand the global landscape". As at the end of 2016, the Bank has set up 20 overseas banking entities in over 16 countries and regions, including branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney and Taipei, London Branch of BoCom/Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited/Luxembourg Branch of BoCom, Brisbane Branch of BoCom, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch,Banco BBM (BoCom BBM) and representative office in Toronto. The Bank has established 65 overseas banking outlets in total (excluding the representative office).

**– More prominent wealth management characteristics.** The Bank started the wealth management services earlier than most of its peers. The brand and characteristics of wealth management become more and more prominent by continuous development of the wealth management service system. A tiered customer service brand system covering both high and mid-end customers and ordinary customers has been established in personal banking businesses. The core service brand "Win to Fortune" for high and mid-end customers reflected increasing market reputation. As at the end of 2016, retail assets under management (AUM) amounted to RMB2.7 trillion. With regard to corporate banking businesses, brand building of "Win to Fortune" has achieved initial success, coupled with the growing influence of key products including "Win to Fortune" account and "Win to Fortune" industrial chain. Moreover, the rapid development in "BoCom Tong Ye" interbank wealth management businesses have constantly enhanced its brand reputation. The Bank was awarded the "Best Interbank Wealth Management Bank" in 2016.

**– Comprehensive service channel of "Trinity" network, featuring physical outlets, e-banking and relationship managers.** The Bank was committed to promoting the integration and development of the service mode of "Trinity" network, featuring physical outlets, e-banking and relationship managers. As at the end of 2016, the Bank has set up 3,285 outlets in 236 cities which are prefectural and above level city and 167 county-level cities all over China, covering all provinces other than Tibet, as well as major large and medium-sized cities. The Bank explored to build the operation mode which incorporated online and offline operations, and on-site and off-site operations. The Bank promoted the transformation and innovation of outlet service mode, to further satisfy customers' needs for comprehensive transactions. The Bank explored the internet financial innovation in accordance with its own characteristics by connecting online channels such as intra-group PC and mobile phone, building a unified entrance for online-channel of the Group, delivering a web portal for one-stop and comprehensive financial services and setting up an internet center.

– **Advanced information application and infrastructure construction.** The Bank's information construction always focused on strategies, serving customers and keeping with the time. After several years of accumulation, breakthroughs and progresses, the Bank's information infrastructure development and application have been in the leading position in the banking sector by stimulating the technology innovation and driving development. The Bank has passed four verifications, namely CMMI L3, TMMI L3, ISO 20000 and ISO 27001, and built a complete standardized management system covering R&D, testing, operation and maintenance and information safety. Furthermore, the "Two Sites and Three Centers" disaster backup system maintained the international advanced level in terms of technology. The Bank's new generation of "531" information system project has been fully implemented in domestic branches, which is considered as one of the leading business process information system among all domestic banks.

– **Excellent comprehensive risk management system.** Over a century after its establishment, the Bank has always adhered to the principle of steady operation, and continuously improved the comprehensive risk management system of "full coverage, whole process, accountability and risk management culture". The Bank has been one of the first batch of commercial banks to apply the New Basel Capital Accord and has established a scientific, complete and effective system to apply the Advanced Measurement Approach of Capital Management, where risk models and measurement results are fully applied in business development and risk management and control, which has reinforced the foundation for continuous reform, innovation and steady development. Financial risk prevention and management has been the top priority of operation. The Bank focused on preventing and managing risks including non-performing assets, liquidity risk, bond default, shadow banking, real estate bubble and other three risks. The Bank's asset quality is maintained at a stable level. As at the end of 2016, the non-performing loan ratio was 1.52%, lower than the average non-performing loan ratio of commercial banks in China.

**– Fruitful strategic cooperation with HSBC.** In 2004, the Bank entered into a strategic cooperation agreement with HSBC. Over the past decade, BoCom and HSBC have stable equity cooperation basis and are carrying out in-depth cooperation in five main areas including corporate governance, global businesses, technical experience, regulatory policies and public welfare, setting an example for cooperations between Chinese and foreign banks. In 2016, Mr. Peter Wong Tung Shun, the president of HSBC, held the post of Non-executive Vice Chairman of the Bank, indicating further deepening the strategic partnership and further improving the top-level design. By exercising each advantages, BoCom and HSBC create the BoCom – HSBC “1 + 1” service brand together and continue expanding the cooperation scale in fields in the international businesses, cooperate businesses, personal businesses and custody businesses, hence achieving mutual benefits and win-win results.

**– Influential financial service brand.** “BoCom”, one of the oldest commercial banks in China, is highly recognized and appreciated in the market. In 2016, the Bank was honored in *FORTUNE*’s “Fortune Global 500” for eight consecutive years and was ranked No. 153 in terms of revenue. The Bank was ranked No. 13 among the global top 1,000 banks in terms of Tier-1 Capital rated by *The Banker* and was ranked top 20 among global banks in two consecutive years. The Bank was ranked No. 1 in terms of number of outlets rewarded by the China Banking Association in the campaign of “Top 1,000 Model Units for Civilized and Standardized Service in China’s Banking Sector”, was ranked No. 1 for three consecutive years in China Retail Banking Satisfaction Study by J.D. Power, and was among the top 25 ranks in the “Top 100 Most Valuable Chinese Brands” by BrandZ for four consecutive years.

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

# RANKING AND REWARDS


**Fortune magazine (USA)**
Fortune Global 500 (ranked 153, up by 37 ranks as compared with 2015)

**The Banker (UK)**
Global Bank Top 1000 (ranked 13, up by 4 ranks as compared with 2015)

**China Enterprise Confederation**
Top 500 Enterprises of China 2016 (ranked 33)

**Millward Brown, a well-known international market research company**
Top 100 Most Valuable Chinese Brands 2016 by BrandZ (ranked 22)

**China Association for Public Companies, SSE, Shenzhen Stock Exchange.**
Top 20 in Board of Supervisors Practice of Public Companies

**J.D.POWER (China Retail Banking Satisfaction Study)**
No. 1 in China Retail Banking Satisfaction Study for three consecutive years

**China Banking Association**
No. 1 in terms of number of outlets as Top 1000 model units for civilized and standardized service in China's banking sector 2016 (140 outlets)

**The Asset (Hong Kong)**
Triple A Award – Best Bank in China

**Economic Observer**
Excellent State-owned Commercial Bank of the Year

**China Business Journal**
State-owned Commercial Bank with Excellent Competitiveness and Brand Building Bank with Excellent Competitiveness

**eastmoney.com**
Best Comprehensive Bank and Most Innovative Bank of the Year

**Financial World**
Outstanding Chinese-funded Bank


Phoenix New Media
Best Wealth Management Bank of the Year

21st Century Business Herald
Best Wealth Management Banking Brand

Financial Times
Best Wealth Management Bank

CFO World
Most Trusted Bank by Chinese CFO of the Year and Best Cash Management Brand

caijing.com.cn
Best Interbank Wealth Management Bank

Xinhuanet.com
China's Social Responsibility – Targeted Poverty Alleviation Award

The Banker (China)
Best Finance Innovation Award, Top 10 Financial Product Innovation Award and Top 10 Wealth Management Innovation Award

sina.com
Best Banker with Reform Spirit of the Year – Niu Ximing

CBN Financial Value Ranking
Banker of the Year – Niu Ximing

CBN Financial Value Ranking
Chief Economist of the Year – Lian Ping

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2016, the global economy has experienced profound changes. De-globalization trend is rising, global trade grow at low pace, growth patterns in developed economies are differentiated, and emerging markets and developing economies are mildly recovering. Confronted by the complex economy at home and abroad, China adopted proactive fiscal policy and prudent monetary policy to face risks and challenges. While focusing on the supply-side structural reform, China also worked on an appropriate expansion of aggregate demand. The economy has registered a stable performance with good momentum for growth. Gross domestic product ("GDP") in 2016 increased by 6.7% on a year-on-year basis to RMB74.4 trillion. The economy operated with a slower but stable performance, setting the 13th Five-Year Plan off to a great start. The economic structure was further optimized. The growth of the tertiary industry accounted for 51.6% of the GDP, representing a year-on-year increase of 1.4 percentage points, 11.8 percentage points higher than that in secondary industry. Final consumption expenditure contributed 64.6% to the GDP, which was the key driver of economic growth. Personal per capita disposable income increased by 6.3% and the national consumer price index ("CPI") increased by 2.0% on a year-on-year basis. There was a gradual upturn in the price of industrial products and stable growth in industrial production, resulting in prominent improvement of the enterprises performance. Positive progress was made in de-capacity and de-stocking. Annual plan for de-capacity in the steel and coal industry was accomplished. The inventory of commodity houses continued to decline. Driving forces developed rapidly and the growth of strategic emerging industries increased by 10.5% on a year-on-year basis. Technology achievements are very promising.

The monetary credit and social financing maintained a stable growth. As at the end of 2016, M2 money supply and total loans denominated in Renminbi and foreign currencies increased by 11.3% and 12.8% on a year-on-year basis, respectively. The increment of social financing was RMB17.8 trillion in 2016, representing a year-on-year increase of 12.8%. The People's Bank of China (PBOC) constantly enriched the terms and varieties of open market operations, continued the utilization of innovative tools such as lending facility and pledged supplementary financing, regularized the operations of monthly medium-term lending facility, and strengthened the window guidance and the signal and structural guiding function of credit policy. Favourable conditions exist for the supply-side structural reform with the stability of currency and financial markets and interest rates, and the reasonable and sufficient liquidity.

## II. BUSINESS REVIEW

In 2016, the Group actively dealt with multiple challenges such as the slowdown of economic growth, adjustments in macro economic policies, and volatility of financial market. The Group realised steady growth in operating performance and improvement in comprehensive competitiveness by continuous reform, innovation and transformation and firmly promotion of "BoCom Strategy". As at the end of the Reporting Period, the Group's total assets increased by 17.44% from the beginning of the year to RMB8,403.166 billion. During the Reporting Period, the net profit (attributable to shareholders of the Bank) increased by 1.03% on a year-on-year basis to RMB67.21 billion.

**Persistently serving the real economy and proactively fulfilling social responsibility.** In response to the State's strategic deployments and major construction projects, the Group proactively enlarged social financing scale. As at the end of the Reporting Period, the balance of loans and advances to customers (before allowances, if not specially stated, same applies hereinafter) increased by 10.24% to RMB4,102.959 billion, representing a year-on-year increase of RMB90.682 billion. The Group improved the liquidity of its assets. The scale of refinancing of corporate credit and quasi-credit businesses amounted to RMB687.279 billion. The Group continually optimised the credit structure and innovated financial service mode. Moreover, the Group promoted "Green finance" in great effort. The number of customers and projects from the low-carbon economy, energy-saving and environmentally-friendly industry continued increasing. During the Reporting Period, the Group successfully issued the first batch of green bonds with a total amount of RMB30 billion. The balance of personal loans increased by 28.91%, representing an increase of 19.42% from the beginning of the year.

**Building the features of wealth management by virtue of the "BoCom Strategy".** With the acceleration of internationalisation and integration, the Group continued to enhance the capabilities of cross-border, cross-industry and cross-market services. Total assets of overseas banking institutions and subsidiaries increased by 22.21% from the beginning of the year, accounting for 13.22% of the Group's total assets, and representing an increase of 0.52 percentage point from the beginning of the year; net profit increased by 27.37% on a year-on-year basis, accounting for 13.39% of the Group's net profit, and representing a year-on-year increase of 2.77 percentage points. The Group established 5 new entities in the internationalised landscape. Branches in London and Luxembourg and those in Paris and Rome under Luxembourg subsidiary were successively opened; the acquisition of a controlling stake in Banco BBM (BoCom BBM) was successfully completed. Wealth management businesses, trading businesses, innovative product businesses and agency businesses have been getting stronger, and the feature of wealth management businesses has been enhanced. As at the end of the Reporting Period, assets held in custody increased by 25.66% from the beginning of the year to RMB7,009.589 billion, retail assets under management (AUM) increased by 10.41% from the beginning of the year to RMB2,707.148 billion. During the Reporting Period, daily average amount of the on-and-off-balance-sheet wealth management products denominated in Renminbi increased by 23.11% on a year-on-year basis to RMB1.66 trillion.

**Accelerating development by transformation and consolidation of customer base.** The Group made a great effort to develop the retail businesses and interbank and market businesses to optimize the business structure. During the Reporting Period, the Group's profit before tax in terms of personal banking services reached RMB19.135 billion with a year-on-year increase of 51.16%, accounting for 22.22% with a year-on-year increase of 7.50 percentage points of the Group's net profit before tax. On-and-off-balance-sheet businesses were under synergistic development with a persistent growth of non-interest income. During the Reporting Period, net fee and commission income increased by 5.05% on a year-on-year basis to RMB36.795 billion, accounting for 18.96% of the Group's net profit before tax with a year-on-year increase of 0.96 percentage point. The Group upheld the "customer core" principle and commenced establishing a tiered, categorised and hierarchical customer service system. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 9.96% from the beginning of the year with an increase in the coverage of high-quality and strategic customers; the total number of personal customers increased by 10.79% from the beginning of the year, among which the number of BoCom fortune standard customers, OTO Fortune standard customers and private banking customers increased by 5.41%, 17.73% and 18.83%, respectively. Cooperation with interbank customers fundamentally achieved full coverage of banking customers at the level of Head Office and other major financial institutions.

**Comprehensively deepening reform and effectively stimulating the operating energy.** Over the past one year since the implementation of the *BoCom's Plan to Strengthen Reformation*, the Group moved forward the reform of internal operating mechanism and the innovation of operating mode. The Group reformed the structure of front offices in order to improve the market responding speed and enhance its comprehensive cross-border, cross-industry and cross-market operating capabilities. The Group established professional manager system and improved appraisal review system to implement the development responsibility, reformed the remuneration distribution system and promoted the all-product pricing assessment covering all personnel to motivate the staff, and promoted the transformation of "Trinity" network, featuring physical outlets, e-banking and relationship managers outlet operating mode and reform, and development of branches managed by provinces to enhance services provided to the society. Moreover, the Group innovated the divisional structure operations/operations by divisions to shape the transformation development pattern of "two engines of divisions and branches" and continued improving the profit contribution from divisions. During the Reporting Period, 6 profit-making centers had a year-on-year increase of profits before allowances and tax of 25.92%.

**Intensifying comprehensive risk management and continually strengthening capital strength.** Facing the critical and complex environment, the Group proactively improved its comprehensive risk management and control mechanism and enhanced the whole process of business management. The Group strengthened the risk management over key areas and upheld the positive impact from the risk management and set up centralized risk monitoring center. The Group focused on the effectiveness and efficiency of risk management; it also strengthened the disposal of non-performing assets and overdue loan and successfully completed the first issuance of the non-performing assets backed securities. As at the end of the Reporting Period, there was a slightly increase of the impaired loans and decrease both of the balance and the proportion of overdue loans. The balance of impaired loans of the Group increased by RMB6.194 billion from the beginning of the year to RMB62.40 billion, representing a year-on-year decrease of RMB6.995 billion; the impaired loans ratio slightly increased by 0.01 percentage point from the beginning of the year to 1.52%. The balance of overdue loans decreased by RMB5.150 billion from the beginning of the year, the proportion of which decreased by 0.40 percentage point from the beginning of the year. The Group concentrated on capital and proactively promoted the adjustments of business structure and internal capital controls; the increase of the rate of risk-weighted assets ("RWA") was 6.49 percentage points lower than that of the assets. The proportion of RWA to total assets has decreased for three consecutive years. The Bank successfully issued the domestic preference shares of RMB45 billion, which was the largest single issuance with the lowest par value that has ever been issued by the commercial banks. The Group's capital strength was effectively enhanced. As at the end of the Reporting Period, the Group's capital adequacy ratio and Tier-1 Capital adequacy ratio increased by 0.53 and 0.70 percentage point from the beginning of the year to 14.02% and 12.16%, respectively.

**Shaping the image of providing great services and constantly enhancing brand value.** In 2016, the Group was honoured in *FORTUNE*'s "Top 500 Global Companies" for eight consecutive years, and was ranked No. 153 in terms of revenue, up by 37 ranks as compared with the previous year. It was ranked No.13 among the global top 1,000 banks in terms of Tier-1 Capital rated by *The Banker*, up by 4 ranks compared with the previous year and ranked Top 20 among global banks for three consecutive years. During the Reporting Period, 140 outlets of the Group were awarded "Top 1,000 model" organised by China Banking Association, ranking No.1 in the banking industry with the highest number of awarded outlets. The Group was ranked No.1 in China Retail Banking Satisfaction Study for three years, continually shaping the Bank's image of providing great services. The Group was also honoured in *Securities Times's* "2016 Best Wealth Management Institution in China".

## (I) Corporate Banking Businesses

- **During the Reporting Period, the Group's profit before tax from corporate banking businesses and net fee and commission amounted to RMB43.994 billion and RMB15.954 billion, respectively; the total number of corporate customers of domestic branches increased by 9.96% from the beginning of the year.**
- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 5.80% from the beginning of the year to RMB3,206.241 billion; corporate loan balance increased by 6.89% from the beginning of the year to RMB2,916.772 billion.**
- **As at the end of the Reporting Period, the Group's corporate impaired loan balance was RMB48.097 billion and the impaired loans ratio was 1.65%.**

The Group proactively responded to major State's strategies, programs and projects by seizing business opportunities such as industrial restructure, transformation and upgrade, actively supported the development of high-quality small and micro businesses, and continually improved the capability to serve the real economy. It continued to optimize its asset and liability composition in order to provide one-stop corporate financial services with a comprehensive coverage of commercial and investment banking businesses, on and off balance sheet businesses, equity and debt businesses, domestic and overseas services, and online and offline services.

### *1. Corporate and institutional businesses*

Following key national and local strategies, the Group has established and improved the corporate business coordination mechanism and strengthened the linkage between the diversified financing channels. It promoted establishing a tiered, categorized and hierarchical customer service system to improve the management and service system of corporate customers. It established quasi-divisions including strategic customers division, investment banking center and cross-border trade and finance center. The Group also promoted business cooperation with governments, social capital providers and other market players and signed 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 funds and was designated the seat as director. It initiated the research and development of a nation-wide third party payment system linking to the bank's system for cross-border e-commerce. The brand new social security and financial service system platform was built and the WeChat Platform was successfully launched. The syndicated loan businesses were awarded "Outstanding Contribution Award" by China Banking Association.

**2. Small and micro enterprise businesses**

The Group enhanced technology application of internet and big data by launching a series of online and offline products such as "Quick Mortgage Loan", "POS loans", "Shui Rong Tong", "Wo Yi Loans", "Government Procurement Loan" and "You Dai Tong", thus providing a basket of comprehensive financial services (including loans, deposits and wealth management) for small and micro enterprises. It innovated the types of guarantee and expanded the channels of credit enhancement for small and micro enterprises. Credit risk of over 60% loans have been managed by improving the liquidity of assets of small and micro enterprises. It also piloted the "two rights" mortgage loans namely the rural contracted land use right and the residential property right to support small and micro enterprises in the field of "Popular Entrepreneurship and Innovation". As at the end of the Reporting Period, the domestic banks' balance of loans to small and micro enterprises that met the qualification of four national ministries and commissions increased by 9.53% from the beginning of the year to RMB683.958 billion.

**3. "One Branch Offering Nationwide Services" industrial value chain financial services**

The Group spent all effort on promoting product innovation and system construction to provide the diversified trading and financial services for VIP customers and their upstream and downstream customers. It continued to promote its knock-out products "Express Receivable Collector" and "Express Bill Discounting" and seized the opportunity of promotion of electronic bills to launch the innovative "Express Chain" product – "Commercial Bill Online Discounting". The Group put a close eye of big clients' transformation to internet, took the initiatives to develop complementary payment and settlement products and trade finance products, and deepened cooperations with key customers in construction, medical care and petroleum and chemical sectors. As at the end of the Reporting Period, there were more than 2,000 qualified industrial chain networks and more than 25,000 qualified industrial chain companies developed by the domestic branches. The Bank was awarded "2016 Best Domestic Trade Finance Bank" by *The Asian Banker*.

**4. Cash management businesses**

The Group supported the globalization of Chinese enterprises by optimizing the cross-border Renminbi cash pool and the cross-border foreign exchange cash pool and introducing the pioneering receipts and payment system, foreign exchange system, and netting and settlement system. The Group introduced the services of cross-branch draft settlement management, continued to optimize the functions of cash management products such as

"Bidding Pass", "Multi-lateral Entrusted Lending" and "Swiftnet Bank-Enterprise Express". The Group launched the brand new money management system for financial institutions and earnings re-distribution function to intra-group accounts. As at the end of the Reporting Period, corporate customers of e-channel "Win to Fortune" cash management amounted to more than 18,000 and the cash management accounts amounted to more than 210,000. The Bank was awarded "2016 Best Cash Management Bank" by *The Asset*, "2016 Most Trusted Bank by CFOs" and "Best Cash Management Brand" by *CFO World*.

### *5. International settlement and trade finance*

The Group's international settlement and cross-border trade finance businesses were under stable development. During the Reporting Period, the amount of international settlement processed by domestic branches reached RMB4,102.893 billion, and the amount of international trade financing reached RMB107.025 billion. Foreign exchange risk management services were enhanced to support enterprises to respond the complex international market changes. During the Reporting Period, net income from foreign exchange trading on behalf of customers (excluding foreign exchange settlement and sales) processed by domestic branches increased by 102.44% on a year-on-year basis, and income from Renminbi options businesses increased by 48.91% on a year-on-year basis. The Bank fully supported the enterprises under the strategic initiatives "Belt and Road" and "Go Global" external guarantees and international factoring. During the Reporting Period, the amount of external guarantees provided by domestic branches reached RMB182.901 billion, and the amount of international factoring reached RMB9.793 billion.

### *6. Investment banking businesses*

The Group seized the opportunities arising from cross-border mergers and acquisitions. During the Reporting Period, the amount of mergers and acquisitions loans increased by RMB11.2 billion or 266% on a year-on-year basis. It actively explored the pilot project of technology venture loan and firmly promoted innovative businesses such as the unit trust funds, Mergers and acquisitions funds, land reserve funds, bond and bridge financing with local governments, equity backed securities of income-based government purchase project. It took full advantage of intra-group research resources and cooperated with internal institutions to launch the research-oriented financial advisory businesses as high-end financial advisory brand. It successfully issued the first Jiao Yuan securities backed by credit card instalment assets in the amount of RMB8 billion in the interbank market in 2016, which was the largest-size securitized product backed by personal consumption loans. Fee income from investment banking businesses reached RMB5.306 billion during the Reporting Period, accounting for 13.30% of the Group's total fee and commission income. The number of debt financing instruments (excluding local government debt) underwritten by domestic branches as the lead underwriters increased by 11.46% on a year-on-year basis to 282, and the issuance amount of such instruments reached RMB388.1 billion.

**7. *Asset custody businesses***

The Group improved the comprehensive profits from asset custody businesses by further investigating market and customers' needs demand, and launching new products and businesses. The Group vigorously expanded the pension market and successfully won the bid for custody bank of basic pension fund. The Group seized the opportunity of third-party payment businesses in Hong Kong, exercised the best advantage of Hong Kong as a custody center, and innovated the service mode. The Group also improved the whole process of risk management and accelerated the launch of a new custody system. As at the end of the Reporting Period, assets held in custody of the Bank increased by 25.66% from the beginning of the year to RMB7,009.589 billion.

## (II) Personal Banking Businesses

- **During the Reporting Period, from personal banking businesses sector, the Group's profit before tax increased by 51.16% on a year-on-year basis to RMB19.135 billion; net fee and commission income increased by 13.25% on a year-on-year basis to RMB17.882 billion; the total number of individual customers in domestic branches increased by 10.79% from the beginning of the year.**
- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 4.62% from the beginning of the year to RMB1,517.56 billion. The balance of personal loans of the Group increased by 19.42% from the beginning of the year to RMB1,186.187 billion.**
- **As at the end of the Reporting Period, the balance of personal impaired loans was RMB14.303 billion and the personal impaired loans ratio was 1.21%.**

Adhering to the "core-centered" principle, the Group strived to develop retail saving deposits, bank cards and personal asset businesses, accelerated the construction of wealth management banking and continued to enhance the influence of its service brand, so as to comprehensively promote the transformation development of personal financial businesses.

***1. Personal deposits and loans***

The Group actively developed saving deposits and promoted the increase of new customers and new funds. It strengthened the sales of certificates of deposits and open on-balance sheet wealth management products and promoted the reasonable optimization of the deposit structure. It optimized the retail asset business processes, accelerated the efficiency in core loops such as the application for credit cards, examination and approval and registration for lending and vigorously developed the mortgage businesses. As at the end of the Reporting Period, the balance of the housing mortgage loans of the Group increased by 27.45% from the beginning of the year to RMB770.28 billion.

***2. Wealth management businesses***

The Group continued to promote the large-scale marketing activity “10th Anniversary of OTO Fortune”, so as to enhance the influence of its wealth management brand. It launched the version 3.0 of mobile banking to build its mobile wealth management platform. Most branches organized the health life events to introduce the Chinese traditional medical care characteristics. The Group optimized customer asset allocation based on the wealth management and continuously improved its professional services of private banking to meet the integrated and individualized needs from the private banking customers. As at the end of the Reporting Period, retail assets under management (AUM) by the Group amounted to RMB2,707.148 billion, representing an increase of 10.41% from the beginning of the year. The number of customers of BoCom fortune, OTO Fortune and private banking increased by 5.41%, 17.73% and 18.83% respectively from the beginning of the year.

### 3. *Bank card businesses*

**Credit card businesses**

The Group continued to carry out brand marketing activities such as "Super Red Friday", "Cross-year Weekly Swipe" and "Catering Super Red Season", constantly increasing market influence. The Group actively developed online trading, launched Wechat Pay, strived to develop directly-connected merchants with promotion activities such as "Daily Swipe". The Group organized events for overseas merchants in 6 key regions of Hong Kong, Macao, Japan, Korea, Thailand and the USA to increase overseas trading volume. The Group launched the version 2.0 of the APP "Go Pay" to meet the needs for credit cards from customers in the era of mobile internet and improve customers' experience in card using, and the number of users linking credit cards to "Go Pay" was more than 17 million. The Group strengthened its innovation and launched new consumption credit products such as "Angel Loan", covering the major payment products such as Apple Pay. The Group cooperated with multiple famous enterprises and launched co-branded credit cards such as BoCom Walmart Universal Cards, China Resources Vanguard Credit Cards, China Resources Suguo Credit Cards, Air China Phoenix Miles Credit Cards, Youku Credit Cards and IQIYI Credit Cards.

As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 7.28 million from the beginning of the year to 50.43 million. The accumulated expenditure amounted to RMB1,838.729 billion, representing an increase of 21.16% from the prior year. Credit card overdraft balance amounted to RMB307.857 billion, representing an increase of 13.37% from the beginning of the year. The impaired credit card overdraft was 1.95%, representing an increase of 0.13 percentage point from the beginning of the year.

**Debit card businesses**

The Group strengthened the innovation of debit card businesses, realized cloud quick pass functions such as Apple Pay, Samsung Pay, HCE, Huawei Pay and Mi Pay, launched mobile QR payment products such as QR code mobile payment, and enabled customers from other banks to open II personal bank accounts on mobile bank and "Go Pay". The Group organized promotion activities for online and offline debit card consumption to enhance the customers' activeness and an increase in consumption via bank card. As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 120.17 million, representing a net increase of 12.01 million from the beginning of the year. Debit card deposits amounted to RMB973.086 billion, representing an increase of 5.03% from the beginning of the year.

## (III) Interbank and Treasury Businesses

- **At the end of the Reporting Period, the Group's investments increased by 38.14% from the beginning of the year amounted to RMB2,252.392 billion. The return rate of security investments remained stable. During the Reporting Period, profit before tax of treasury businesses of financial market was RMB20.402 billion.**

To actively respond to the economic environment at home and abroad, the Group continued to strengthen interbank customer base, expanded interbank cooperation channels, explored the potential of monetary market, asset management, precious metal, bulk commodity and other businesses, and strictly controlled various risks, so as to drive the stable development of interbank and market businesses.

### 1. *Institutional financial services*

The Group entered into strategic cooperation agreements with Zhengzhou Commodity Exchange and China Securities Depository successively; up to now, the Group has entered into strategic cooperation agreements with 13 main nation-wide financial factor markets and absorbed demand deposits with an average balance over RMB100 billion through businesses such as agent settlement and clearing. The quotation and service system for privately offered products among online agencies can provide fund settlement and payment services for over 1,700 participants in China Securities Internet System Co., Ltd. The Group actively explored agent payment and settlement businesses in the cross-border interbank payment system ("CIPS"). As a participant, the Group has become a partner of 31 domestic Chinese-funded banks and provided agency services for 13 banks out of 31 banks.


With respect to the interbank collaboration, the Group entered into strategic cooperation agreements with customers such as New Development Bank BRICS, China Development Bank, Agricultural Development Bank of China and Bank of Hangzhou; the Group entered into the interbank platform contracts with 329 banks with an increase of 57.16% from the beginning of the year and the average balance of demand deposits that the Group absorbed increased by 20.23% on a year-on-year basis. In terms of the capital market services, the Group launched the supporting services for PB (Prime Broker) businesses to security companies, and actively expanded transaction businesses such as third party custody, fund transfers between bank and future-trading brokerage firms and margin trading depository with an increase of 13.59% of customer base from the beginning of the year. The margin deposits of futures trading firms increased by 16.11% from the beginning of the year, ranking first in terms of scale of deposits, maintaining the leading position in the market. Regarding the interbank wealth management, revenue from interbank wealth management businesses increased by 34.91% year on year, and number of cooperative customers increased by 72.98% from the beginning of the year to 1,088.

### 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 actively adjusted the structure, diversified funds usage and enhanced fund utilization efficiency. During the Reporting Period, the total volume of Renminbi money market transactions by domestic branches was RMB16.57 trillion, among which RMB10.65 trillion was lent to the financial institutions and RMB5.92 trillion was borrowed from the financial institutions. The total volume of foreign currency money market transaction was USD150.894 billion.

### 3. *Trading account businesses*

The Group actively responded to price fluctuation in bond market and foreign exchange market, flexibly adjusted the trading strategy and strengthened product innovation. During the Reporting Period, the transaction volume of domestic branches in respect of Renminbi-denominated bonds reached RMB2.65 trillion and the volume of interbank foreign currency transactions reached USD1,357.869 billion. The Group made a great efforts to expand new businesses and entered into the master agreement for Renminbi bond offering businesses with 53 major bond financing institutions; and it accelerated the development of businesses such as Renminbi interest rate swap, agency settlement and other agency businesses. The Group is actively building up a bank with global transactions. The Group moved forward the overseas financial markets by setting up the sub-centers, for example, rapid growing of all Hong Kong sub-centers, and setup of London sub-centers.

### 4. *Banking book investments*

To study the micro-economics and currency policies, the Group adjusted the duration of its portfolio and return of fixed income. With the larger scope of bond investment portfolio, the Group issued the first SDR bonds in Renminbi. As at the end of the Reporting Period, the Group’s investments in securities amounted to RMB2,252.392 billion, representing an increase of 38.14% from the beginning of the year. The securities investment yield was 3.71%.

5. ***Precious metal businesses***

The Group became the member of Shanghai Gold Exchange for interbank gold quotation businesses and maintained the leading position in the market. The Group, as a member of Shanghai Gold to conduct quotation and trading, completed the first centralized pricing transaction via brokerage system. The Group was the fourth Chinese bank to join London Billion Market Association. During the Reporting Period, the domestic branches achieved RMB171.935 billion in terms of volume for precious metal brokerage transactions, representing an increase of 22.51% from the prior year; the sales of real precious metals products businesses amounted to RMB2.877 billion; the accumulated gold trading accounted to 5,164.71 tons. The Bank kept an active role in the market.

## (IV) "Trinity" Network Construction

- **During the Reporting Period, the profit per person of the Group amounted to RMB726,200, maintaining at a relatively high level. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 6.62% from the beginning of the year to RMB1.723 billion.**
- **As at the end of the Reporting Period, the total amount of domestic banking branch outlets increased by 144 from the beginning of the year to 3,285, of which 185 were newly opened and 41 low-yield ones were closed down.**
- **As at the end of the Reporting Period, the ratio of self-service banks to traditional branch outlets amounted to 1.35:1. The diversion rate of e-channels increased by 3.29 percentage points from the beginning of the year to 91.42%.**
- **As at the end of the Reporting Period, the number of relationship managers in domestic branches increased by 3.64% from the beginning of the year to 24,724 in total.**

The Group continuously deepened "Trinity" network construction with emphasis on physical outlets, e-banking and relationship managers and focused on "model innovation, cost reduction, efficiency enhancement and multiple channels" to create new model of omni-channel intelligent services. The Group accelerated innovation of E-channels and products such as mobile banking, WeChat banking, online banking and self-service banking, which improved customers' experience effectively. The Group strengthened relationship manager team construction and continued to increase the headcount and abilities of relationship managers, to further enhance the construction and development of "Trinity" service channel of physical outlets, e-banking and relationship manager.

***1. Physical outlets***

The Bank further deepened the transformation development of low level outlets, and actively reduced unused business area, operating costs and staff of existing outlets. The Bank explored to transform the service mode of low level outlets and promoted the mode transformation of comprehensive outlets from quantitative mode to qualitative mode. As at the end of the Reporting Period, the number of comprehensive outlets increased by 59 from the beginning of the year to 574. The Bank simplified the admission process of all-inclusive outlets and continued to improve all-inclusive financial system. As at the end of the Reporting Period, 605 all-inclusive outlets were opened.

As at the end of the Reporting Period, the total number of domestic outlets increased by 144 from the beginning of the year to 3,285, of which 185 were newly opened and 41 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%.

**Accelerating the transformation of physical outlet service mode, with innovation as driving forces**

In the second half of 2016, the Bank started "innovation project for outlet service mode", using "intelligent devices" to meet the comprehensive transaction needs of customers. Under the new and good mode, the staff offered services in branch, not limited to counter area, which achieved solid performance.

First, the effectiveness of counter services diversion is high. The retail counter services were reduced significantly at the pilot outlets, while the number of staff at the branch increased. Second, the operating efficiency improved remarkably. The Bank promoted self-service operations to customers, simplified the operation flow and the authorization procedures, customized the interface design and developed service packages for related transactions, all of which highly reduced the average waiting time of customers. In addition, the selling skills of staff were enhanced. Under the new mode, staff of the Bank provides personal banking services with the need of individual customers, thereby increasing sales. Furthermore, the effectiveness of channel diversion was remarkably high. The use of advanced technology successfully diverted existing retail service customers at the pilot outlets, enabling BoCom to maintain a level of replacement of counter services by e-banking services higher than the industrial average. Lastly, the businesses of physical outlets improved steadily. The daily average savings deposits and the number of active clients increased significantly, compared to those in the beginning of the year. Such a new operation mode started improving the development of the retail banking businesses.

### 2. *E-banking*

The Bank put emphasis on the integration of electronic channels and continued to improve electronic channel services. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 4.94 billion with transaction amounts over RMB223.02 trillion. The diversion rate of e-channels was increased by 3.29 percentage points from the beginning of the year to 91.42%.

**Self-service banking.** The Bank continued to improve the efficiency of self-service banking. During the Reporting Period, the number of self-service machines in domestic branches was 30,500 and the number of self-service banks was 3,603. The ratio of self-service banks to traditional branches was 1.35:1. The transaction number of self-service banking was 572 million with transaction amounts about RMB2 trillion, representing a year-on-year increase of 7.93%. 899 Intelligent Teller Machines (iTM) were promoted across the Bank.

**Online banking.** The Bank constantly improved the functions and interface of online banking. As at the end of the Reporting Period, the number of corporate e-banking customers increased by 14.32% from the beginning of the year, and the number of corporate e-banking transactions increased by 55.57% to 893 million from the beginning of the year. The number of personal e-banking customers increased by 12.43% from the beginning of the year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased by 52.72% to 3.201 billion compared to the beginning of the year.

**Mobile banking: creating a new model of banking services in the era of mobile internet**

At present, the increasing popularity of mobile internet profoundly changes people's lifestyle and affects banking financial services. Mobile banking becomes a new and major service platform, which is strategically significant to in the Bank's business development. In 2016, keeping up with the market trend, the Bank continued to reinforce the development of mobile banking, products and marketing and actively implemented new business growth models to achieve rapid development of mobile banking businesses. As at the end of the Reporting Period, the Bank's total number of registered mobile banking customers exceeded 50,000,000, representing an increase of 25.39% from the beginning of the year. During the Reporting Period, the transaction number of mobile banking increased year-on-year by 19.65% to 274 million and the transaction amounts were RMB6.83 trillion, representing a year-on-year increase of 68.23%.

Download and install the mobile banking application of the Bank, by scanning the QR code of Annual Report

- Established a special team to promote business development.

  The Bank established a mobile banking project team in June 2016, which was being upgraded to an online financial service center at the end of 2016. The team was in charge of strategic analysis, product research and development and business promotion of mobile banking. The team included top talents inside and outside the industry and was sufficiently provided with special resources, polices, systems and processes to improve innovation capability and execution power of the team.

- Promoted platform upgrade to reinforce service assurance.

  The Bank officially launched the new version of mobile banking in April 2016, creating five highlights in financial services. First was mobile payment by scanning QR code, which enabled rapid face-to-face cash receipts and payments between customers and merchants. Second was booking services of branch outlets in advance. Customers can make booking in advance via mobile banking and then arrive at the branch outlets on time to handle businesses. Third was real-time opening of Class II accounts. Customers can apply for BoCom accounts online to enjoy the financial services of BoCom. Fourth was abundant financial services, which covered various product categories such as wealth management products ("WMPs"), funds, precious metals, insurance, book-entry crude oil, certificates of deposits, "Huo Qi Fu" and structured WMPs to satisfy wealth management needs of different customers. Fifth was "Xiao Mi Jiao Jiao" smart reminder services, which sent alerts regarding the fluctuation of product net value and the achievement of investment objectives. It enabled customers to know the changes of investment in a timely manner. In addition to the innovation of product functions, the security of mobile banking was upgraded by enhancing the capability in preventing embezzling and password encryption, with a view to safeguarding the customers' fund security. In 2016, mobile banking of the Bank was awarded "Best Mobile Banking Security Award in China" by China Financial Certification Authority ("CFCA"), best mobile financial service platform by China's financial brand "Bauhinia Award" and other awards.

- Organized marketing activities to enhance reputation.

  With its service brand, the Bank organized large-scale marketing events with the theme as "Hundreds of Millions Ounces of Golds Waiting for You" from September to December 2016 and launched a new year-themed activity named "Rushing for One Hundred Thousand Golden Roosters" at the end of 2016, which was the market hot topic. In 2017, the Bank will continue to carry out specific marketing activities to improve its reputation and expand its brand influence.

### 3. *Relationship manager*

The Bank continued to promote the setup of its relationship manager team, optimized the management mechanism of relationship managers, broadened the room for development for relationship managers and enhanced the education and training of relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic branches increased by 3.64% from the beginning of the year to 24,724, among which the number of corporate relationship managers increased by 3.30% from the beginning of the year to 10,991. The number of retail relationship managers increased by 3.91% from the beginning of the year to 13,733. The number of employees with a Master's degree or above increased by 15.41% from the beginning of the year to 2,883, while the number of employees with a Bachelor's degree or above increased by 5.39% from the beginning of the year to 21,424.[1]

### 4. *Customer services*

140 branch outlets of the Bank were awarded "Top 1,000 Model units for Civilized and Standardized Services in China's Banking Sector" by the China Banking Association. The Bank was ranked No. 1 in the banking industry with the highest number of awarded outlets. The Bank was ranked No. 1 in 2016 China Retail Banking Satisfaction Study organised by J.D.POWER with a total score of 846 for three consecutive years. With continuous efforts in promoting customer rights protection, the Bank carried out promotion campaign of "Broadcasting Financial Literacy to Thousands of Families" in order to further improve its brand influence.

1 As at the end of 2016, Heads of client relationship managers are not included in the number of relationship managers for statistics. In accordance with the same calculation basis, as at the end of 2015, the number of relationship managers was 23,856 in total, among which, the number of the corporate relationship managers was 10,640 while the number of retail relationship managers was 13,216. The number of employees with a Master's degree or above was 2,498 while the number of employees with a Bachelor's degree or above was 20,329.

(V) Internationalization and Integrated Operation

***1. Internationalization strategy***

- **During the Reporting Period, net profits of the Group's overseas banking institutions were increased by 30.71% on a year-on-year basis to RMB5.35 billion, accounting for 7.96% of the Group's total net profits, representing an increase by 1.81 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 institutions increased by 22.06% from the beginning of the year to RMB855.914 billion, accounting for 10.19% of the Group's total assets, representing an increase of 0.39 percentage point from the beginning of the year.**
- **As at the end of the Reporting Period, the impaired loan balances in the Group's overseas banking institutions was RMB1.087 billion, and the impaired loan ratio was 0.27%.**

The Group focused on facilitating the implementation of internationalization strategy by improving the landscape of overseas service network, building a global wealth management and financial service platform and increasing its cross-border, cross-industry and cross-market servicing capability based on financial innovations and key products.

**Overseas service network**

The landscape of overseas service network was making a steady progress. As at the end of the Reporting Period, the Group set up 20 overseas subsidiaries, branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, Toronto, Brisbane, Luxembourg, London, Paris, Roman and Rio de Janeiro with a total of 65 overseas operating outlets (excluding the representative offices). The Bank established agency relationship with 1,613 banks in over 142 countries and regions, set up 233 cross-border Renminbi inter-bank accounts for 121 overseas agent banks in 33 countries and regions, and opened 76 foreign currency settlement accounts in 23 currencies with 59 banking institutions in over 28 countries and regions.

**Domestic and overseas synergetic businesses**

The Bank strived to develop the mid- and long-term financing businesses to assist the development of the connectivity projects between enterprises and the country under the State's strategy of strategic initiative "Belt and Road". With product innovation and business portfolios, the Bank provided comprehensive services to customers to meet their cross-border, cross-market and multi-level financial needs. During the Reporting Period, the total transaction amount of the synergetic businesses was USD50.311 billion, and its accumulated revenue reached RMB3.948 billion.

**Cross-border Renminbi transactions**

With the synergistic effect of domestic and overseas banking institutions, the Bank put efforts in the development driven by "two engines of divisions and branches". With the direct involvement in corporate clients' key projects and businesses, innovation in projects, channels and services, the Bank was able to make steady progress in the development of cross-border Renminbi transactions. During the Reporting Period, the transaction amount of the cross-border Renminbi settlements by domestic and overseas banking institutions increased by 37.66% on a year-on-year basis to RMB2,218.084 billion.

**Offshore services**

With strengthed compliance, anti-money laundering management and risk management and control, the Bank improved offshore customer structure and asset structure. As at the end of the Reporting Period, the total amount of offshore assets increased by 42.92% from the beginning of the year to USD18.244 billion, and the loan balance increased by 66.53% from the beginning of the year to USD11.952 billion, and deposit balance increased by 29.75% from the beginning of the year to USD12.309 billion.

**Opening of five branches and first overseas acquisition, accelerating the internationalized landscape**

From 9 to 21 November 2016, London Branch of BoCom, Bank of Communications (Luxembourg) S.A. Paris Branch, Luxembourg Branch of BoCom and Bank of Communications (Luxembourg) S.A. Rome Branch successively opened, further developing and consolidating the institution landscape in Europe. On 30 November 2016, the Bank smoothly completed the acquisition of the controlling stake in Banco BBM (BoCom BBM), realizing the first breakthrough in South America region. This was also the Bank's first international acquisition. So far, the number of overseas banks of the Bank reached over twenty in sixteen countries and regions, crossing four continents of Asia, Europe, America and Australia, covering major financial centers around the world, including New York, London and Singapore.


*In the afternoon of 17 November (local time), the Chairman of the Board of Directors, Niu Ximing, attended the opening ceremony of Luxembourg Branch. Ambassador of Chinese Embassy in Luxembourg, Huang Changqing, and Minister of Finances of The Grand Dutchy of Luxembourg, Pierre Gramegna, attended and addressed.*


*The President, Peng Chun, attended the delivery ceremony of BoCom's acquisition of Banco BBM 30 November (local time). The Brazilian Ambassador to China, Marcos Caramurude Paiva, attended and addressed. More than 200 guests from local government agencies, financial industry, enterprises and media joined as well.*

*The Chairman of the Board of Supervisors, Song Shuguang, attended the opening ceremony of London Branch in the morning of 9 November (local time). Minister of Chinese Embassy in the UK, Zhu Qin, Minister-counsellor of the Department of International Trade of the UK, Sherry Madera, Sheriff of the City of London, Charles Bowman and the Group Head of Government Affairs in HSBC, Sir Sherard Louis Cowper-Coles attended as well.*

In the future, pursuant to the overall strategy of "Asia-Pacific as basis and Europe and America as two wings to expand the global landscape", the Bank will establish institutions and conduct mergers and acquisitions to increase the proportion of profit from overseas assets. In the aspects of landscape, closely embracing the State's strategy of strategic initiative "Belt and Road" and following the "Go Global" of Chinese enterprises, the Bank will fill the vacancies in major continents, major international financial centers and countries which have close interactions with China. For the countries and regions where the institutions have been established, the Bank will move forward the establishment of secondary institutions in an orderly manner, deeply explore the local market and expand its business scope.

### 2. *Integrated operation*

- **During the Reporting Period, net profits attributable to the Bank from the holding subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and BBM) amounted to RMB3.651 billion, representing a year-on-year increase of 22.76%, the proportion of which to the net profit of the Group increased by 0.96 percentage point to 5.43% o n a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and BBM) increased by 22.71% from the beginning of the year to RMB254.958 billion, the proportion of which to the total assets of the total assets of the Group increased by 0.13 percentage point to 3.03% from the beginning of the year.**

The Group exercised the comprehensive operating advantages to improve its comprehensive capability of serving customers. While seizing the market opportunity and effectively controlled the risks, the subsidiaries strengthened the leverage of synergistic effect of the Group and continued to deepen the business convergence and created their business characteristics, with an aim to enhance their market competitiveness and drive the implementation of the comprehensiveness strategy of the Group.

— BoCom Leasing continued to maintain its leading development trend in the financial lease industry and optimize its business structure. The investment amount for the new operating lease businesses all the year round amounted to RMB20.72 billion, with the operating lease assets accounting for 31.27%, an increase of 10.65 percentage points from the beginning of the year. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB166.061 billion, representing an increase of 18.96% from the beginning of the year. BoCom Leasing is one of the leading companies in the industry in terms of growth of asset size, overall profits and asset quality.

— BoCom International Trust speeded up the development of its core businesses including PPP, industrial investment fund and asset securitization. The newly contracted amount throughout the year totalled approximately RMB240 billion. BoCom International Trust successfully launched publicly offered products such as the non-performing asset securitization, credit card asset securitization and corporate asset securitization. As at the end of the Reporting Period, its AUM increased by 43.85% from the beginning of the year to RMB709.768 billion.

— BoCom Fund saw outstanding performance of several publicly offered funds, BoCom Qushi, BoCom Alpha and BoCom Zhizao managed by BoCom Fund were top 10% of funds among its peers in terms of performance all the year round. As at the end of the Reporting Period, its AUM increased by 22.74% from the beginning of the year to RMB532.864 billion (including domestic subsidiaries and Hong Kong subsidiaries).

— BoCommLife Insurance maintained a leading position in the industry in terms of return on investments. During the Reporting Period, the realized original premium income increased by 138.31% on a year-on-year basis to RMB9.704 billion. Its bancassurance businesses with premium paid by instalment significantly expanded and the new premium income increased by 235% on a year-on-year basis.

— BoCom International maintained a relatively high return on stock investments and was awarded No. 3 of Most Independent Research Brokerage by *Asia Money*, constantly improving its market influence.

— As BoCom Insurance's main businesses, property insurance was well developed. Its gross premium growth rate and net compensation rate were better than the Hong Kong interbank market average, with investment businesses in steady development.

# III. FINANCIAL STATEMENTS ANALYSIS

## (I) Analysis on Key Income Statement Items

### 1. *Profit before tax*

During the Reporting Period, the Group's profit before tax increased by RMB98 million, to RMB86.11 billion, equivalent to a 0.11% increase on a year-on-year basis. Profit before tax was mainly derived from net interest income and net fee and commission income.

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

*(in millions of RMB)*

| | 2016 | 2015 |
|---|---|---|
| Net interest income | **134,871** | 144,172 |
| Net fee and commission income | **36,795** | 35,027 |
| Impairment losses on loans and advances to customers | **(28,480)** | (27,160) |
| Profit before tax | **86,110** | 86,012 |

### 2. *Net interest income*

During the Reporting Period, the Group's net interest income decreased by RMB9.301 billion on a year-on-year basis to RMB134.871 billion, accounting for 69.50% 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, interest income and expenses, and average rate of return or average costs of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated:

*(in millions of RMB unless otherwise stated)*

| | For the twelve months ended 31 December 2016 | | | For the twelve months ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest income/ (expenses)[5] | Annualised average rate of return (cost) (%) | Average balance | Interest income/ (expenses) | Anuualised average rate of return/(cost) (%) |
| **Assets** | | | | | | |
| Cash and balances with central banks | **940,872** | **13,701** | **1.46** | 879,938 | 12,868 | 1.46 |
| Due from banks and other financial institutions | **613,166** | **15,026** | **2.45** | 679,546 | 22,813 | 3.36 |
| Loans and advances to customers and receivables | **4,003,174** | **189,973** | **4.75** | 3,715,611 | 214,127 | 5.76 |
| Include: Corporate loans and receivables | **2,786,556** | **125,458** | **4.50** | 2,670,427 | 147,946 | 5.54 |
| Individual loans | **1,058,139** | **59,442** | **5.62** | 924,334 | 61,092 | 6.61 |
| Discounted bills | **158,479** | **5,073** | **3.20** | 120,850 | 5,089 | 4.21 |
| Investment securities | **1,917,494** | **71,144** | **3.71** | 1,365,768 | 55,318 | 4.05 |
| Interest-bearing assets | **7,170,237**[3] | **281,197**[3] | **3.92** | 6,505,493[3] | 300,965[3] | 4.63 |
| Non-interest-bearing assets | **347,839** | | | 322,491 | | |
| **Total assets** | **7,518,076**[3] | | | 6,827,984[3] | | |
| **Liabilities and Shareholders' Equity** | | | | | | |
| Due to customers | **4,645,472** | **86,392** | **1.86** | 4,357,575 | 97,743 | 2.24 |
| Include: Corporate deposits | **3,174,125** | **56,434** | **1.78** | 2,946,566 | 65,070 | 2.21 |
| Individual deposits | **1,471,347** | **29,958** | **2.04** | 1,411,009 | 32,673 | 2.32 |
| Due to banks and other financial institutions | **1,989,295** | **55,720** | **2.80** | 1,672,629 | 55,212 | 3.30 |
| Debt securities issued and others | **397,461** | **12,861** | **3.24** | 217,610 | 7,999 | 3.68 |
| Interest-bearing liabilities | **6,727,759**[3] | **146,326**[3] | **2.17** | 6,112,444[3] | 156,793[3] | 2.57 |
| Shareholders' equity and non-interest–bearing liabilities | **790,317** | | | 715,540 | | |
| **Total Liabilities and Shareholders' Equity** | **7,518,076**[3] | | | 6,827,984[3] | | |
| **Net interest income** | | **134,871** | | | 144,172 | |
| **Net interest spread**[1] | | | **1.75**[3] | | | 2.06[3] |
| **Net interest margin**[2] | | | **1.88**[3] | | | 2.22[3] |
| **Net interest spread**[1] | | | **1.89**[4] | | | 2.14[4] |
| **Net interest margin**[2] | | | **2.02**[4] | | | 2.30[4] |

Notes:

1. This represented the difference between the average rate of return on total average interest-bearing assets and the average cost of total average interest-bearing liabilities.
2. This ratio represented the net interest income to total average interest-bearing assets.
3. This excluded the impact of wealth management products.
4. This excluded the impact of wealth management products and took into account the tax exemption on the interest income from investments in government bonds.
5. According to requirements of *Caishui [2016] No.36 on the Notice on Comprehensive Roll-out of the Business Tax (BT) to Value-Added Tax (UAT) Transformation Pilot Program*, 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 6.45% on a year-on-year basis. The net interest spread and net interest margin decreased by 31 and 34 basis points on a year-on-year basis to 1.75% and 1.88%, respectively. The net interest spread and net interest margin in the fourth quarter increased by 2 and 1 basis points as compared to those in the third quarter, respectively. Excluding the impact from "VAT" on the presentation basis of interest income, the net interest spread and net interest margin decreased by 20 and 23 basis points on a year-on-year basis to 1.86% and 1.99% respectively. Both the net interest spread and net interest margin in the fourth quarter both increased by 2 basis points as compared to the third quarter.

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

*(in millions of RMB)*

| | Comparison between 2016 and 2015 | | |
|---|---|---|---|
| | Increase/(decrease) due to | | |
| | Amount | Interest rate Note | Net increase/ (decrease) |
| **Interest-bearing assets** | | | |
| Cash and balances with central banks | 890 | (57) | 833 |
| Due from banks and other financial institutions | (2,230) | (5,557) | (7,787) |
| Loans and advances to customers and receivables | 16,564 | (40,718) | (24,154) |
| Investment securities | 22,345 | (6,519) | 15,826 |
| Changes in interest income | 37,569 | (52,851) | (15,282) |
| **Interest-bearing liabilities** | | | |
| Due to customers | 6,449 | (17,800) | (11,351) |
| Due to banks and other financial institutions | 10,450 | (9,942) | 508 |
| Debt securities issued and others | 6,619 | (1,757) | 4,862 |
| Changes in interest expenses | 23,518 | (29,499) | (5,981) |
| **Changes in net interest income** | 14,051 | (23,352) | (9,301) |

Note: According to requirements of *Caishui [2016] No.36 on the Notice on Comprehensive Roll-out of the Business Tax (BT) to Value-added Tax (VAT) Transformation Pilot Program*), VAT payable was deducted from the Group's interest income in the current period; the deduction amounts were included in "interest rate" item.

During the Reporting Period, the Group's net interest income decreased by RMB9.301 billion on a year-on-year basis, of which the increase of RMB14.051 billion was due to changes in the average balances of assets and liabilities. The decrease of RMB23.352 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 RMB15.282 billion or 5.01% on a year-on-year basis to RMB289.844 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 RMB24.154 billion or 11.28% on a year-on-year basis to RMB189.973 billion, largely due to multiple impact on the presentation basis of interest income due to the decrease of interest rate and VAT. The average rate of return of loans and advances to customers and receivables decreased 101 basis points on a year-on-year basis..

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB15.826 billion, with an increase of 28.61% on a year-on-year basis to RMB71.144 billion, which was largely due to the year-on-year increase in the average balance of investment securities by RMB551.726 billion.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, the average balances with the central bank increased by RMB833 million or 6.47% on a year-on-year basis to RMB13.701 billion. The growth of the average balances with central banks was primarily due to the year-on-year increase in average customer deposits of RMB60.934 billion.

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

During the Reporting Period, the interest income from balances due from banks and other financial institutions decreased by RMB7.787 billion or 34.13% on a year-on-year basis to RMB15.026 billion. This was largely due to the year-on-year decrease in the average rate of return due from banks and other financial institutions by 91 basis points, and a year-on-year decrease in the average balance of RMB66.38 billion.

**(2) Interest expenses**

During the Reporting Period, the Group's interest expenses decreased by RMB5.981 billion or 3.72% on a year-on-year basis to RMB154.973 billion.

A. Interest expenses of customer deposits

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expenses on customer deposits decreased by RMB11.351 billion or 11.61% on a year-on-year basis to RMB86.392 billion, accounting for 55.75% of total interest expenses. The decrease in interest expenses of customer deposits was mainly due to a year-on-year decrease in the average rate of return of customer deposits by 38 basis points.

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

During the Reporting Period, interest expenses on balances due to banks and other financial institutions increased by RMB508 million, equivalent to an increase of 0.92% on a year-on-year basis to RMB55.72 billion. This was largely due to the year-on-year increase in the average balance due to banks and other financial institutions by RMB316.666 billion.

C. Interest expenses of bonds payable and other interest-bearing liabilities

During the Reporting Period, interest expenses on bonds payable and other interest-bearing liabilities increased by RMB4.862 billion, with an increase of 60.78% on a year-on-year basis to RMB12.861 billion. This was mainly due to a year-on-year increase in average balance of bonds payable and others of RMB179.851 billion.

### 3. *Net fee and commission income*

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continued facilitating the transformation of its profit-making mode and moved towards a business mode with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB1.768 billion or 5.05% on a year-on-year basis to RMB36.795 billion. Agency services and management services 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)*

| | 2016 | 2015 |
|---|---|---|
| Settlement services and bank cards | 13,787 | 13,912 |
| Investment banking | 5,306 | 7,472 |
| Guarantees and commitments | 2,962 | 3,014 |
| Management services | 12,502 | 9,697 |
| Agency services | 4,636 | 3,403 |
| Others | 691 | 733 |
| **Total fee and commission income** | 39,884 | 38,231 |
| **Less: Fee and commission expenses** | (3,089) | (3,204) |
| **Net fee and commission income** | 36,795 | 35,027 |

Fee income from settlement services and bank card services decreased by RMB125 million or 0.90% on a year-on-year basis to RMB13.787 billion. Due to VAT the presentation basis of fee income changed, the fee income from settlement services and bank card services decreased.

Fee income from investment banking decreased by RMB2.166 billion or 28.99% on a year-on-year basis to RMB5.306 billion. This was mainly due to the decrease of consultant services.

Fee income from guarantee and commitment services decreased by RMB52 million or 1.73% on a year-on-year basis to RMB2.962 billion. Due to VAT the presentation basis of fee income changed, then the fee income from guarantee and commitment services decreased.

Fee income from management services increased by RMB2.805 billion or 28.93% on a year-on-year basis to RMB12.502 billion, which was mainly driven by the increase in the fee income from asset management and wealth management agency services.

Fee income from agency services increased by RMB1.233 billion or 36.23% on a year-on-year basis to RMB4.636 billion, which was mainly driven by the increase in the fee income from insurance agency services.

### 4. *Operating costs*

During the Reporting Period, the Group's operating costs increased by RMB2.377 billion or 4.05% on a year-on-year basis to RMB61.098 billion. Cost-to-income ratio was 31.77%, representing a year-on-year increase of 1.23 percentage points. Excluding the impact from VAT on the presentation basis of net operating income and operating costs, the Group's cost-to-income ratio was 30.62%, representing a year-on-year increase of 0.08 percentage point.

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

*(in millions of RMB)*

| | 2016 | 2015 |
|---|---|---|
| Staff costs | **26,040** | 25,429 |
| Functional expenses | **26,310** | 24,771 |
| Depreciation and amortization | **7,939** | 7,200 |
| Taxes Note | | 611 |
| Others | **809** | 710 |
| **Total operating costs** | **61,098** | 58,721 |

Note: In accordance with the requirements of *Regulations on Accounting Treatment of Value-added Tax* (Cai Kuai [2016] No. 22) issued by the Ministry of Finance, "business taxes and surcharges" was presented in another item of the income statement "taxes and surcharges", with operating costs items adjusted accordingly.

### 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 RMB1.32 billion or 4.86% on a year-on-year basis to RMB28.48 billion. The increase comprised of (1) collective assessment decreased by RMB2.981 billion on a year-on-year basis to RMB9.439 billion; and (2) individual assessment increased by RMB4.301 billion on a year-on-year basis to RMB19.041 billion. During the Reporting Period, credit cost ratio decreased by 0.04 percentage point on a year-on-year basis to 0.69%.

### 6. *Income tax*

During the Reporting Period, the Group's income tax expenses decreased by RMB722 million or 3.76% on a year-on-year basis to RMB18.459 billion. The effective tax rate of 21.44% is lower than the statutory tax rate of 25%, which was 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)*

| | 2016 | 2015 |
|---|---|---|
| Current tax | **14,814** | 20,039 |
| Deferred tax | **3,645** | (858) |

## (II) Analysis on Key Balance Sheet Items

### *1. Assets*

As at the end of the Reporting Period, the Group's total assets were RMB8,403.166 billion, representing an increase of RMB1,247.804 billion, equivalent to an increase of 17.44% from the beginning of the year.

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

*(in millions of RMB unless otherwise stated)*

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Balance | Proportion (%) | Balance | Proportion (%) |
| Loans and advances to customers | **4,009,046** | **47.71** | 3,634,568 | 50.80 |
| Investment securities | **2,252,392** | **26.80** | 1,630,559 | 22.79 |
| Cash and balances with central banks | **991,435** | **11.80** | 920,228 | 12.86 |
| Due from banks and other financial institutions | **715,787** | **8.52** | 611,191 | 8.54 |
| **TOTAL ASSETS** | **8,403,166** | | 7,155,362 | |

#### (1) Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit improvement. As at the end of the Reporting Period, the Group's total loans and advances to customers were RMB4,102.959 billion, representing an increase of RMB380.953 billion or 10.24% from the beginning of the year, among which the increase in Renminbi loans from domestic branches increased by RMB300.883 billion or 9.14% 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 promoted the optimization of its own business structure.

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

*(in millions of RMB unless otherwise stated)*

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | **Balance** | **Proportion (%)** | Balance | Proportion (%) |
| Mining | **107,787** | **2.63** | 101,647 | 2.73 |
| Manufacturing | | | | |
| – Petroleum and chemical | **106,514** | **2.60** | 125,952 | 3.38 |
| – Electronics | **59,942** | **1.46** | 75,424 | 2.03 |
| – Steel | **36,841** | **0.90** | 36,879 | 0.99 |
| – Machinery | **118,200** | **2.88** | 105,187 | 2.83 |
| – Textile and clothing | **33,714** | **0.82** | 40,680 | 1.09 |
| – Other manufacturing | **224,455** | **5.47** | 238,027 | 6.40 |
| Electricity, gas and water production and supply | **147,141** | **3.59** | 138,256 | 3.71 |
| Construction | **99,487** | **2.42** | 109,893 | 2.95 |
| Transportation, storage and postal services | **495,427** | **12.07** | 418,057 | 11.23 |
| Telecommunication, IT services and software | **20,594** | **0.51** | 13,413 | 0.36 |
| Wholesale and retail | **319,579** | **7.79** | 333,903 | 8.97 |
| Accommodation and catering | **34,489** | **0.84** | 35,070 | 0.94 |
| Financial institutions | **94,464** | **2.30** | 50,832 | 1.37 |
| Real estate | **204,111** | **4.97** | 227,061 | 6.10 |
| Services | **300,929** | **7.33** | 262,750 | 7.06 |
| Water conservancy, environmental and other public utilities | **188,622** | **4.60** | 132,061 | 3.55 |
| Education, science, culture and public health | **80,597** | **1.96** | 71,731 | 1.93 |
| Others | **117,290** | **2.86** | 94,420 | 2.53 |
| Discounted bills | **126,589** | **3.09** | 117,444 | 3.16 |
| **Total corporate loans** | **2,916,772** | **71.09** | 2,728,687 | 73.31 |
| Mortgage loans | **770,280** | **18.78** | 604,357 | 16.24 |
| Credit card overdraft | **307,857** | **7.50** | 271,542 | 7.30 |
| Others | **108,050** | **2.63** | 117,420 | 3.15 |
| **Total individual loans** | **1,186,187** | **28.91** | 993,319 | 26.69 |
| **Gross amount of loans and advances to customers before impairment allowances** | **4,102,959** | **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 RMB188.085 billion, or 6.89% from the beginning of the year to RMB2,916.772 billion. The four most concentrated industries were manufacturing, transportation, storage and postal services, wholesale and retail services, which accounted for 58.13% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB192.868 billion or 19.42% from the beginning of the year to RMB1,186.187 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 2.22 percentage points from the beginning of the year to 28.91%.

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 3.02% of the Group's net capital, and the total loans of Top 10 customers accounted for 12.72% 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 year end date indicated:

*(in millions of RMB unless otherwise stated)*

| | 31 December 2016 | | |
|---|---|---|---|
| | Type of industry | Loan balances | Percentage of total loans and advances (%) |
| Customer A | **Transportation, storage and postal services** | **21,867** | **0.54** |
| Customer B | **Transportation, storage and postal services** | **12,469** | **0.30** |
| Customer C | **Transportation, storage and postal services** | **9,571** | **0.23** |
| Customer D | **Transportation, storage and postal services** | **8,536** | **0.21** |
| Customer E | **Transportation, storage and postal services** | **7,902** | **0.19** |
| Customer F | **Transportation, storage and postal services** | **6,792** | **0.17** |
| Customer G | **Wholesale and retail** | **6,740** | **0.16** |
| Customer H | **Mining** | **6,340** | **0.15** |
| Customer I | **Manufacturing – other manufacturing** | **6,000** | **0.15** |
| Customer J | **Transportation, storage and postal service** | **5,892** | **0.14** |
| **Total of Top Ten Customers** | | **92,109** | **2.24** |

Loan concentration by geography

The Group's credit customers were mainly located in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 31.68%,17.87% and 7.76%, respectively, among which, the loan balance in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta increased by 6.62%, 4.37% and 12.00%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.52%, representing an increase of 0.01 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 5.07 percentage points from the beginning of the year to 150.50%.

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

*(in millions of RMB unless otherwise stated)*

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Impaired loans | **62,400** | 56,206 |
| Loans overdue by more than 90 days | **86,782** | 91,423 |
| Percentage of impaired loans to gross amount of loans and advances to customers (%) | **1.52** | 1.51 |

**(2) Investment securities**

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB621.833 billion or 38.14% from the beginning of the year to RMB2,252.392 billion. Return on investment securities reached 3.71%.

Breakdown of the Group's investment securities

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

– By intention of holding

*(in millions of RMB unless otherwise stated)*

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **Balance** | **Proportion (%)** | Balance | Proportion (%) |
| Financial assets at fair value through profit or loss | **117,168** | **5.20** | 108,458 | 6.65 |
| Investment securities – loans and receivables | **385,020** | **17.09** | 323,679 | 19.85 |
| Investment securities – available-for-sale | **342,755** | **15.22** | 264,739 | 16.24 |
| Investment securities – held-to-maturity | **1,407,449** | **62.49** | 933,683 | 57.26 |
| **Total** | **2,252,392** | **100.00** | 1,630,559 | 100.00 |

– By issuers

*(in millions of RMB unless otherwise stated)*

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **Balance** | **Proportion (%)** | Balance | Proportion (%) |
| Governments and central banks | **1,132,581** | **50.28** | 662,337 | 40.62 |
| Public sector entities | **33,451** | **1.49** | 21,939 | 1.35 |
| Banks and other financial institutions | **652,835** | **28.98** | 496,184 | 30.43 |
| Corporate entities | **433,525** | **19.25** | 450,099 | 27.60 |
| **Total** | **2,252,392** | **100.00** | 1,630,559 | 100.00 |

As at the end of 2016, financial bonds held by the Group amounted to RMB652.835 billion, including bonds of policy banks of RMB342.862 billion and bonds of banks and non-bank financial institutions of RMB309.973 billion, which accounted for 52.52% and 47.48% of the total bonds, respectively.

**Top 10 financial bonds held by the Group**

*(in millions of RMB unless otherwise stated)*

| Bond names | Face value | Annual interest rate (%) | Maturity date | Impairment allowance |
|---|---|---|---|---|
| 2015 banks and non-bank financial institutions bond | 5,910 | 4.95 | 19/01/2018 | – |
| 2015 policy bank bond | 5,060 | 3.74 | 10/09/2025 | – |
| 2014 banks and non-bank financial institutions bond | 4,000 | 5.98 | 18/08/2029 | – |
| 2016 policy bank bond | 3,830 | 2.79 | 27/07/2019 | – |
| 2012 banks and non-bank financial institutions bond | 3,800 | 4.70 | 29/06/2022 | – |
| 2016 policy bank bond | 3,630 | 2.72 | 03/03/2019 | – |
| 2012 banks and non-bank financial institutions bond | 3,500 | 4.30 | 14/02/2017 | – |
| 2016 policy bank bond | 3,280 | 3.33 | 22/02/2026 | – |
| 2013 banks and non-bank financial institutions bond | 3,200 | 4.95 | 17/06/2023 | – |
| 2016 policy bank bond | 3,131 | 1.73 | 02/02/2018 | – |

**2. *Liabilities***

As at the end of the Reporting Period, the Group's total liabilities increased by RMB1,153.489 billion or 17.43% from the beginning of the year to RMB7,770.759 billion. Customer deposits increased by RMB243.775 billion or 5.44% from the beginning of the year, which accounted for 60.85% of total liabilities and represented a decline of 6.92 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB589.821 billion or 35.94% from the beginning of the year, which accounted for 28.71% of total liabilities and represented an increase of 3.91 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 increased by RMB243.775 billion or 5.44% from the beginning of the year to RMB4,728.589 billion. In terms of the Group's customer structure, the proportion of corporate customer deposit accounted for 67.81%, representing an increase of 0.23 percentage point from the beginning of the year. The proportion of individual deposits was 32.09%, representing a decrease of 0.25 percentage point from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits increased by 6.54 percentage points from the beginning of the year to 51.77%, while the proportion of time deposits decreased by 6.56 percentage points from the beginning of the year to 48.13%.

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

*(in millions of RMB)*

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Corporate deposits** | **3,206,241** | 3,030,408 |
| Include: Corporate demand deposits | **1,725,948** | 1,433,773 |
| Corporate time deposits | **1,480,293** | 1,596,635 |
| **Individual deposits** | **1,517,560** | 1,450,607 |
| Include: Individual demand deposits | **722,225** | 594,704 |
| Individual time deposits | **795,335** | 855,903 |

## (III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB14.039 billion from the beginning of the year to RMB316.396 billion.

The net cash inflows from operating activities increased by RMB58.971 billion on a year-on-year basis to RMB485.066 billion, mainly due to the year-on-year increase in the net cash inflows related to the balance due to banks and other financial institutions.

The net cash outflows from investing activities increased by RMB140.557 billion on a year-on-year basis to RMB584.945 billion, mainly due to the increase in net cash outflows related to securities investment activities.

The net cash inflows from financing activities increased by RMB47.882 billion on a year-on-year basis to RMB77.865 billion, mainly due to the year-on-year increase in the cash inflows relating to the issuance of preference shares and bonds during the current year.

## (IV) 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)*

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Profit before tax | Net operating income[1] | Profit before tax | Net operating income[1] |
| Northern China | 10,935 | 20,825 | 11,795 | 20,904 |
| North Eastern China | 3,480 | 7,391 | 3,697 | 7,157 |
| Eastern China | 22,881 | 64,921 | 23,268 | 59,555 |
| Central and Southern China | 17,541 | 31,870 | 17,086 | 30,743 |
| Western China | 8,105 | 16,189 | 8,114 | 15,699 |
| Overseas | 6,085 | 10,547 | 6,049 | 9,955 |
| Head Office | 17,083 | 37,034 | 16,003 | 36,566 |
| **Total[2]** | 86,110 | 188,777 | 86,012 | 180,579 |

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investments, share of profits of associates, insurance business income and other operating income, net of business tax, city maintenance and construction tax and educational surcharges. (Same applies hereinafter)
2. Including profit attributable to non-controlling interests. (Same applies hereinafter)

### 2. *Deposits and loans and advances by geographical segments*

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

*(in millions of RMB)*

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Deposit balances | Loans and advances balances | Deposit balances | Loans and advances balances |
| Northern China | 703,472 | 568,598 | 707,804 | 544,823 |
| North Eastern China | 250,716 | 202,216 | 264,203 | 190,285 |
| Eastern China | 1,751,799 | 1,441,942 | 1,639,756 | 1,299,000 |
| Central and Southern China | 1,067,991 | 761,294 | 964,427 | 687,517 |
| Western China | 593,674 | 417,904 | 556,443 | 382,623 |
| Overseas | 358,061 | 384,396 | 349,764 | 326,400 |
| Head Office | 2,876 | 326,609 | 2,417 | 291,358 |
| **Total** | 4,728,589 | 4,102,959 | 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 businesses and other businesses. The corporate banking segment formed as a the primary source of profit for the Group, accounting for 51.09% of the Group's profit before tax.

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

*(in millions of RMB)*

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Profit before tax | Net operating income | Profit before tax | Net operating income |
| Corporate banking | 43,994 | 92,252 | 45,911 | 90,817 |
| Personal banking | 19,135 | 59,231 | 12,659 | 51,803 |
| Treasury business | 20,402 | 23,120 | 25,765 | 28,866 |
| Other businesses | 2,579 | 14,174 | 1,677 | 9,093 |
| **Total** | 86,110 | 188,777 | 86,012 | 180,579 |

## (V) Capital Adequacy Ratio

The Group calculated the capital adequacy ratios pursuant to the *Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBRC and the requirements therein. Upon the approval from regulatory authorities, the Group used the Advanced Measurement Approach of Capital Management from April 2014.

By the end of December 2016, the Group's capital adequacy ratio was 14.02%, Tier-1 Capital adequacy ratio was 12.16%, and Core Tier-1 Capital adequacy ratio was 11.00%, which met the regulatory requirements.

*(in millions of RMB unless otherwise stated)*

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

| Item | The Group | The Bank |
|---|---|---|
| Net Core Tier-1 Capital | 568,131 | 538,188 |
| Net Tier-1 Capital | 628,051 | 598,065 |
| Net Capital | 723,961 | 693,759 |
| Core Tier-1 Capital adequacy ratio (%) | 11.00 | 10.86 |
| Tier-1 Capital adequacy ratio (%) | 12.16 | 12.07 |
| Capital adequacy ratio (%) | 14.02 | 14.00 |

Note: (1) Pursuant to the *Measures for the Capital Management of Commercial Banks (Trial Implementation)*, the above calculation excluded BoCom Insurance and BoCommLife Insurance.

(2) According to capital adequacy ratio calculated by adopting the Advanced Measurement Approach of Capital Management, the credit risk was assessed by the internal rating-based approach, the market risk by the internal model approach, and the operational risk by the standardized approach.

**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 (%) | 10.65 | 10.62 |
| Capital adequacy ratio (%) | 14.21 | 14.18 |

For further information on the Group's capital measurement, please refer to the *2016 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd.* at the website of Shanghai Stock Exchange, the website of Hong Kong Stock Exchange or the official website of the Group.

## (VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by CBRC in January 2015. As at 31 December 2016, the Group's leverage ratio was 6.86%, which fulfilled the regulatory requirements.

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

**Calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* (2015, No. 1) issued by CBRC**

| Item | 31 December 2016 |
|---|---|
| Net Tier-1 Capital | 628,051 |
| Balance of adjusted on-and-off-balance sheet assets | 9,155,659 |
| Leverage ratio (%) | 6.86 |

**Information disclosed according to the requirements of *the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)***
**Difference of Items between Regulatory Consolidation and Accounting Consolidation**

*(in millions of RMB)*

| Serial Number | Item | 31 December 2016 |
|---|---|---|
| 1 | Total consolidation assets | 8,403,166 |
| 2 | Adjusted item of consolidation | (17,275) |
| 3 | Adjusted item of customer's assets | – |
| 4 | Adjusted item of derivatives | 26,312 |
| 5 | Adjusted item of securities financing transactions | – |
| 6 | Adjusted item of off-balance sheet item | 746,791 |
| 7 | Other adjusted items | (3,335) |
| 8 | Balance of adjusted on-and-off-balance sheet items | 9,155,659 |

***Information relating to Leverage Ratio***

*(in millions of RMB unless otherwise stated)*

| Serial Number | Item | 31 December 2016 |
|---|---|---|
| 1 | On-balance sheet assets (excluding derivatives and securities financing transactions) | 8,105,108 |
| 2 | Less: Deduction of Tier-1 Capital | (3,335) |
| **3** | **Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)** | 8,101,773 |
| 4 | Replacement costs of derivatives (less eligible margin) | 37,190 |
| 5 | Potential risk exposure of derivatives | 26,312 |
| 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 | – |
| 9 | Notional principal of sold credit derivatives | – |
| 10 | Less: Balance of deductible sold credit derivatives | – |
| **11** | **Balance of derivatives** | 63,502 |
| 12 | Accounting asset balance of securities financing transactions | 243,593 |
| 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** | 243,593 |
| 17 | Balance of off-balance sheet items | 1,515,872 |
| 18 | Less: Balance of off-balance sheet items from reduction of credit transfer | (769,081) |
| **19** | **Balance of adjusted off-balance sheet items** | 746,791 |
| 20 | Net Tier-1 Capital | 628,051 |
| 21 | Balance of adjusted on-and-off-balance sheet items | 9,155,659 |
| **22** | **Leverage ratio (%)** | 6.86 |

## (VII) Liquidity Coverage Ratio

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

***The regulatory requirements of the liquidity coverage ratio***

Pursuant to the *Measures for the Liquidity Risk Management of Commercial Banks (Trial Implementation)* (CBRC [2015] No. 9), by the end of 2018, the liquidity coverage ratio of Commercial Banks will reach 100%. During the transition period, the liquidity coverage ratio should reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively. During the transition period, banks are encouraged to meet the requirements ahead of schedule and banks whose liquidity coverage ratio has reached 100% are encouraged to maintain the ratio over 100%.

***Liquidity Coverage Ratio***

The Group calculated the liquidity coverage ratio pursuant to the regulations of *Measures for the Liquidity Risk Management of Commercial Banks (Trial Implementation)* and relative statistics system. The monthly average liquidity coverage ratio of the Group in the fourth quarter in 2016 was 111.85%, an increase of 4.58% from the third quarter of 2016, which was mainly due to the effect of reverse repos and a decrease in securities borrowing transactions. The indicator values at each month end within the fourth quarter met the regulatory requirements, and were stable as a whole. The qualified high-quality liquid assets mainly included securities issued or guaranteed by sovereignties with zero risk weighting issued or guaranteed by public sectors with 20% risk weighting and available bank reserve under stressed situation. The details of average monthly liquidity coverage ratio in the fourth quarter of 2016 are listed below:

*(in millions of RMB, except for percentages)*

| Serial Number | | Amount before conversion | Amount after conversion |
|---|---|---|---|
| **The qualified high-quality liquid assets** | | | |
| 1 | The qualified high-quality liquid assets | | 1,221,385 |
| **Cash Outflow** | | | |
| 2 | Retail deposits, small business deposits, including: | 1,493,991 | 128,522 |
| 3 | Stable deposit | 414,647 | 20,588 |
| 4 | Less stable deposit | 1,079,344 | 107,934 |
| 5 | Unsecured wholesale funding, including: | 3,378,969 | 1,346,525 |
| 6 | Business relationship deposit (excluding representative business) | 2,251,460 | 560,418 |
| 7 | Non-business relationship deposit (including all counterparties) | 1,121,941 | 780,539 |
| 8 | Unsecured wholesale funding | 5,568 | 5,568 |
| 9 | Secured funding | | 10,492 |
| 10 | Other items, including: | 567,721 | 35,929 |
| 11 | Cash outflow relates to derivatives and other derivatives and collateral/pledged assets | 3,275 | 3,275 |
| 12 | Cash outflow relates to loss of funding on asset-blocked securities | 448 | 448 |
| 13 | Committed credit and liquidity facilities | 563,998 | 32,206 |
| 14 | Other contractual obligation to extend funds | 5,902 | 5,902 |
| 15 | Contingent funding obligations | 1,073,921 | 25,284 |
| 16 | Total expected cash outflow | | 1,552,654 |
| **Cash Inflow** | | | |
| 17 | Secured lending, including reverse repos and securities borrowing | 83,041 | 23,949 |
| 18 | Committed facilities | 675,609 | 423,440 |
| 19 | Other cash inflow | 21,460 | 13,053 |
| 20 | Total expected cash inflow | 780,110 | 460,442 |
| **Amount after adjustment** | | | |
| 21 | The qualified high-quality liquid assets | | 1,221,385 |
| 22 | Net cash outflow | | 1,092,212 |
| 23 | Liquidity Coverage Ratio (%) | | 111.85 |

## (VIII) Other Financial Information

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

### *1. Fair value measurement related items*

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

The table below illustrates the fair value measurement related items of the Group in 2016:

*(in millions of RMB)*

| Item | Opening balance | Gains/ (Losses) on changes in fair value for the year | Cumulative fair value gains/ (losses) recognized in equity | Impairment losses (accrued)/ reversed for the year | Ending balance |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| 1. Financial assets at fair value through profit or loss | 138,999 | (796) | – | – | 179,221 |
| 2. Derivative financial assets | 34,310 | (932) | 21 | – | 37,223 |
| 3. Available–for-sale financial assets | 264,739 | (780) | 2,271 | (621) | 342,755 |
| **Total financial assets** | 438,048 | (2,508) | 2,292 | (621) | 559,199 |
| Investment properties | 5,634 | 41 | 1,781 | – | 8,762 |
| **Total** | 443,682 | (2,467) | 4,073 | (621) | 567,961 |
| **Financial liabilities** Note | (75,101) | 244 | (135) | – | (104,934) |

Note: Including financial liabilities at fair value through profit or loss, derivative financial liabilities and bonds payable.

### 2. *Guarantees and related commitments*

*(in millions of RMB)*

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Financial guarantees and credit related commitments | **1,252,469** | 1,308,499 |
| Include: Loan commitments | **86,125** | 91,247 |
| Credit card commitments | **528,199** | 438,608 |
| Letters of credit commitments | **126,885** | 150,085 |
| Letters of guarantee | **279,694** | 333,725 |
| Acceptances bills | **231,566** | 294,834 |
| Operating lease commitments | **13,593** | 11,356 |
| Capital expenditure commitments | **9,371** | 7,645 |

### 3. *Restructured loans and overdue loans*

*(in millions of RMB unless otherwise stated)*

| | **31 December 2016** | 31 December 2015 | Increase or decrease from the beginning of the year (%) |
|---|---|---|---|
| Restructured loans | **15,464** | 32,907 | (53.01) |
| Overdue loans | **108,183** | 113,333 | (4.54) |

### 4. *Others*

(1) Overall analysis in external equity investments

As at the end of the Reporting Period, the long term equity investments of the Group increased by RMB137 million from the beginning of the year to RMB714 million. This increase mainly resulted from the equity method applied in the measurement of the associated company investments. Please refer to Note 22 for the details of the change in the equity investments of the Group.

Information about equity investments acquired during the Reporting Period. On 30 November 2016, the acquisition of controlling equity interests in BBM was successfully completed by the Bank after obtaining related regulatory approval. Pursuant to the acquisition, the Bank has acquired 80% equity interests in Banco BBM (BoCom BBM). The Mariani Family, former controlling shareholder, retained a part of equity interests for joint operation with the Bank. This acquisition was funded by the Bank's own capital. Banco BBM (BoCom BBM) holds a multi-functional banking license of Brazil and established branches in Bahamas. As at the end of 2016, the total assets and net assets of Banco BBM (BoCom BBM) were RMB8.065 billion and RMB1.141 billion respectively.

(2) During the Reporting Period, there was no material purchase or disposal of subsidiaries, associated companies and joint ventures.

(3) The Group's assets pledged were mainly collateral under repurchase agreements and loans from banks and other financial institutions. Save as disclosed above, there were no other significant assets pledged to be disclosed during the Reporting Period.

(4) The information of the structure entities such as wealth management businesses controlled by the Group, and unconsolidated custody and trust are set out in Notes 41 and the Bank's asset securitization is set out in Notes 43.3 to the financial statements.

(5) As at the end of the Reporting Period, there is no restriction on any material assets of the Group.

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

## IV. BUSINESS INNOVATION AND NEW PRODUCTS

In 2016, led by key product innovation project, innovation played an important roles in developing core businesses, promoting profit growth, deepening transformation and development and expanding market influence of the Group.

(I) With regard to corporate businesses, the Bank carried out product innovation and continuous optimization in multiple business sectors, such as cash management, industrial value chain finance, investment banking businesses, international businesses and small and micro enterprise businesses.

**First**, cash management. The Bank focused on developing global cash management businesses, optimizing cross-border bi-directional cash pool of Renminbi and foreign exchange; innovatively and timely launched the centralized receipts and payments of foreign exchange funds and net settlement system with leading position in the market. The Bank also continued to improve features of cash management products such as Bidding Tong, multilateral entrusted loans, Swiftnet bank-corporate connectivity by launching client services of cross-bank bill receipt and payment management; Moreover, the Bank launched a new treasury management system for finance companies and earning reallocation function for group accounts, providing the whole set of business handling system for corporate customers and finance companies.

**Second**, industrial value chain finance. Based on the demands of payment settlement and financing services of corporates, the Bank launched new payment agency product for convenient payment to assist enterprises in optimizing their financial statements; The Bank also seized the opportunity of electronic drafts to research and develop "online discounting of commercial bills" financing product. This largely facilitated the discounting of commercial bills and improved the market competitiveness of "Express Bill Discounting".

**Third**, investment banking businesses. The Bank actively promoted innovation of bonds types such as panda bonds, perpetual bonds and project income notes. In addition, the Bank successfully launched the special drawing rights ("**SDR**") bonds and underwrote the first batch of the Free Trade Zone bonds, improved the local treasury bond bridging financing and added private asset securitization of beneficiary rights of governmental purchase services. Furthermore, the Bank incorporated the technology finance business department in headquarters, set up technology finance business division in Shanghai branch and successfully implemented the first intra-group venture loan businesses in the mode of "loan + share subscription option".

**Fourth**, international businesses. The Bank processed the first legal person overdraft account in foreign currency, cross-border contractual Renminbi financing and interest-rate linked corporate structural deposits; The Bank launched a new product on cross-border transfer of cross-border Renminbi trade financing assets and innovated the physical bills of export businesses in the centralized processing mode; The Bank also innovated the channels for traditional businesses such as online payment for electronic freight invoice, batch remittance via E-bank, bank-corporate information connectivity for centralized receipts and payments of foreign exchange funds in the master account in the fund pool, centralized confirmation of import Letter of Credit for finance companies and electronic presentation. With regard to the Free Trade Zone business sector, BoCom Shanghai Branch and Bank of Hangzhou entered into an agreement of cooperation on the first and also the only indirect participation in separate accounting businesses of Free Trade Zone. New York Branch, coupled with Hong Kong Branch, issued the first cross-border syndicated loan businesses under FTN to CIFI International and completed the first issuance and investment businesses for cross-border interbank deposits in Free Trade Zone. Tianjin Branch innovated the integrated financial service solution of parallel-import automobile supply chain and successfully issued the loan of custom's duty prepayment in Free Trade Zone. Fujian Provincial Branch successfully accomplished the investments of Fujian provincial industrial equity investment fund in Pingtan Free Trade Zone. Guangdong Provincial Branch successfully carried out the first batch of cross-border Renminbi overseas borrowing businesses in Nansha District.

**Fifth**, small and micro enterprise businesses. The Bank carried out cooperation on "interaction and credit recognition between banks and tax authorities" with tax authorities in 30 provinces, autonomous regions and municipalities directly under the Central Government and customized the dedicated product "Shui Rong Tong". The Bank promoted "loan for government procurement" in order to provide stocking fund support for the suppliers based on their winning history and supply records. Focusing on the application of "Internet +" and big data, the Bank performed quantified assessment on the contribution degree of existing customers and granted them with points. Customers can redeem them for preferential interest rate, resulting in great enhancement in the customer experience.

(II) With regard to retail businesses, the Bank strengthened the innovation in payment, credit, wealth management and other products and promoted new model in online financial construction and offline outlet services.

**First**, the Bank reinforced the payment product innovation. It was the first to release QR code payment product based on UnionPay standard and launched Cloud Quick Pass business jointly with UnionPay, which covered Apple Pay, Huawei Pay, Mi Pay and Samsung Pay at present.

**Second**, the Bank strengthened the online financial construction. The Bank launched mobile banking version 3.0 and upgraded “Go Pay” to version 2.0, realizing opening of Class II accounts on mobile banking and “Go Pay” APP and various product transaction functions.

**Third**, the Bank reinforced the credit product innovation. The Bank optimized the housing loan process and enhanced the service efficiency. In December 2016, the average timeliness for single housing loan process was 2.93 days across the Bank, 6.75 days shorter than that prior to the optimization. The Bank launched “Angel Loan” for young and highly educated customers and petty cash instalment for credit card customers. In addition, the Bank innovated the credit services of “quick approval, quick utilization and quick loan”, which shortened the duration from application for approval to consumption to less than 10 minutes.

**Fourth**, the Bank reinforced the wealth management innovation. The Bank innovatively launched the structural WMPs of “OTO Fortune – intelligent wealth management” and BoCom “Huo Qi Fu” product and created various dedicated products for private banking customers, such as “BoCom Sixiang No. 1 Lifetime Insurance (inherited version)” and “De Li Bao – Enjoying Private Banking”.

**Fifth**, the Bank innovated the customer service mode. The Bank started “outlet service mode innovation project” and created “intelligent devices” to meet the comprehensive transaction demands of customers, realizing new outlet operating service model by combining auxiliary transaction of “operation staff” coming out of the counter and hall marketing. The Bank was the first to launch the special education activity integrating financial quotient and emotional quotient for children with the theme as “little financier” in the whole industry, with the aim to create an education themed activity platform for BoCom OTO Fortune children.

(III) With regard to interbank businesses, the Bank continued to promote the development of transactional businesses, wealth management businesses and interbank deposit businesses with steady steps.

**First,** set market center London sub-center and precious metal center Hong Kong sub-center to promote the internationalization development of cross-border Renminbi transaction, precious metal and block commodity businesses.

**Second**, officially joined gold pricing mechanism of London Bullion Market Association (“LBMA”). The Bank became one of the pioneer banks qualified to quote in formal gold inquiry market and the first batch of “Shanghai Gold” pricing members, further integrating and expanding its influence in precious metal market at home and abroad.

**Third**, to innovatively promoted "capital chain finance – matching services for PB business of security companies". The Bank reinforced its business cooperation with security companies so as to push forward the development of wealth management and interbank deposit businesses.

**Fourth**, to endeavored to integrate and innovate interbank business collaboration platform by relying on the innovation lab across the Bank. The Bank set up a product team integrating demand, research and development, test, promotion and effect. Exploiting the advantages of connecting with the financial factor market, domestic and cross-border liquidation and settlement to the full, the Bank got through the channel between the products and businesses across the Bank and customers, striving to create a platform for comprehensive cooperations with small and medium banks.

## V. RISK MANAGEMENT

In 2016, under the complicated and severe risk conditions, the Group continued to consummate the comprehensive risk management system, focusing on "full coverage, whole process, accountability and risk management culture" and promoted the risk management work firmly in order to control various risks effectively. Thus the Group ensured the smooth implementation of "BoCom Strategy" and transformative development strategy.

### (I) Risk Appetite

The Board of Directors established the overall risk appetite of "Stability, Balance, Compliance and Innovation" for the Group, defined its four-dimensional risk tolerance in the form of return, capital, quality and risk rating. The Board of Directors further set 21 detailed risk limits indicators against seven major risk areas concerning credit, market, operation, liquidity, interest rate of banking book, information technology and country (economic entity) risk, in order to control the overall risk changes on a regular basis.

During the Reporting Period, the Group adhered to a strong commitment in lawful and stable compliance operation to strictly implement various risk management basic policies and continue to strengthen the constraints from the bottom line of risk compliance. The Group fully implemented the risk prevention and control responsibility, striving to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In 2016, the implementation of the Group's overall risk appetite was overall satisfactory.

### (II) Risk Management Framework

The Board of Directors assumes the ultimate responsibility and is authorized for decision-making for the Group's risk management. The Group monitored and controlled the bank-wide risk management matters through Risk Management Related Party Transactions Control Committee. The Group's senior management established a "1+3+2" Risk Management Committee, where Comprehensive Risk Management Committee was dedicated to implement the Board of Directors' risk management strategy and risk appetites. According to the principle of "Going Horizontal to the Edges, Going Vertical to the Bottom, and Covering all Aspects", Comprehensive Risk Management Committee was responsible for completing the management system, optimizing the working system, standardizing the management policies, and performing evaluations on the effectiveness of risk management function in an all-around way. Three sub-committees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, and Operational Risk Management and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit/Noncredit Review Committee and High-risk Asset Review Committee were also established and performed their respective duties. Each Tier-1 branch, overseas branch and subsidiary correspondingly established simplified and practical risk management committees referring to the above mentioned framework. The Group ensured the full implementation of risk management requirements through the mechanism of "Leadership and Execution, Supervision and Reporting" between Risk Management Committee and sub-committees, and among committees of Head Office and branches, forming a unified and coordinated risk management system.

During the Reporting Period, the Group further regulated the operation of each Risk Management Committee, continuously strengthened decision-making and supervisory functions, considered and reviewed proposals with wider variety, promoted more effective work deployment and implemented policies timely and precisely. In 2016, Comprehensive Risk Management Committee and its sub-committees held 21 meetings, and more than 90 proposals were considered and approved.

During the Reporting Period, the Group developed the risk management planning for the "13th Five-Year Plan", specifying the overall objective, main task and implementation assurance for the risk management in the future 5 years. The Group further improved the risk policy system and released risk culture, risk management report and risk reserve policy. The whole Bank made more sound management policies in risk governance, various main risk management, risk measurement and risk offset.

### (III) Risk Management Tool

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

The Group developed a new way of data mining and information consolidation, enhancing the controls on risk management of assets. With the integration of big data and the risk inspection of traditional banking businesses, the Bank proactively changed the risk management policies in respect of customers with expanded scope of business, diversified operations, and innovative operation modes, which enabled the Group to obtain comprehensive information on customers' equity investments, controlling and guarantees relationships, including the underlying relationships. In this situation, the Bank could have better control on risk of corporate's assets value, investments, capital flow and the counterparties of transactions.

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

During the Reporting Period, the Bank continued to optimize the econometric models and management systems which covered credit risk, market risk, operational risk, liquidity risk, interest rate risk of banking book and other risks. The Group consistently implemented operation model in monitoring and analysis, steadily expanded the implementation scope of advanced methods and carried out the research and development of econometric tools. The Group has applied econometric results extensively in customer access, quota management, risk monitoring and control as well as performance appraisal. The Group thoroughly assessed the internal capital adequacy and forecast the capital adequacy level to strengthen capital planning and economic capital management. The Group's operation principle of "Capital Constraint Business and the Balance between Risk and Return" was further strengthened.

## (IV) Credit Risk Management

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

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

The Group put emphasis on credit risk in key areas and strengthened the management on product duration. The Bank also improved post-loan management, related tools and systems. The Group also strengthened risk control on clients and the inspections and examination of clients' relationships. In addition, the Group located the potential risk of notes and bill businesses, investigated suspicious notes financing, and implemented management on suspicious issuers. Furthermore, the Group started managing the risk of bond investments, administrated and classified a list of bonds with potential risk.

The Group made remarkable progress in the disposal of risks, and the overdue loan decreased significantly. On one hand, the Group focused on reducing high-risk loans and credit restructuring, which led to a decrease in the loan balances of substandard customers to RMB93.22 billion and an increase of assets pledged loans by RMB23.98 billion. In addition, the group restructured risky businesses actively and enhanced the amounts of loans with assets pledged. On the other hand, the Group implemented various measures to reduce non-performing loans, and thus the amount of non-performing loans on balance sheet reduced to RMB50.6 billion, of which RMB26.8 billion was collected in cash. In addition, the Group conducted the securitization of non-performing assets, of which the first issuance was successfully completed and RMB4.9 billion non-performing assets were disposed of. With reference to the State Council's recommendations regarding the lowering of corporate leverage ratio, the Group conducted the studies on the feasibility of the securitization of loans, and drafted a related policy. As at the end of 2016, the balances of overdue loans of the Group was reduced to RMB5.15 billion, while the overdue loan ratio decreased by 0.40 basis point from beginning of the year.

According to the regulatory requirements stated in CBRC Guidance for the Risk-Based Loan Categorization, the Group classified credit assets into 5 categories based on their risk level, namely pass, special mention, sub-standard, doubtful and loss, in which the last three categories are regarded as non-performing loans. Such a categorization system is to gauge an individual's ability to meet his or her debt obligations on credit assets, both principal and interests, before maturity. In relation to corporate credit assets, the Group specified the risk attributes and measurements of the fore-mentioned 5 categories, with reference to internal ratings and provisions for each loans. All of these ensured that various factors impacting the quality of credit assets were considered by the Group, so that the Group could perform risk classification in a prudent manner. For retail credit assets, including credit cards, the Group adopted a loan classification system, which considered both the aging schedule of overdue loans and the types of guarantees provided.

As at the end of 2016, the Group's balance of non-performing loans was increased by RMB6.194 billion/0.01 percentage point from the beginning of the year to RMB62.40 billion/1.52%. As at the end of 2016, the breakdown of the Group's five categories of loan classified in accordance with the Chinese banking regulatory authorities is as follows:

*(in millions of RMB unless otherwise stated)*

| | **31 December 2016** | | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|---|
| | | **Proportion** | | Proportion | | Proportion |
| **Categories** | **Balance** | **(%)** | Balance | (%) | Balance | (%) |
| Pass | **3,916,818** | **95.46** | 3,547,697 | 95.32 | 3,296,815 | 96.07 |
| Special mention | **123,741** | **3.02** | 118,103 | 3.17 | 91,903 | 2.68 |
| **Total performing loan balance** | **4,040,559** | **98.48** | 3,665,800 | 98.49 | 3,388,718 | 98.75 |
| Sub-standard | **17,513** | **0.42** | 22,953 | 0.62 | 16,103 | 0.47 |
| Doubtful | **26,950** | **0.66** | 22,521 | 0.61 | 18,680 | 0.54 |
| Loss | **17,937** | **0.44** | 10,732 | 0.28 | 8,234 | 0.24 |
| **Total non-performing loan balance** | **62,400** | **1.52** | 56,206 | 1.51 | 43,017 | 1.25 |
| **Total** | **4,102,959** | **100.00** | 3,722,006 | 100.00 | 3,431,735 | 100.00 |

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

| **Downward migration rates (%)** | **2016** | 2015 | 2014 |
|---|---|---|---|
| Pass | **2.80** | 2.52 | 2.59 |
| Special mention | **24.60** | 27.32 | 24.43 |
| Sub-standard | **50.04** | 32.14 | 52.64 |
| Doubtful | **33.72** | 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.

In 2017, under the influence of economic downturn and de-capacity campaign, the Group is still under pressure and the risk management and control environment is expected to be severe.

## (V) Market Risk Management

Market risk refers to the risk of losses of on- and off-balance sheet businesses of the Bank arising from unfavorable changes in market prices, including but not limited to interest rate, exchange rate, commodity price, and share price). Interest rate risk and exchange rate risk, including gold, are the major market risk encountered by the Bank.

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the Internal Models Approach, while the market risk not covered by the Internal Models Approach was assessed under the Standardized Approach. In terms of the Internal Models Approach, Historical Simulation Method was adopted to calculate value at risk ("VaR") and stressed value at risk ("SVaR"), which had a historical observation period of 1 year, a holding period of 10 working days and a 99% confidence interval.

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

During the Reporting Period, the Bank kept improving its market risk management system by revising fair value measurement policies and improving the accuracy of valuation. The Bank also put effort in optimizing the market risk information system by establishing new valuation models, parameters and market data for new businesses and products. In addition, the risk management models and configurations were constantly updated, in which the newly established models were tested independently and the data quality was reviewed on a regular basis.

The Bank continued to promote the application of the results derived from market risk measurement into management's practice. Daily capital transaction positions of the entire bank and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, the Bank quantified market risk and measured VaR on a daily basis from different perspectives, such as different risk factors and different investment portfolios and products, using the Historical Simulation Method. The results were also applied to capital measurement using the Internal Model Approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Bank performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results of 2016 revealed that the market risk measurement model was able to the changes in financial market in a timely manner and objectively reflect market risk encountered by the Bank.

In response to market changes, the Bank conducted studies on various areas such as the increase in interest rate in the US and the appreciation of US dollars, the liberalization of Renminbi interest rate and exchange rate, the fluctuations of Renminbi exchange rate and replacement of local municipal bonds, all of which offered comments and recommendations as references for the decision of management. Meanwhile, the Bank closely followed up the changes of both overseas and domestic market risk management. In addition, the Bank actively participated in CBRC's quantitative testing and in-depth analysis of the feasibility and challenges of developing new market risk management systems, during which the Bank provided comments and recommendations.

## (VI) Liquidity Risk Management

The liquidity management of the Bank aimed at identifying, effectively measuring, constantly monitoring and properly controlling the liquidity risk of the Bank as a whole and its products, each business line, each business process, and at all levels, ensuring that the Bank would have sufficient fund to carry out its normal operations and meet its debt and other obligations when they are due, under both normal or under stress business environment. The governance structure of liquidity risk management of the Bank consists of a decision-making body comprised of the Board of Directors and its subordinate Risk Management and Related Transactions Control Committee, Senior Management and its subordinate Market and Liquidity Risk Management Committee. A supervisory body, comprised of the Board of Supervisors and Audit Supervision Bureau, was also established. Furthermore, an executive body comprised of Asset and Liability Management Department, Treasury Business Center, Risk Management Department, Asset Management Center, Operations Management Department, branches, subsidiaries and Head Office's departments in charge of each business, was set up.

The Bank adopted an integrated approach of centralization and independence, in relation to the liquidity risk management model. "Centralization" was reflected in the consolidation management applied to liquidity risk and the consideration of the overall liquidity risk level of both the legal person and the Group, while "independence" was reflected in the separate reporting and management of liquidity risk of associated companies and specific business departments or businesses, and the accountability of each operating unit to its own liquidity risk.

During the Reporting Period, the Bank implemented the Rules on Liquidity Risk Management of Commercial Banks (Trial Implementation) issued by CBRC. The Bank also constantly improve and strengthen liquidity risk management, which enabled the Bank to effectively achieve a balance among security, liquidity and profitability. The businesses of the Bank were developed in a coordinative manner under a stable liquidity risk condition, with satisfactory liquidity indicators under regulatory requirements. The Bank strengthened on- and off-balance sheet liquidity risk management in accordance with the requirements of the regulatory authorities and industrial reformation. First, the Group revised specifications such as Bank of Communication High-quality Liquidity Asset Management Measures, Bank of Communication Domestic Branch Renminbi Liquidity Indicator Management Measures and Bank of Communication Full-scale Cross-border Financing Limit Management Measures, all of which further improved the liquidity management framework. Second, the Group constantly strengthened predictions on macroeconomic situation, monetary policies, market interest rate trend and liquidity gap. The Bank also reinforced the coordination and integration of liquidity risk management. Third, the Group launched regular stress testing for liquidity risk in a prudent manner, in which the stressed scenarios were established under the consideration of the correlation between different risks and liquidity risk, and the impacts of market liquidity on the Bank's liquidity. Fourth, based on changes in macroeconomic situation and business characteristic, the Bank organized emergency drills for liquidity risk, which further clarified and optimized emergency procedures and measures. Related units' capability and speed of coping with liquidity risk were increased.

## (VII) Operational Risk Management

The Group has established a centralized management policy system for operational risk, which clarified the basis of operational risk management. The system confirmed and regulated the process of the self assessment of operational risk and control, management of operational risk events and monitoring of key risk indicators.

*BoCom data center server room*

The Group focused on promoting the integration of operational risk management tools and businesses. During the Reporting Period, the Group organized and assessed the operational risk and controls in 74 key business processes across the Bank, and carried out process analysis and risk assessment in part of directly operating institutions. The Group applied strict management to operational risk event collection and loss reports, and conducted investigation and analysis on 126 events. The Group moved forward the optimization of key business processes including debit cards, letter of guarantee and notes, and the improvement of the system function. The Group strengthened the parallel monitoring of information technology risk, and continued to monitor and analyze the changes of key indicator in 17 information technology risk. Based on the analysis on the IT work orders, the Group focused on identifying issues such as technique deficiencies and system function weakness. The Group carried out the first dedicated assessment on the information security management across the Bank in order to identify hidden risks and oversight. The Group developed the overall emergency preplan for the business continuity and implemented 149 business and technique emergency drills for the Head Office in an orderly manner. The Group also organized comprehensive emergency drills such as remote disaster backup switchover between Head Office and branches and the unavailability of Head Office building. The Group promoted the normalization of outsourcing risk assessment mechanism, focused on field inspection of the outsourcing of out-of-counter businesses and enhanced the management and control of the information security risk of business outsourcing. The Group issued opinions on management and control over illegal fund raising risk, performed special investigation in account monitoring, and continuously monitored and promptly eliminated illegal fund raising incidents.

### (VIII) Legal Compliance and Anti-Money Laundering

The Group strived for the whole-process management mechanism of the identification, prevention, alert, resolution, disposal, inspection and monitoring of compliance risk. Hence the Group has constantly improved the compliance management mechanism. The “reform and innovation, transformation and development” of the Group is strongly supported and guaranteed by this mechanism.

During the Reporting Period, the Group has comprehensively strengthened compliance risk management of overseas entities. Risk Management and Related Party Transactions Control Committee under the Board of Directors has bored the responsibilities of US Risk Committee. The Group has constantly optimized the mechanism of oversea compliance risk management, which was further normalized and prolonged. All oversea institutions have been operating in compliance and closely communicating with local regulatory authorities. By the end of 2016, there have been no significant penalties or regulatory fines. BoCom is well recognized by oversea regulatory authorities. In particular, Frankfurt branch has been promoted to the top level of regulatory rating among local foreign banks.

In 2016, the Group continued to improve the domestic legal compliance management. The Group further standardized the whole-process management of policies and procedures which was organized across the Bank, and developed into a scientific system. The Group proposed remediation on the weakness of seal management in major businesses and branches. During the Reporting Period, the Group was granted the honor of “Pioneer Enterprise of Nationwide Banks on Legal Risk Management” by the China Banking Association.

The Group continued to strengthen the anti-money laundering management. The Group orderly moved forward centralized processing of suspicious transaction reports, significantly optimized the process of anti-money laundering and enhanced the effectiveness of anti-money laundering management. The People’s Bank of China and the Ministry of Public Security complimented the Group for the risk screening and anti-terrorism funding investigation.

### (IX) Reputational Risk

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

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

### (X) Cross-Industry, Cross-Border and Country Risk Management

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

During the Reporting Period, the Group further improved intra-group mechanisms, including information sharing, risk investigation synergy, coordinated business monitoring and joint resolution of risk events. The Group continued to promote domestic and overseas institutions including Hong Kong Branch, New York Branch, Bank of Communications (Luxembourg) Limited and BoCom International Trust to develop recovery and disposal plan under the requirements of local and the industry's regulatory authorities and the Group's plan framework. The Group also promoted overseas entities to effectively cope with various requirements of regulatory authorities with flexibility in the course of cross-industry and cross-border operations, and improve the management and control of consolidation risk.

The Group enhanced the country risk management and continued to carry out in-depth assessment on the country risk of key countries practicing "Go Global" and countries alongside the "Belt and Road". The Group continuously intensified management and control over country risk tolerance.

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

## VI. OPERATIONS OF PRINCIPAL SUBSIDIARIES

### (I) BoCom Fund

BoCom Fund was set up in August 2005 with a registered capital of RMB200 million, jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The primary businesses include the fund raising and management of publicly offered securities investment fund and asset management services for specific clients, investment management, asset management, industrial investment, investment advisory and other services approved by CSRC and other regulatory authorities. As at the end of 2016, BoCom Fund's total assets, net assets and net realized profits for the year were RMB2.623 billion, RMB2.114 billion, and RMB452 million respectively.

As at the end of 2016, BoCom Fund had a total of 256 employees, among which 36% were researchers and traders, 28% were sales and marketing staff and 34% were back-office technical support personnel. In addition, BoCom Fund established BoCom Schroder Asset Management Company Limited and BoCom Schroder Asset Management (Hong Kong) Company Limited, in which there were 30 and 4 employees, respectively. Employees' remuneration comprised of basic salary and bonus. Basic salary was determined according to employees' position as well as their knowledge and skill level, while bonus is a commendation and reward to recognize the contribution of employees to the company. The amount and distribution arrangement of bonus were determined based on company's operation, remuneration system, policies, employees' performance, as well as their current and future contribution to the company.

### (II) BoCom International Trust

BoCom International Trust was set up in October 2007 with a registered capital of RMB3.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd contributed 85% and 15% respectively. The business scope includes different asset trust services. In addition, it provides investment and financing, mergers and acquisitions, corporate finance and financial advisory services as the fund promoter of investment funds and fund management companies. Furthermore, securities underwriting services entrusted by the State Council, intermediary services, consulting and due diligence services were also conducted by the company. Apart from the above, BoCom International Trust provides custody services and safety box services. BoCom International Trust also carries out businesses of interbank deposits and withdrawals, loans, leasing, investments and guarantees with the use of equity fund, interbank lending and borrowing, and other businesses approved by the laws and regulations, and CBRC. As at the end of 2016, the balance of total assets and trust assets was RMB8.09 billion and RMB701.678, respectively. The amount of average trust assets for the year was RMB581.304 billion. The net profit for the year was RMB841 million.

As at the end of 2016, BoCom International Trust had a total of 203 employees, of which 61.6% were front-office personnel, and 98.5% held a Bachelor's degree or higher. BoCom International Trust implemented an internally fair and externally attractive performance appraisal and remuneration system. In order to facilitate the strategic development and enhance the human resource quality of the company, BoCom International Trust developed and implemented a training system that applies to all of the staff at different levels, facilitating the development of BoCom International Trust and enabling individuals to achieve their career goals. The sound training system strengthens the growth of BoCom International Trust and the development of talents.

### (III) 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 financial leasing businesses, taking in deposits of finance lease from lessees, investment in fixed-income securities, the transfer and acquisition of assets under finance leases, taking in time deposits with maturity of 3 months or longer from non-bank shareholders, interbank lending and borrowing, loans to financial institutions, overseas foreign currency loans, sales and handling of leaseholds, and economic consulting. Furthermore, BoCom Leasing established project companies in domestic bonded zones to carry out financial leasing businesses. It also provides guarantees for the external financing of its controlling subsidiaries and project companies. As at the end of 2016, BoCom Leasing's total assets, net assets and net realized profits for the year were RMB171.902 billion, RMB15.035 billion and RMB2.001 billion respectively.


*BoCom Leasing – Maersk Line Cooperation Project*

As at the end of 2016, BoCom Leasing had a total of 195 employees, of which 5 were senior executives, 27 were middle management personnel, 88 were front-office personnel, and 75 were middle- and back-office personnel. The middle and senior management accounted for 25% of total employees, while 91% of total employees hold a Bachelor's degree or higher. The employees' remuneration policy of BoCom Leasing is consistent with that of Bank. BoCom Leasing put great emphasis on staff training via case studies.

## (IV) BoCommLife Insurance

BoCommLife Insurance was set up in January 2010 with a registered capital of RMB2.1 billion, of which the Bank and the Commonwealth Bank of Australia contributed 62.5% and 37.5% respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses (excluding statutory insurance businesses) operated in the Shanghai administrative region and municipalities where the branches of BoCommLife Insurance were established. As at the end of 2016, BoCommLife Insurance's total assets, net assets and net realized premium for the year were RMB23.383 billion, RMB2.167 billion, and RMB9.704 billion respectively, among which the premium income from new policies amounted to RMB8.726 billion, and the net realized profits was RMB310 million.

As at the end of 2016, BoCommLife Insurance had a total of 1,409 employees, including 717 sales personnel, 78 finance personnel, 489 technical personnel and 125 administrative personnel. For the education level of employees, 138 held a Master's degrees or higher, 879 holds a Bachelor's degree or higher, and 392 with a post-secondary qualification or below. BoCommLife Insurance sets the performance-based compensation level at 30%-50% of total compensation to motive employees. BoCommLife Insurance's staff training strictly adhered to the "BoCom Strategy" by learning from practical experience, planning under the big picture, highlighting priorities, optimizing resources and procedures in a pragmatic manner, which led to good results.

## (V) BoCom International

BoCom International was set up in May 2007 under the business restructuring and integration program of the former wholly-owned subsidiary – BoCom International Securities Limited. The issued and fully paid-up share capital BoCom International is HKD2 billion. The business scope includes the activities regulated under the Hong Kong Securities & Futures Ordinance via one or several licensed subsidiaries, including securities and futures trading and advisory services on securities and futures contracts. BoCom International also provides loans to securities financing, consulting services on corporate financing activities, and asset management, etc. As at the end of 2016, BoCom International's total assets, net assets and net realized profits for the year were HKD10.179 billion, HKD3.986 billion, and HKD351 million respectively.

As at the end of 2016, BoCom International had a total of 281 employees. Employee compensation comprised of basic salary, discretionary bonuses and other allowances and benefits. Discretionary bonuses were determined based on employee individual performance, department performance and the overall company performance in the current year. BoCom International established a multi-element training system covering general knowledge and business skills training, professional ethics and integrity and team building and communication and language skills to improve the professional skills of staff.

## (VI) 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 all kinds of general insurance businesses. As at the end of 2016, total assets of BoCom Insurance were HKD689 million, net assets were HKD541 million, and net profit for the year was HKD13.89 million.

As at the end of 2016, BoCom Insurance had a total of 39 employees, of which 72% were front-office employees. 52% of total employees held a Bachelor's degree or above. The salary was paid once a month and the amount of bonus was determined based on performance.

### (VII) Four Rural Banks

1. Dayi BoCom Xingmin Rural Bank was set up in September 2008 with a registered capital of RMB60 million. It held 61% of its shares. As at the end of 2016, the total assets were RMB1.466 billion, balances of deposits from customers were RMB696 million, balances of loans to customers were RMB1.106 billion, net assets were RMB128 million, and its net profits for the year reached RMB4.71 million. It had a total of 51 employees, of which 61% held a Bachelor's degree or above.

2. Anji BoCom Rural Bank was set up in April 2010 with a registered capital of RMB180 million. The Bank held 51% of its shares. As at the end of 2016, the total assets were RMB1.667 billion, balances of deposits from customers were RMB1.319 billion, balances of loans to customers were RMB1.229 billion, net assets were RMB225 million, and its net profits for the year reached RMB528,300. It had a total of 88 employees, of which 78% held a Bachelor's degree or above.

3. Xinjiang Shihezi BoCom Rural Bank was set up in May 2011 with a registered capital of RMB150 million. The Bank held 51% of its shares. As at the end of 2016, the total assets were RMB3.036 billion, balances of deposits from customers were RMB2.628 billion, balances of loans to customers were RMB2.001 billion, net assets were RMB345 million, and its net profits for the year reached RMB52.7 million. It had a total of 88 employees, of which 77% held a Bachelor's degree or above.

4. Qingdao Laoshan BoCom Rural Bank was set up in September 2012 with a registered capital of RMB150 million. It held 51% of its shares. As at the end of 2016, its total assets were RMB1.324 billion, balances of deposits from customers were RMB1.12 billion, balances of loans to customers were RMB845 million, net assets were RMB178 million, and its net profits for the year reached RMB10.96 million. It had a total of 61 employees, of which 93% held a Bachelor's degree or above.

## VII. OUTLOOK

2017 is an important year for China to implement "13th Five Year Plan" and to further perform the structural reform on the supply side. As a whole, China's economy will continuously and steadily move forward, investments and consumption will maintain in a stable manner, fiscal policies will be more positive and effective and monetary policies will be kept steady and neutral. However, the domestic and international macro-economic situation will remain complex and changing, uncertainties will obviously increase, and the commercial banks will face with huge pressures and great challenges in operation and management.

On one hand, the commercial banks will have great opportunities regarding the transformation and development. As the State's strategic initiatives (the Belt and Road, Beijing-Tianjin-Hebei Integration, and the Yangtze Economic Belt) will be implement, demands for related infrastructure construction and cross-border investments and financings will keep rising. As the structural reform on the supply side will go deepened, strategic emerging industry, smart manufacturing industry, modern agricultural industry and modern service industry will be stepped up, the residents' demands for the financial services relating to health, medical care, education and pension will constantly grow, which bring the new opportunities for the Bank to develop new customers and expand new fields. The deepening liberalisation of interest rate, exchange rate and renminbi and the financial reform of free trade zone, which create more room for the Bank's innovation. Sustained growth of average resident income and wealth, constant increase of high net-worth customers and driver of consumption level will create favourable conditions for the expansion of wealth management businesses.

On the other hand, the Bank will face certain challenges relating to operation and development. During the economic transformation and upgrade, the credit demand of traditional industries will slow down and the growing direct financing and internet financing will bring the Bank great challenges in strengthening its own innovation ability and obtaining good assets and resources. Under the liberalisation of interest rate, the continuous narrow of net interest margin and the increase of operating costs will further cut down the Bank's profit margins. With constant profound changes in the ecosystem of industry and more intensive competition of online and offline pan-finance, bank and non-bank financial institutions, comprehensive supervision will become more prudent and stringent. With economic growth slowing down and "de-leverage and de-capacity" in progress, enterprises will be collectively exposed to the credit risk, all kinds of risks will be much more pervasive, relevant, complicated and infectious resulting in much more difficult in preventing and managing the cross-industry, cross-broader and cross-market risks, setting higher standards for banks' ability to manage the risks in all of the way.

Facing the complex external business environment, the Group continue to uphold "BoCom Strategy" and oriented by serving the real economy, stand firm in reforms, transform and innovate for excellence, build up a large comprehensive financial service group with steady development, vigorous innovation, identical characteristics and high quality services. The detailed and focused work are as follows:

First, to promote the effectiveness and efficiency of serving the real economy by proactively working together with the State's strategies initiatives. In response to the important State's strategic initiatives and key projects, the Group will proactively enlarge social financing scale to seize the opportunities in supporting the real economy. Relying on the service system with integration of "equity, debt and loan" and the international and integrated operation platform, the Group will provide comprehensive financial services for the state-owned enterprises' reform. The Group will facilitate the economic structural adjustment, support the strategic and emerging industries and key manufacturing areas and assist in the economy structural adjustments and upgrade. Furthermore, the Group will explore and improve the service mode of internet finance and all-inclusive finance to actively support the development of high-quality small and micro enterprises businesses.

Second, to constantly improve operation performance by adherence to “BoCom Strategy”. Seizing strategic opportunities brought by strategic initiative “Belt and Road” and “Go Global”, the Group will build up a financial service system covering “domestic + offshore + overseas” markets, creating new breakthroughs in the internationalisation strategy by “focusing on Asia-Pacific, and expanding in Europe and America to promote the global landscape". The Group will build up a new model of bank businesses by integrating domestic and overseas operations and further developing the overseas division for the businesses of asset management, financial market, assets held in custody and precious metal. The Group will also promote the cooperation of different business modules of subsidiaries and the Group, and set up the sharing mechanism of customers, channels, capitals and finance within the Group, and establish the Group’s integrated and diverse financing and wealth management platform. Oriented by assets under management (“AUM”), the Group will realise value-added cycles of asset management, trust, fund, insurance and custody, thus constantly enhancing wealth management in terms of scale and profitability.

Third, to boost a new engine for the transformation development by deepening the reform of operational mechanism and system. The Group will continue to reform the remuneration evaluation mechanism and improve incentive and restraint mechanism to fully motivate the staff. With constantly improving operational framework and mode of divisions, the Group will enhance profitability of divisions and create advantages over businesses in order to realise the development driven by “two engines of divisions and branches". The Group will boost the efforts to move forward the transformation development of grass-root institutions and provincial branches, to further release vitality and increased efficiency of operation. Moreover, the Group will adopt balance sheet reporting system in a comprehensive equilibrium and forward-looking manner level in order to rationally optimise allocation of assets and liabilities and maximise comprehensive capital benefits. The Group’s increase in total assets is expected to be not lower than 5% in 2017.[1]

Fourth, to strengthen efforts to prevent and manage risks with the adherence to stable operation philosophy. The Group will continuously promote risk management culture of “lawful and stable operation” and improve the comprehensive risk management system with the core elements of “full coverage, whole process, accountability and risk management culture”. The Group will intensify the risk management in key areas and the post-lending management and keep on innovation in measures and tools of risk monitoring. In order to establish a long-term effective mechanism regarding the balance of risk prevention and management, the Group will create a precise and effective internal controls and compliance management system, reinforce the risk prevention and management and make sure to put of the risk accountability system into practice. The Group will strengthen management of market risk, reputation risk and liquidity risk, by improving its cross-border and cross-industry risk management ability.

1 As the business plans constitute no performance commitments to investors, investors will be aware of underlying risks and understand differences between them.

Fifth, to intensify the capability and competitiveness of sustainable development by reinforcing infrastructure construction. The Group will carry forward “Trinity” network construction, namely “smart physical outlets, e-banking and relationship managers", and faster lay out the omni-channel management online and offline, assembling forces for the integrated and synergistic development. With the tiered, categorised and hierarchical customer management being constantly deepening, the Group will establish a new marketing and service system of cooperation, efficiency, responsiveness and professionalism, to improve its ability to obtain, motivate and retain customers. The Group will go further on the way to service innovation and make the best service bank based on the “efficient, seamless and closed loop” service chain management.

# BOCOM-HSBC STRATEGIC COOPERATION

In 2016, the strategic cooperation between BoCom and HSBC came to the thirteenth year. Senior management of both banks continued close communications, optimized and innovated the cooperation mechanism, and promoted the execution of various cooperations around the world. Over the year, the two banks scored fruitful achievement and realized mutual benefits in corporate governance, global businesses, technical exchange, regulation discussion and social welfare.

**Efficient and smooth communication at senior management of the two banks.** In 2016, the Group and HSBC held one top management meeting, one summit conference and one executive chairman regular meeting. The two banks reviewed and summarized the cooperation results of 2015, reinforced the consensus about cooperation priority, explored the potential cooperation opportunities and set objectives for 2016, the cooperation was carried out in a top-down approach. In addition, management of the two banks shared regulatory information and management experience in five informal meetings with topics of global banking regulatory trends, risk and compliance management, IT systems and operations management, and cooperation in USD-dominated international clearing.

**Deep integration of corporate governance.** In 2016, Mr. Peter Wong Tung Shun, the president of HSBC, was elected as Vice Chairman of the Group, indicating the further deepening strategic partnership between the two banks and stronger top-level design. Ms. Helen Wong Pik Kuen, the president of HSBC Greater China, also joined the Board of Directors. In the future, HSBC will play a more important role in BoCom's corporate governance and operation as well as strategic decision-making of Board of Directors. Both parties will take this opportunity to bring global businesses cooperation and technical exchange to a new level.

**Fruitful cooperation in global businesses.** Both banks adhered to the "cooperation oriented" principle and fully utilized the complementary advantages of their customers and networks, maintaining sound cooperation in fields such as "1+1" global financial services, overseas syndicated loans and offshore bond issuance, and custodies and fund consignment.

– "1+1" global financial services made remarkable success. Both banks jointly extended credits to overseas projects of 5 domestic enterprises with a total amount of USD2.4 billion, representing a year-on-year increase of 14 times. They cooperated in 10 syndicated loans denominated in foreign currencies through the offshore platform of BoCom, with a total amount of USD14.2 billion, representing a year-on-year increase of 401%.

– Drastic increase of overseas cooperation. Both banks cooperated in 12 syndicated loans and 17 bond issuances in Hong Kong, a year-on-year increase by 4 deals and 7 deals, respectively. The total amount reached USD38.3 billion, representing a year-on-year increase of 120%. Cooperation in syndicated loans in Sydney achieved great breakthrough with 5 syndicated loans in a total of USD14.8 billion, 15 times, increase from prior year.

– Steady growth of cooperation in custodies and fund consignment. Through mutual referrals, both banks cooperated with 43 products (an increase by 4 from the beginning of the year) with a total amount of RMB72.785 billion. By the end of December 2016, the Group succeeded in consignment of 17 HSBC Jintrust Fund products, an increase by 2 from the beginning of the year, amounted to RMB2.3 billion.

Furthermore, both banks continued to maintain close communication and sound cooperation in areas of leases, RMB-USD clearing, asset securitization and precious metal businesses in 2016.

**Two-way development of technical cooperation and exchange.** In 2016, the Group continued to second managers and core staff to HSBC headquarters in London and in Asia Pacific for training, and held 2 training sessions about "sharing of experience in China market" for HSBC. Both banks shared the views on the topic of "1+1" global financial services, and customer service experience in "Go Global", and thus improved the "1+1" cooperation mode. The risk management expert from HSBC to the Group continued to assist the Group in improving the professional capabilities of its risk management team. In 2016, both banks signed the technical cooperation and exchange (TCE) agreement for the next 3 years, which was the fourth renewal since the commencement of the strategic cooperation.

**Formal establishment of the mechanism of seminars on regulations.** In 2016, both banks held 4 seminars on the international financial regulations based on the senior management's consensus. Experts on both sides discussed on topics including Basel II (New Basel Capital Accord), IFRS 9, anti-money laundering and compliance management, total loss absorption capacity (TLAC) and recovery and disposal plan. They also shared trends of regulations and practical experience to confront challenges arising from changes in the domestic and overseas regulatory environment.

**Effective implementation of public service cooperation projects.** The Group and HSBC both established over a century ago. Social responsibility is our common goal and philosophy. In 2016, senior management of both banks initiated the sharing of experience in public service activities and operation in person, which exploring new modes of public service cooperation. In 2016, the public service brand of BoCom-HSBC "1+1" and the image of a good social citizen were well established by the launch of the first cooperation project, namely "Century-old BoCom and HSBC serving the public hand-in-hand – BoCom·HSBC Shanghai Yi Le Action Plan" for senior citizens.

Looking into the future, the Group and HSBC will continue to cooperate closely, seize the trend of globalization, closely monitor the strategic initiative of "Belt and Road", the progress of Renminbi internationalization and the opportunities of potential cooperation, and perfect their cooperation mode and mechanism. The Group and HSBC actively explore new cooperation fields such as asset securitization, green finance and international M&As, with good coorperation momentum in existing areas and progressive achievement in strategic cooperation.

# CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

## I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

As at 31 December 2016, the Bank issued a total of 74,262,726,645 ordinary shares, including 39,250,864,015 A shares and 35,011,862,630 H shares, which accounted for 52.85% and 47.15%, respectively. All the ordinary shares issued by the Bank are not subject to sales restrictions.

| | 31 December 2015 | | Changes (+/-) during the Reporting Period | | | | | 31 December 2016 | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares (share) | Percentage (%) | Newly issued | Bonus share | Conversion from reserves | 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. Renminbi ordinary shares | 39,250,864,015 | 52.85 | – | – | – | – | – | 39,250,864,015 | 52.85 |
| 2. Domestically-listed foreign shares | – | – | – | – | – | – | – | – | – |
| 3. Overseas-listed foreign shares | 35,011,862,630 | 47.15 | – | – | – | – | – | 35,011,862,630 | 47.15 |
| **III. Total** | **74,262,726,645** | **100.00** | – | – | – | – | – | **74,262,726,645** | **100.00** |

## II. ISSUANCE AND LISTING OF ORDINARY SHARES

During the Reporting Period, the Bank did not issue no ordinary shares.

The Bank has no employee share.

## III. SHAREHOLDERS OF ORDINARY SHARES

### (I) Number of Ordinary Shareholders

As at 31 December 2016, the total number of holders of ordinary shares of the Bank was 391,951, of which 354,128 were holders of A shares and 37,823 were holders of H shares. As at 28 February 2017, the total number of shareholders of ordinary shares of the Bank was 370,875, of which 333,218 were holders of A shares and 37,657 were holders of H shares.

(II) Shareholdings of Ordinary Shareholders as at the end of the Reporting Period (According to the Bank's Register of Members Maintained at its Share Registrars)

***Shareholdings of Top 10 Ordinary Shareholders***

| Name of shareholders (Full name) | Increase or decrease during the Reporting Period (share) | Number of shares held as at the end of the Reporting Period (share) | Percentage (%) | Class of shares | Number of shares pledged or frozen[1] | Shareholders Nature of business |
|---|---|---|---|---|---|---|
| The Ministry of Finance of the People's Republic of China | – | 15,148,693,829 | 20.40 | A Share | Nil | The State |
| | – | 4,553,999,999 | 6.13 | H Share | Nil | |
| HKSCC Nominees Limited | 2,109,660 | 14,945,274,723 | 20.12 | H Share | Unknown | Foreign legal person |
| The Hong Kong and Shanghai Banking Corporation Limited | – | 13,886,417,698 | 18.70 | H Share | Nil | Foreign legal person |
| The National Council for Social Security Fund | – | 1,877,513,451 | 2.53 | A Share | Nil | The State |
| | – | 1,405,555,555 | 1.89 | H Share | Nil | |
| China Securities Finance Corporation Limited | 220,984,914 | 1,698,194,809 | 2.29 | A Share | Unknown | State-owned legal person |
| Capital Airport Holding Company | – | 1,246,591,087 | 1.68 | A Share | Unknown | State-owned legal person |
| Shanghai Haiyan Investment Management Co., Ltd. | – | 808,145,417 | 1.09 | A Share | Unknown | State-owned legal person |
| Wutongshu Investment Platform Co., Ltd. | – | 794,557,920 | 1.07 | A Share | Unknown | State-owned legal person |
| Yunnan Hehe (Group) Co., Ltd. | 86,838,391 | 745,305,404 | 1.00 | A Share | Unknown | State-owned legal person |
| China FAW Group Corporation | – | 663,941,711 | 0.89 | A Share | Unknown | State-owned legal person |

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, or the existence of any related relationship among the above shareholders, or whether they are parties acting in concert as defined in the *Measures for the Administration of the Takeover of Listed Companies*.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at 31 December 2016.
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at 31 December 2016. According to the disclosure forms of interests filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at 31 December 2016, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the SFO" for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the information provided by the National Council for Social Security Fund (the "SSF") to the Bank, as at 31 December 2016, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,636,840,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 609,063,000 H shares were indirectly held by certain asset managers. As at 31 December 2016, SSF held a total of 10,919,909,783 A shares and H shares of the Bank, representing 14.70% of the Bank's total ordinary shares issued.

### (III) Controlling Shareholders/Actual Controllers

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

### (IV) Institutional Shareholders Holding 10% or more of the Issued Share Capital of the Bank (Excluding HKSCC Nominees Limited)

| Name of institutional shareholders Name | Person in charge or Legal representative | Date of incorporation | Organization code/ Business registration No./Unified Social Credit Code | Registered capital | Main responsibilities or management activities |
|---|---|---|---|---|---|
| Ministry of Finance | Xiao Jie | October 1949 | 00001318 – 6 | N/A | Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies. |
| HSBC | Stuart Gulliver | 1865 | 00173611-000-01-12-7 | N/A[Note] | Primarily provide local and international banking services, and related financial services in Asia-Pacific region. |
| SSF | Lou Jiwei | August 2000 | 12100000717800822N | RMB8 million | Ministry-level institution directly under the State Council, and an independent legal entity responsible for managing and operating national social security fund. |

Note: As at 31 December 2016, HSBC issued ordinary share capital of HKD114.3587 billion, divided into 45.7435 billion ordinary shares. An issued preference share capital of USD3.453 billion comprised 3.253 billion non-cumulative irredeemable preference shares and 200 million cumulative irredeemable preference shares.

(V) Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the Hong Kong *Securities and Futures Ordinance*

As at 31 December 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 SFO are as follows:

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

| Name of substantial shareholders | Capacity | Number of H shares | Nature of interests[1] | Approximate percentage of total issued H shares (%) | Approximate percentage of total issued shares (%) |
|---|---|---|---|---|---|
| SSF | Beneficial owner | 9,042,396,332[3] | Long position | 25.83 | 12.18 |
| Ministry of Finance | Beneficial owner | 4,553,999,999[2] | Long position | 13.01 | 6.13 |
| HSBC | Beneficial owner | 14,133,636,613 | Long position | 40.37 | 19.03 |
| | Interests of controlled corporations | 2,674,232[4] | Long position | 0.01 | 0.004 |
| | Total: | 14,138,310,845 | | 40.38 | 19.04 |
| HSBC Finance (Netherlands) | Interest of controlled corporations | 14,138,310,845[5] | Long position | 40.38 | 19.04 |
| HSBC Bank plc | Beneficial owner | 9,012,000 | Long position | 0.03 | 0.01 |
| | Interests of controlled corporations | 63,250[6] | Long position | 0.0002 | 0.0001 |
| | Total: | 9,075,250 | | 0.03 | 0.01 |
| HSBC Holdings plc | Interests of controlled corporations | 14,147,386,095[7] | Long position | 40.41 | 19.05 |

# CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at 31 December 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 ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at 31 December 2016, the SSF held 9,042,396,332 H shares and 1,877,513,451 A shares of the Bank, representing 12.18% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. HSBC holds 62.14% of equity interests in Hang Seng Bank Limited. Pursuant to the *SFO*, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
5. HSBC is wholly owned by HSBC Asia Holdings BV, which is wholly owned by HSBC Asia Holdings (UK) Limited. Furthermore, HSBC Asia Holdings (UK) Limited is wholly owned by HSBC Holdings BV, which is in turn wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC.
6. HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, 94.90% of which is owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to own the interests associated with the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 4, 5 and 6, and the SFO, HSBC Holdings plc is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, as at 31 December 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 HKEx pursuant to Divisions 2 and 3 of Part XV of SFO.

# ISSUANCE OF PREFERENCE SHARES

## I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE THREE YEARS ENDED AS AT THE END OF THE REPORTING PERIOD

Under Yin Jian Fu 〔2015〕 No. 419 issued by the CBRC and Zheng Jian Xu Ke 〔2015〕 No. 1646 issued by the CSRC, on 29 July 2015, the Bank completed the overseas non-public issuance of preference shares totaling USD2.45 billion. The overseas preference shares, with par value of RMB100 per share and issuance price of USD20 per share, were all subscribed for in US dollars and listed on HKEx on 30 July 2015. Given 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 raised total proceeds of approximately RMB14.982 billion, or RMB14.924 billion net of commissions and issuance expenses, all of which were used to replenish other Tier-1 capital of the Bank.

Under Yin Jian Fu 〔2015〕 No. 660 issued by the CBRC and Zheng Jian Xu Ke 〔2016〕 No. 1312 issued by the CSRC, on 2 September 2016, the Bank completed the non-public issuance of 450 million domestic preference shares. The domestic preference shares were issued at par value of RMB100 per share. Under Shang Zheng Han〔2016〕No. 1824 issued by SSE, the domestic preference shares have been traded on the Comprehensive Business Platform of SSE since 29 September 2016. The issuance raised total proceeds of RMB45 billion, or RMB44.952 billion net of issue expenses, all of which were used to replenish other Tier-1 capital of the Bank.

| Code of preference share | Abbreviation of preference share | Issuance date | Issue price | Nominal dividend yield (%) | Number of shares issued (share) | Listing date | Number of shares approved for trading (share) | Delisting date |
|---|---|---|---|---|---|---|---|---|
| 4605 | BOCOM 15USDPREF | 29/07/2015 | USD20/share | 5.00 | 122,500,000 | 30/07/2015 | 122,500,000 | – |
| 360021 | BOCOM PREF1 | 02/09/2016 | RMB100/share | 3.90 | 450,000,000 | 29/09/2016 | 450,000,000 | – |

## II. NUMBER AND SHAREHOLDINGS OF PREFERENCE SHAREHOLDERS

### (I) Total Number of Preference Shareholders

As at 31 December 2016, the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 42. As at 28 February 2017, the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 42.

## (II) Overseas Preference Shareholders as at the end of the Reporting Period

As at 31 December 2016, the overseas preference shareholders and their shareholdings are as follows:

| Shareholdings of Top 10 Overseas Preference Shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Number of shares pledged or frozen | | |
| Serial Number | Name of shareholder | Increase or decrease during the Reporting Period (share) | Number of shares held as at the end of the Reporting Period (share) | Percentage (%) | Class of shares held | Status of shares | Number of shares | Nature of shareholder |
| 1 | DB Nominees (Hong Kong) Limited | – | 122,500,000 | 100.00 | Overseas preference share | Unknown | – | Foreign legal person |

Notes:

1. Shareholdings of overseas preference shareholders are summarized according to the Bank's register members of overseas preference shareholders.
2. DB Nominees (Hong Kong) Limited, as a trustee, held 122,500,000 overseas preference shares, accounting for 100% of the Bank's total overseas preference shares, on behalf of all assignees in clearing systems (Euroclear and Clearstream) as at 31 December 2016.
3. "Percentage" refers to the percentage of number of overseas preference shares held by overseas preference shareholders in the total number of overseas preference shares.
4. The Bank is not aware of the existence of any related relationship among the overseas preference shareholders and Top 10 ordinary shareholders, or whether they are parties acting in concert.

(III) Top Ten Domestic Preference Shareholders as at the end of the Reporting Period

As at 31 December 2016, Top ten domestic preference shareholders are as follows:

| Shareholdings of Top 10 Domestic Preference Shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Number of shares pledged or frozen | | |
| Serial Number | Name of shareholders | Increase or decrease during the Reporting Period (share) | Number of shares held as at the end of the Reporting Period (share) | Percentage (%) | Class of shares held | Status of shares | Number of shares | Nature of shareholders |
| 1 | China Mobile Communications Corporation | | 100,000,000 | 22.22 | Domestic preference share | Unknown | – | State-owned legal person |
| 2 | China Credit Trust Co., Ltd. – 2012 CCT·CITIC Zi Zhai Tong single fund trust | – | 21,000,000 | 4.67 | Domestic preference share | Unknown | – | Others |
| 3 | AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch | – | 20,000,000 | 4.44 | Domestic preference share | Unknown | – | Others |
| 4 | CCB Trust Co., Ltd. – "Qian Yuan – Ri Xin Yue Yi" open-ended wealth management single fund trust | – | 20,000,000 | 4.44 | Domestic preference share | Unknown | – | Others |
| 5 | Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd. | – | 20,000,000 | 4.44 | Domestic preference share | Unknown | – | Others |
| 6 | Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan | – | 20,000,000 | 4.44 | Domestic preference share | Unknown | – | Others |
| 7 | Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd. | – | 20,000,000 | 4.44 | Domestic preference share | Unknown | – | Others |
| 8 | China Ping An Life Insurance Co., Ltd. – Self-owned capital | – | 17,000,000 | 3.78 | Domestic preference share | Unknown | – | Others |
| 9 | China National Tobacco Corporation – Henan Branch | – | 15,000,000 | 3.33 | Domestic preference share | Unknown | – | State-owned legal person |
| 10 | China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product | – | 15,000,000 | 3.33 | Domestic preference share | Unknown | – | Others |

Notes:

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

## III. DIVIDENDS DISTRIBUTION OF PREFERENCE SHARES

The Bank will annually distribute dividends for the overseas preference shares in cash, based on the total amount of the overseas preference shares issued and outstanding. Dividends on the Bank's overseas preference shares are non-cumulative. Overseas preference shareholders will not participate in the distribution of residual profits with ordinary shareholders after receiving dividends as agreed. According to the resolution and authorization of shareholders' general meeting, the Bank held the 20th meeting of 7th session of the Board of Director on 28 April 2016. It was the first time that the Bank distributed the dividend on the overseas preference shares. Such dividends were distributed in cash. The total amount of dividend was USD136,111,111. The dividend rate was 5% according to the terms of the overseas preference share issuance. The net settlement after tax was USD122,500,000. Under the relevant tax laws, the withholding tax rate was 10%. The withholding tax was USD13,611,111 that was paid by the Bank. Please refer to the announcement published on the SSE website, the HKEx website and the Bank's official website for the details of the dividend distribution of overseas preference shares. The above dividends were fully paid in cash on 29 July 2016.

During the Reporting Period, the Bank did not make any dividend distribution on domestic preference shares.

## IV. REDEMPTION AND CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

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

## V. RESTORATION AND EXERCISE OF VOTING RIGHTS (IF ANY DURING THE REPORTING PERIOD) REQUIRED TO BE DISCLOSED

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

## VI. ACCOUNTING POLICY FOR PREFERENCE SHARES AND ITS RATIONALE

According to *Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments* and the *Regulations on Distinguishing between Liabilities and Equity Instruments and Relevant Accounting Treatment* issued by the Ministry of Finance as well as terms and conditions of the preference shares of the Bank, the issuance of preferred shares were met the recognition criteria as equity instrument and thereby recorded as equity.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

## I. PROFILE OF DIRECTORS

The Bank's eighteen existing Directors are as below:

| Name | Position | Gender | Age | Beginning and ending dates of term |
|---|---|---|---|---|
| Niu Ximing | Chairman of the Board of Directors/ Executive Director | Male | 60 | December 2009 – date of 2018 annual general meeting |
| Peng Chun | Vice Chairman of the Board of Directors, Executive Director and President | Male | 55 | November 2013 – the same as above |
| Peter Wong Tung Shun | Vice Chairman of the Board of Directors and Non-executive Director | Male | 65 | August 2005 – the same as above |
| Yu Yali | Executive Director and Executive Vice President | Female | 59 | August 2012 – the same as above |
| Hou Weidong | Executive Director and Executive Vice President | Male | 57 | October 2015 – the same as above |
| Hu Huating | Non-executive Director | Male | 59 | September 2004 – the same as above |
| Wang Taiyin | Non-executive Director | Male | 52 | August 2013 – the same as above |
| Liu Changshun | Non-executive Director | Male | 58 | September 2014 – the same as above |
| Helen Wong Pik Kuen | Non-executive Director | Female | 55 | August 2016 – the same as above |
| Liu Hanxing | Non-executive Director | Male | 43 | August 2016 – the same as above |
| Luo Mingde | Non-executive Director | Male | 52 | October 2016 – the same as above |
| Liu Haoyang | Non-executive Director | Male | 43 | August 2016 – the same as above |
| Peter Hugh Nolan | Independent Non-executive Director | Male | 68 | November 2010 – date when qualification of the successor is approved |
| Chen Zhiwu | Independent Non-executive Director | Male | 54 | November 2010 – date when qualification of the successor is approved |
| Yu Yongshun | Independent Non-executive Director | Male | 66 | August 2013 – date of 2018 annual general meeting |
| Li Jian | Independent Non-executive Director | Female | 63 | October 2014 – the same as above |
| Liu Li | Independent Non-executive Director | Male | 61 | September 2014 – the same as above |
| Jason Yeung Chi Wai | Independent Non-executive Director | Male | 62 | October 2016 – the same as above |

Notes:

1. Term of office of re-elected Directors begins from their first appointment date.
2. Term of office of Mr. Niu Ximing, Mr. Peng Chun, Mrs. Yu Yali and Mr. Hou Weidong refers to their term of office as Executive Directors of the Bank.
3. Mr. Peter Wong Tung Shun has been the Vice Chairman of the Board of Directors since September 2016. Term of office of Mr. Peter Wong Tung Shun refers to his term of office as Non-executive Director of the Bank.
4. For the purpose of compliance with relevant requirement on the number of independent directors, the Independent Non-executive Directors of the Bank, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu, will hold their offices until the date when qualifications of their successors are approved by the CBRC respectively.

**Niu Ximing** **Peng Chun** **Peter Wong Tung Shun** **Yu Yali**

- **Mr. Niu Ximing**, age 60, Chairman and Executive Director. Since October 2013, Mr. Niu is Chairman of the Board of Directors and Executive Director. From May 2013 to October 2013, Mr. Niu was Chairman of the Board of Directors, Executive Director and President of the Bank. Mr. Niu was Vice Chairman, Executive Director and President of the Bank from December 2009 to May 2013. Mr. Niu previously held several positions in Industrial and Commercial Bank of China ("ICBC") from July 1986 to December 2009, including Deputy General Manager and General Manager of ICBC's Xining Branch in Qinghai Province, Deputy Director, Director and General Manager of the Public Transportation Credit Department of ICBC, President of ICBC's Beijing Branch, Assistant to the President of ICBC and President of ICBC's Beijing Branch, Executive Vice President of ICBC and Executive Director and Executive Vice President of ICBC. Mr. Niu worked at the PBOC from September 1983 to July 1986 and served as Vice Director of the Industrial and Commercial Credit Department of the PBOC's Qinghai Branch from December 1984 to July 1986. Mr. Niu obtained his Bachelor's degree in Finance from Central University of Finance and Economics in 1983. Mr. Niu obtained his Master's degree in Economics from School of Management Harbin Institute of Technology in 1997 and received special government allowances issued by the State Council starting in 1999.

- **Mr. Peng Chun**, age 55, Vice Chairman, Executive Director and President. Mr. Peng is Vice Chairman and Executive Director since November 2013. He is President of the Bank since October 2013. Mr. Peng previously served as Deputy General Manager of China Investment Corporation, and concurrently served as Executive Director and General Manager of Central Huijin Investment Ltd. from April 2010 to September 2013. Mr. Peng served in several positions in the Bank, including Executive Director and Executive Vice President from August 2005 to April 2010, Executive Vice President from September 2004 to August 2005, Director and Assistant to the President of the Bank from June 2004 to September 2004, Assistant to the President of the Bank from September 2001 to June 2004, Deputy Manager and General Manager of Urumqi Branch, General Manager of Nanning Branch and General Manager of Guangzhou Branch from 1994 to 2001. Mr. Peng obtained his Master's degree in Economics from PBC School of Finance in 1986.

- **Mr. Peter Wong Tung Shun**, age 65, Vice Chairman and Non-executive Director. Mr. Wong is Vice Chairman of the Board of Directors since September 2016 and Non-executive Director since August 2005. Mr. Wong currently holds several positions including Deputy Chairman and Chief Executive of HSBC (the Bank's substantial shareholder), Group Managing Director and a member of the Group Management Board of HSBC Holdings plc, Chairman and Non-executive Director of HSBC Bank (China) Company Limited and Chairman and Non-executive Director of HSBC Bank (Malaysia) Company Limited. Mr. Wong also serves as Non-executive Director for Hang Seng Bank Limited as well as Independent Non-executive Director of Cathay Pacific Airways Limited. Mr. Wong was Chairman of the Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China included economic consultant for the Governor in the International Consultation Conference on the Future Economic Development of Guangdong Province from 2013 to 2015, a member of the 12th Chinese People's Political Consultative Conference ("CPPCC"), and a member of the 11th CPPCC and the CPPCC Standing Committee in Hubei Province, International Economics Consultant for the Mayor of Chongqing, Council Member of the China Banking Association Council, a member of the advisory committees of China (Guangdong) Pilot Free Trade Zone (Qianhai and Shekou area) and the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, and Standing Council Member of the Red Cross Society of China. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Bachelor's and Master's degrees in Computer Science and MBA in Marketing and Finance from Indiana University in the US in 1976 and 1979 respectively.

- **Ms. Yu Yali**, age 59, Executive Director and Executive Vice President. Ms. Yu is an Executive Director since August 2012. Ms. Yu serves as Executive Vice President and Chief Financial Officer of the Bank since August 2007 (no longer served as Chief Financial Officer concurrently since April 2015). Ms. Yu served as Chief Financial Officer of the Bank from August 2004 to August 2007. Ms. Yu was General Manager of the Finance and Accounting Department and Financial Budget Department of the Bank from December 1999 to August 2004. Ms. Yu previously served as Head of Finance and Accounting Division, Deputy General Manager of the Bank's Zhengzhou Branch and Deputy General Manager of Finance and Accounting Department of the Head Office from February 1993 to December 1999. Ms. Yu obtained her MBA degree from Fudan University in 2006.

**Hou Weidong** **Hu Huating** **Wang Taiyin** **Liu Changshun**

- **Mr. Hou Weidong**, age 57, Executive Director and Executive Vice President. Mr. Hou is an Executive Director since October 2015. Mr. Hou serves as Executive Vice President and Chief Information Officer of the Bank since December 2010 (no longer served as Chief Information Officer concurrently since January 2017). He held the position of Chief Information Officer from August 2004 to December 2010 and was General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. He served as Deputy General Manager of Technology Security Department and General Manager of Data Center in ICBC from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

- **Mr. Hu Huating**, age 59, Non-executive Director. Mr.Hu serves as a Non-executive Director since September 2004. Mr. Hu served in several positions within the Ministry of Finance from December 1978 to September 2004, including Secretary of the General Office, Deputy Head of the Wages and Commodity Prices of the Comprehensive Planning Department, Deputy Head of the Central Division of the Supplementary Budget Management Department, Deputy Head of the Special Division of Agricultural Taxation Department, Head of the Second Division of Comprehensive Planning Supplementary Budget Management Department, Head of the Second Investment Division, Head of the Comprehensive Division and Assistant Inspector of the Infrastructure Department, Deputy Director of the Economic Construction Department, and Director of the Bureau for Retired Officials Affairs. Mr. Hu obtained his Master's degree in Investment Economics from Dongbei University of Finance and Economics in 1998.

- **Mr. Wang Taiyin**, age 52, Non-executive Director. Mr. Wang is a Non-executive Director since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013 including Associate Officer and Second Officer of the Technical Expert Division of Human Resource Department and the Grass-root Level Service Department of the Ministry of Finance, First Officer of the Grass-root Level Service Division of Personnel and Education Department, First Officer of the Representative Agency of the Personnel and Education Department (during which served as governor's assistant of the Municipal Government in Chaoyang County, Liaoning Province from October 1995 to October 1996), Deputy Head and Inspector, Secretary of the Personnel Development Department (enjoy benefit package as Division Chief), Head of the Representative Agency of the Personnel Development Department and Associate Inspector of the Personnel Development Department. Mr. Wang graduated from Zhongnan University of Economics and Law with major in Political Science in 1986, and obtained his MBA degree from Arizona State University in the US in 2015.

- **Mr. Liu Changshun**, age 58, Non-executive Director. Mr. Liu is a Non-executive Director since September 2014. He previously served as Officer of General Office, Deputy Head of Comprehensive Division, Commissioner Assistant, Deputy Commissioner and Commissioner in Commissioner Office of the Ministry of Finance from January 1995 to June 2014, Official, Deputy Director and Officer in Central Enterprise Finance Division of Jilin Province Department of Finance of the Ministry of Finance from April 1987 to January 1995, and Associate Officer and Second Officer from October 1977 to April 1987. Mr. Liu obtained his Master's degree in Management from Business Management School of Jilin University in 2002.

**Helen Wong Pik Kuen** **Liu Hanxing** **Luo Mingde** **Liu Haoyang**

- **Ms. Helen Wong Pik Kuen**, age 55, Non-executive Director. Ms. Wong is a Non-executive Director since August 2016. Ms. Wong currently holds positions as Chief Executive of Greater China Region of HSBC (the Bank's substantial shareholder), Supervisor of HSBC Jintrust Fund Management Co., Ltd. and Director of HSBC Canada. Ms. Wong served as Deputy Chief Executive, President and Chief Executive of the HSBC Bank (China) Company Limited from August 2009 to February 2015. She served as Manager of Syndicated Loans Division, Senior Manager of Capital Market Division, Dean of Debt Issuance Division of Greater China Region and Standing Director of Global Banking Division of Hong Kong from July 1992 to July 2009. She also served as Senior Manager of the Oesterreichische Nationalbank – Hong Kong Branch from February 1990 to June 1992, Manager of Credit and Market Development Division of the Development Bank of Singapore (Asia) Company Limited from May 1987 to January 1990, Manager of the China Department of the Hong Kong Branch of Bank of Tokyo from October 1986 to May 1987, and Manager of Hong Kong Branch of Oversea-Chinese Banking Corporation Limited from May 1984 to October 1986. Ms. Wong obtained her Bachelor's degree in Social Sciences from the University of Hong Kong in 1983.

- **Mr. Liu Hanxing**, age 43, Non-executive Director. Mr. Liu is a Non-executive Director since August 2016. Mr. Liu is Director of Asset Allocation & Research Department of the National Council for Social Security Fund since March 2016. He served as Deputy Director and Director of the General Office of the National Council for Social Security Fund from April 2008 to March 2016. He served as Deputy Director and Division Chief of the General Office of Bank of Communications, Head of Market Development Department, Senior Manager of Corporate Business Department, Senior Manager of Operation Department of Beijing Branch of the Bank and Assistant to the President and Vice President of Beijing Branch of the Bank from July 2004 to April 2008. He served as Deputy Director of Non-Banking Department of the CBRC and Deputy Director of Information Center of the CBRC from September 2003 to July 2004. He served as First Officer, Officer and Deputy Chief of Division of the General Office of the PBOC from August 1997 to September 2003. Mr. Liu obtained his Doctor's degree in Management from the Graduate School of Chinese Academy of Sciences in 2012.

- **Mr. Luo Mingde**, age 52, Non-executive Director and Senior Accountant. Mr. Luo is a Non-executive Director since October 2016. Mr. Luo serves as Deputy Head, Head, Associate Inspector and Deputy Director of Accounting Department of Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration since February 2000 (he temporarily served as Member of Luzhou (Sichuan Province) Municipal Committee and its Standing Committee from January 2014 to December 2015). He served as Official of Finance and Commodity Prices Department, Associate, Associate Chief Officer and Chief Officer of Finance and Accounting Department of China National Tobacco Corporation from July 1986 to February 2000. Mr. Luo obtained his Bachelor's degree in Economics from the Finance Department of Shaanxi College of Finance and Economics in July 1986.

- **Mr. Liu Haoyang**, age 43, Non-executive Director. Mr. Liu is a Non-executive Director since August 2016. Mr. Liu serves as Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Finance Co., Ltd. from October 2012 to November 2015, Financial Director of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Center from July 2001 to March 2005, and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.

**Peter Hugh Nolan** **Chen Zhiwu** **Yu Yongshun** **Li Jian**

- **Mr. Peter Hugh Nolan**, age 68, Independent Non-executive Director and recipient of the Commander of the Most Excellent Order of the British Empire. Mr. Nolan is an Independent Non-executive Director since November 2010. Since 2012, Mr. Nolan is Director and Professor of Center of Chinese Development and Studies, at Cambridge University. Mr. Nolan was a professor in Judge Business School at Cambridge University from 1997 to 2012 and was a lecturer in the Faculty of Economics and Political Science at Cambridge University from 1979 to 1997. Mr. Nolan obtained his Doctoral degree in Economics from University of London in 1981.

- **Mr. Chen Zhiwu**, age 54, Independent Non-executive Director. Mr. Chen is an Independent Non-executive Director since November 2010. Mr. Chen is a professor of Finance at School of Management of Yale University since July 1999. Mr. Chen is currently Director of Asia Global Institute at the University of Hong Kong, Professor (Economics) of Victor Fung Kwok-king & William Fung Kwok-lun Fund, Professor of Finance of Yale University (with his office retained) and Distinguished Professor of School of Economics of Peking University. He is also the International Advisor of the CSRC, member of China Minsheng Investment Corporation Global Advisory Committee, Independent Non-executive Director of PetroChina Company Limited and of Noah Holdings Limited. Mr. Chen was an Assistant Professor and Associate Professor of Business and Finance at Ohio State University in the US from July 1995 to July 1999. Mr. Chen obtained his Doctoral degree in Finance and Economics from Yale University in 1990.

- **Mr. Yu Yongshun**, age 66, Independent Non-executive Director. Mr. Yu serves as Independent Non-executive Director since August 2013 and currently holds positions as Chairman of the Board of Supervisors of Huaxin Trust and Independent Director of Cinda Securities Co., Ltd. and Shengjing Bank Co., Ltd. Mr. Yu served as General Manager of Internal Audit Department and Chief Audit Executive of CCB from April 1999 to December 2010. Mr. Yu held various positions of Deputy General Manager of Financial Planning Department, General Manager of Real Estate Credit Department, General Manager of Xinjiang Uygur Autonomous Region Branch and General Manager of the Second Division of Business Department of CCB from October 1990 to April 1999. Mr. Yu graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics) and majored in Infrastructure Financing in 1977 and graduated from Monetary Banking from the Department of Finance and Trade Economics of Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Yu receives special government allowances issued by the State Council.

- **Ms. Li Jian**, age 63, Independent Non-executive Director. Ms. Li is an Independent Non-executive Director since October 2014, currently serving as Doctoral Supervisor of Finance School and Supervisor of Post-doctoral Research Station in Central University of Finance and Economics. Ms. Li teaches in Central University of Finance and Economics since 1983 and is temporarily transferred to the Development Research Center of the State Council for consulting and research projects from 1986 to 1987. At present, Ms. Li also holds positions such as Deputy Head of Finance Teaching Steering Committee of the Ministry of Education, Member of China Society for Finance and Banking, Member of China International Finance Society, and Independent Non-executive Director of Bank of Beijing Co., Ltd., Minmetals Securities Co., Ltd., China Life Asset Management Company Limited. Ms. Li obtained her Doctoral degree in Economics from Xi'an Jiaotong University in 1997.

**Liu Li**

**Jason Yeung Chi Wai**

- **Mr. Liu Li**, age 61, Independent Non-executive Director. Mr. Liu is an Independent Non-executive Director since September 2014, currently holding positions such as Professor in Guanghua School of Management of Peking University and Deputy Head and Doctoral Supervisor in Finance and Securities Research Center of Peking University. Mr. Liu teaches in Guanghua School of Management (formerly known as Business Management Department of Economic School) of Peking University since January 1986. He taught in Beijing University of Iron and Steel Technology from September 1984 to December 1985. At present, Mr. Liu also holds positions such as Independent Director of China Machinery Engineering Corporation, China International Capital Corporation Limited and Shenzhen Success Electronics Ltd. Mr. Liu obtained his Master's degree in Physics from Peking University in 1984 and MBA from Catholic University of Louvain in Belgium in 1989.

- **Mr. Jason Yeung Chi Wai**, age 62, Independent Non-executive Director. Mr. Yeung is an Independent Non-executive Director since October 2016. Mr. Yeung serves as Supervisor and President of Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also held positions such as Independent Director of AviChina Industry & Technology Company Limited and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Bank of China (Hong Kong) Limited and of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, from a British law school in 1985 and the Faculty of Law of University of Western Ontario in 1991, and obtained his MBA degree from University of Western Ontario in 2001.

## II. MEMBERS OF THE BOARD OF SUPERVISORS

The Bank's eleven existing Supervisors as belows:

| Name | Position | Gender | Age | Beginning and ending dates of term |
|---|---|---|---|---|
| Song Shuguang | Chairman of the Board of Supervisors | Male | 56 | June 2014 – date of 2018 Annual General Meeting |
| Gu Huizhong | Shareholder Representative Supervisor | Male | 60 | August 2010 – the same as above |
| Zhao Yuguo | Shareholder Representative Supervisor | Male | 54 | June 2016 – the same as above |
| Liu Mingxing | Shareholder Representative Supervisor | Male | 56 | June 2016 – the same as above |
| Zhang Lili | Shareholder Representative Supervisor | Female | 44 | June 2016 – the same as above |
| Tang Xinyu | External Supervisor | Female | 63 | June 2014 – the same as above |
| Xia Zhihua | External Supervisor | Female | 62 | June 2016 – the same as above |
| Chen Qing | Employee Representative Supervisor | Female | 56 | November 2004 – the same as above |
| Du Yarong | Employee Representative Supervisor | Male | 53 | August 2010 – the same as above |
| Fan Jun | Employee Representative Supervisor | Male | 58 | June 2013 – the same as above |
| Xu Ming | Employee Representative Supervisor | Male | 56 | June 2016 – the same as above |

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

Song Shuguang | Gu Huizhong | Zhao Yuguo | Liu Mingxing

- **Mr. Song Shuguang**, age 56, Chairman of Board of Supervisors. Mr. Song is the Chairman of Board of Supervisors of the Bank since June 2014. Mr. Song served in China Taiping Insurance Group (formerly known as China Insurance Group) for the period from 2000 to 2014, during which, he served as Vice Chairman and General Manager of China Taiping Insurance Group Ltd. (China Taiping Insurance (HK) Company Limited) from August 2008 to March 2014, as Vice Chairman of China Taiping Insurance Holdings Company Limited (CTIH, listed in Hong Kong) from November 2008, and as Vice Chairman and President of CTIH from April 2013 to March 2014, as Chairman of Taiping Life Insurance Co., Ltd. from November 2004 to November 2008 and from March 2010 to November 2011. Mr. Song served in State Planning Commission of the People's Republic of China from August 1985 to September 1993; in People's Insurance Company of China from October 1993 to October 1998, and as Chief Head of Finance and Accounting Department of China Insurance Regulatory Commission from November 1998 to April 2000. Mr. Song obtained his Master's degree in Economics in 1985 from Jilin University.

- **Mr. Gu Huizhong**, age 60, Shareholder Representative Supervisor. Mr. Gu is a Supervisor of the Bank since August 2010. Mr. Gu held the position of Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China since August 2008 to January 2017. Mr. Gu was Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant starting in February 2005. He also served as Deputy Director of Finance Department of Technology and Industry Committee for National Defence from July 1998 to December 1998. Mr. Gu obtained his Master's degree in International Finance from the Peking University of Aeronautics and Astronautics in 2000 and his EMBA from Cheung Kong Graduate School of Business in 2008.

- **Mr. Zhao Yuguo**, age 54, Shareholder Representative Supervisor. Mr. Zhao is a Supervisor of the Bank since June 2016. Mr. Zhao serves as General Counsel and of Legal Head Affairs Department of China First Automotive Works Group Corporation ("FAW Group") since April 2015. Mr. Zhao was General Counsel and Head of Legal Affairs Office of FAW Group from December 2007 to April 2015; and Deputy Head of Legal Affairs Office of FAW Group (in charge of overall management) from September 2002 to December 2007. He served as of Planning Department of FAW – Head Daewoo Automotive Engine Company Limited from November 1996 to September 2002, and Head of the Legal Group of Finance and Accounting Department of FAW Group from October 1994 to November 1996. He also served as Deputy Head of Legal Section of Economic Planning Department of FAW Group from October 1992 to October 1994, and a member of Legal Section of Economic Planning Department of FAW Group from August 1987 to October 1992. Mr. Zhao obtained his Bachelor's degree in Law from China University of Political Science and Law in 1987.

- **Mr. Liu Mingxing**, age 56, Shareholder Representative Supervisor. Mr. Liu is a Supervisor of the Bank since June 2016. Mr. Liu is General Manager Assistant, Head of Legal and Contract Department and Head of Key Project Office of Luneng Group Co., Ltd. since April 2016. He was General Manager Assistant and Head of Key Project Office of Luneng Group Co., Ltd. from January 2016 to April 2016, Deputy Chief Accountant and Head of Finance and Asset Management Department of Luneng Group Co., Ltd. from November 2014 to January 2016, and Head of Finance and Asset Management Department of Luneng Group Co., Ltd. from November 2012 to November 2014. Mr. Liu served as Head of Audit Department of Luneng Group Co., Ltd. from June 2009 to November 2012, and Deputy General Manager (in charge of overall management) and General Manager of Audit Department of Luneng Group Co., Ltd. from May 2008 to June 2009. He also served as Deputy General Manager of Shandong Luneng Heze Coal Power Development Co., Ltd. from October 2007 to May 2008, and Deputy General Manager and Chief Accountant of Shandong Luneng Heze Coal Power Development Co., Ltd. from January 2004 to October 2007. Furthermore, he was Accountant of Finance Department, Deputy Chief of Finance Section, Head of Finance Department, Deputy Chief Accountant and Head of Finance Department of Weifang Electric Power Bureau from July 1986 to January 2004. Mr. Liu obtained his Bachelor's degree in Economic Management from Party School of Central Committee of CPC.

Zhang Lili | Tang Xinyu | Xia Zhihua | Chen Qing

- **Ms. Zhang Lili**, age 44, Shareholder Representative Supervisor. Ms. Zhang is a Supervisor of the Bank since June 2016. Ms. Zhang is Chief Accountant of Huaneng Capital Service Co., Ltd. since May 2014. She was Chief Accountant and Manager of Planning and Finance Department of Huaneng Capital Service Co., Ltd. from October 2011 to May 2014, and successively served as Managerial Staff, Deputy Manager and Manager of Planning and Finance Department of Huaneng Capital Service Co., Ltd. from February 2004 to October 2011. She also served as Managerial Staff and Deputy Manager of Planning Department of China Huaneng Finance Corporation Ltd. from December 2000 to February 2004. Ms. Zhang obtained her EMBA degree from Shanghai Jiao Tong University and became a Senior Accountant in 2007.

- **Ms. Tang Xinyu**, age 63, External Supervisor. Ms. Tang is External Supervisor of the Bank since June 2014. Ms. Tang served as President of Enterprise Annuity Council of Bank of China from January 2011 to July 2013; as Chairman of Bank of China International Securities Limited from February 2007 to January 2011; as General Manager of Head office Human Resource Department of Bank of China from October 2004 to September 2006; as Deputy Party Secretary and Commissioner of Discipline Inspection and Deputy General Manager of Bank of China Beijing Branch from February 2003 to October 2004; as Deputy General Manager of General Internal Audit Office and General Manager of Internal Audit Department of Bank of China from January 1998 to February 2003, as Senior Manager and Assistant General Manager successively of Economic Research Department of Hong Kong and Macao Management Office of Bank of China, National Commercial Bank, Hong Kong Branch and Bank of China, Hong Kong Branch from May 1988 to January 1998, and as Vice Researcher and Deputy Head (1986) of Information Division Head of International Financial Research Institute of Bank of China from 1981 to May 1988. Ms. Tang graduated from Western Language Department of Peking University, majored in English in 1977 and obtained her MBA degree from the Chinese University of Hong Kong in 1996.

- **Ms. Xia Zhihua**, age 62, External Supervisor. Ms. Xia is an External Supervisor of the Bank since June 2016. Ms. Xia served as the Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor (Deputy Director General Level), Head of the General Office of the Board of Supervisors and Supervisor (Bureau Level) of China Great Wall Asset Management Corporation, China Economic Development Trust and Investment Company, China Life Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Assistant Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Chief Director of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She was also successively served as Principal Staff Member, Deputy Division Head and Division Head of Financial Department of Cultural and Educational Administrative Affairs and National Debt Management Department of the Ministry of Finance from December 1984 to June 1997. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984. At present, Ms. Xia serves as International Internal Auditor and Senior Economist, enjoying the special government allowance awarded by the State Council.

- **Ms. Chen Qing**, age 56, Employee Representative Supervisor. Ms. Chen is an Employee Representative Supervisor of the Bank since November 2004. Ms. Chen is Head of Audit Supervisory Bureau of the Bank since July 2016, Head of the Women Commission of the Labor Union of the Bank since June 2015 and Committee Member of the Discipline Inspection Commission of the Bank since November 2013. Ms. Chen served as Head of the General Office for the Board of Supervisors from March 2005 to July 2016. From November 2004, Ms. Chen was appointed as Supervisor (Deputy Director General-Level) of the Bank. Ms. Chen was Supervisor (Division Chief Level) for the key state-owned financial institution – Agricultural Bank of China, from August 2003 to October 2004; serving Deputy Division Head. Division Head and Supervisor at Division Chief Level of Bank of China from July 2000 to August 2003. Ms. Chen served as Deputy Division Head of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen is a senior auditor and obtained her Bachelor's degree in Economics from Renmin University of China in 1984 and an MBA degree from Shanghai University of Finance and Economics in 2009.

Du Yarong | Fan Jun | Xu Ming

- **Mr. Du Yarong**, age 53, Employee Representative Supervisor. Mr. Du is an Employee Representative Supervisor of the Bank since August 2010 and serves as Deputy Commissioner of Discipline Inspection, Head (General Manager) of Bureau of Supervision (Anti-fraud Department of) of the Bank since January 2015. He served as Head of the Office of Discipline Investigation and Supervision of the Bank from November 2009 to January 2015. He was Vice President in the Bank's Zhejiang Branch from January 2009 to November 2009 and served as Deputy General Manager in the Bank's Hangzhou Branch from October 2004 to January 2009. Mr. Du was Head of the General Office in the Bank's Hangzhou Branch from April 2004 to October 2004 and was General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004. He was Deputy Head of the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004. Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office in the Bank's Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.

- **Mr. Fan Jun**, age 58, Employee Representative Supervisor. Mr. Fan is an Employee Representative Supervisor of the Bank since June 2013 and Head of the General Office for the Board of Supervisors since July 2016. He previously served as General Manager of Audit Supervisory Bureau (formerly known as General Manager of the Internal Audit Control Division and the General Manager of Audit Department) of the Bank from September 2004 to July 2016. Mr. Fan held several positions in the Bank, including General Manager of Guangzhou Branch from September 2001 to September 2004; General Manager of Urumqi Branch from January 1998 to September 2001; Deputy General Manager of Urumqi Branch from December 1996 to January 1998 and Deputy Director and Director of International Banking Department in Urumqi Branch from June 1994 to December 1996. Mr. Fan served as Researcher (Deputy Director Level) and Deputy Director of Comprehensive Analysis Department of National Party Policy in Xinjiang Uyghur Autonomous Region from April 1992 to June 1994. Mr. Fan, Senior Economist, obtained his Master's degree in Economics and Politics from the Department of Economics of Sichuan University.

- **Mr. Xu Ming**, age 56, Employee Representative Supervisor. Mr. Xu is an Employee Representative Supervisor of the Bank since June 2016. Mr. Xu is General Manager of Employee Department of the Bank since February 2016 and as Executive Vice Chairman of the Bank's Labor Union (since April 2016). He served as Chairman of the Board of Supervisors of BoCommLife Insurance Company Limited from March 2013 to February 2016, as General Manager in Huadong credit extension center of the Bank from July 2010 to March 2013, as Responsible Person of Jilin (Changchun) Branch from September 2005 to July 2010, as the person in charge of Shaoxing Branch from November 2004 to September 2005 and as Deputy Manager and Manager of Jiaxing Branch from October 1994 to November 2004. Mr. Xu graduated from Zhejiang Provincial Party School of the CPC with Master's degree in Economics in July 2002 and obtained his MBA degree from Fudan University in June 2008.

## III. PROFILE OF SENIOR MANAGEMENT

The Bank's ten existing members of the Senior Management as below:

| Name | Position | Gender | Age | Beginning and ending dates of term |
|---|---|---|---|---|
| Peng Chun | President | Male | 55 | October 2013 – October 2019 |
| Yu Yali | Executive Vice President | Female | 59 | August 2007 – June 2019 |
| Shou Meisheng | Commissioner of Discipline Inspection | Male | 60 | Since June 2007 |
| Hou Weidong | Executive Vice President | Male | 57 | December 2010 – October 2019 |
| Shen Rujun | Executive Vice President | Male | 53 | August 2015 – August 2018 |
| Wang Jiang | Executive Vice President | Male | 53 | August 2015 – August 2018 |
| Du Jianglong | Secretary of the Board of Directors | Male | 46 | September 2009 – August 2018 |
| Wu Wei | Chief Financial Officer | Male | 47 | April 2015 – April 2018 |
| Guo Mang | Director of Corporate Banking | Male | 54 | February 2017 – February 2020 |
| Ng Siu On | HSBC-BoCom Strategic Cooperation Consultant | Male | 63 | March 2013 – March 2019 |

Notes:

1. Term of office of re-elected Senior Management began from their first appointment date.
2. Term of office of Mr. Peng Chun referred to his term of office as President of the Bank. Term of office of Ms. Yu Yali and Mr. Hou Weidong referred to their terms of office as Executive Vice President of the Bank.
3. Mr. Hou Weidong no longer held concurrent post of the Bank's Chief Information Officer since January 2017.

Peng Chun    Yu Yali    Shou Meisheng    Hou Weidong

- **Mr. Peng Chun** (Please refer to details in "Profile of Directors")
- **Ms. Yu Yali** (Please refer to details in "Profile of Directors")
- **Mr. Shou Meisheng**, age 60, Commissioner of Discipline Inspection. Mr. Shou is Commissioner of Discipline Inspection of the Bank since June 2007. He was concurrently Executive Vice President of the Bank from September 2012 to July 2016. He was General Manager of Human Resources Department of the Bank from May 2005 to June 2007, General Manager of International Banking Department of the Bank from June 1998 to May 2005 and served as General Manager of the Bank's Dalian Branch from January 2002 to March 2004. Mr. Shou obtained his Doctoral degree in Economics from Dongbei University of Finance and Economics in 2006.
- **Mr. Hou Weidong** (Please refer to details in "Profile of Directors")

Shen Rujun Wang Jiang Du Jianglong Wu Wei

- **Mr. Shen Rujun**, age 53, Executive Vice President. Mr. Shen is Executive Vice Present of the Bank since August 2015. He was President of Shandong Branch of Industrial and Commercial Bank of China from November 2013 to March 2015; General Manager of Finance Accounting Department in Industrial and Commercial Bank of China from July 2008 to November 2013; Vice President of ICBC Beijing Branch from November 2003 to July 2008; Deputy General Manager of Planning and Finance Department from December 1998 to November 2003, and Principal staff, Vice Chief, Chief and Deputy Head of Accounting Department as well as Deputy Head (in charge of overall management) and Head of Planning Department successively of Jiangsu Branch from January 1985 to December 1998. Mr. Shen obtained his Doctoral degree in Management from Technology and Economics School of Hohai University in 2001.

- **Mr. Wang Jiang**, age 53, Executive Vice President and Researcher. Mr. Wang is Executive Vice Present of the Bank since August 2015. He was President of Shanghai Branch of China Construction Bank from February 2011 to March 2015, President of CCB Hubei Branch from July 2007 to February 2011, and Deputy Head of Credit Risk Management Division in CCB Shandong Branch, General Manager of Dezhou Branch and Vice President of Shandong Branch successively from June 1999 to July 2007. Mr. Wang studied in Finance Department of Xiamen University for Doctoral degree in Finance from September 1996 to June 1999, and he was a senior visiting scholar at School of Economics of Xiamen University from August 1995 to September 1996, and a teaching assistant, Deputy Director, Director and lecturer of teaching and research office of Finance, as well as Deputy Director and associate professor of Finance Department at Shandong Economic University successively from July 1984 to August 1995. Mr. Wang obtained his Doctoral degree in Economics from Finance Department of Xiamen University in 1999.

- **Mr. Du Jianglong**, age 46, the Secretary of the Board of Directors. Mr. Du is Secretary of the Board of Directors since September 2009, Director of the Board Office from March 2010 to July 2016 and Vice President of the Bank's Shanghai Branch from August 2015 to March 2016. He worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance from 1997 to 2009. While working in these departments, he held various positions as Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. During the period, he also took the positions of Supervisor of the Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained his Master's degree in Economics from the Research Institute for Fiscal Science of Ministry of Finance in 1997 and his Master's degree in Economics from University of Manchester in 2003.

- **Mr. Wu Wei**, age 47, the Chief Financial Officer and the General Manager of Asset and Liability Management Department. Mr. Wu was the Chief Financial Officer since April 2015, and he served in the Bank as General Manager of Investment Banking Department and President of Investment Banking Business Center successively from July 2013 to April 2015 (concurrently as General Manager of Asset and Liability Management Department from December 2014). Mr. Wu served as General Manager of Financial Budget Department from October 2011 to July 2013, President of Liaoning Branch from January 2010 to October 2011, and Supervisor, Deputy Head and Deputy General Manager of Finance Division of Finance Accounting Department as well as Deputy General Manager and General Manager of Financial Budget Department successively from July 1998 to January 2010. He also worked at the Internal Audit Division of PBOC Wuhan Branch from July 1994 to October 1995. Mr. Wu obtained his Doctoral degree in Economics from Graduate Faculty of Research Institute for Fiscal Science of Ministry of Finance in 1998.

Guo Mang

Ng Siu On

- **Guo Mang**, age 54, Director of Corporate Banking. Mr. Guo is Director of Corporate Banking of the Bank since February 2017, and served as President of the Bank's Beijing Branch and President of Beijing Administrative Department (Group Customer Department) (the application for appointment formalities was still in progress) since December 2016. He was President of Shenzhen Branch from January 2010 to December 2016, President of Chongqing Branch from January 2009 to January 2010, Vice President and President of Chongqing Branch from September 2004 to January 2009. Moreover, he served as credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Vice President of Shatoujiao Sub-branch, President and Vice President of Hongli Sub-branch, General Manager of the Marketing Department and Vice President of Shenzhen Branch from May 1991 to September 2004. Mr. Guo also worked as Section Member of PBOC Savings Interest Rate Department from June 1989 to May 1991, worked in PBOC Baoan Sub-branch, PBOC Shenzhen Branch and Shenzhen Sub-bureau of the State Administration of Foreign Exchange from April 1988 to June 1989, and as Section Member of the System Reform Office of PBOC Comprehensive Planning Department from July 1987 to April 1988. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

- **Mr. Ng Siu On**, age 63, HSBC-BoCom Strategic Cooperation Consultant. Mr. Ng is HSBC-BoCom Strategic Cooperation Consultant since March 2013. Before joining BoCom, he held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Assistant Vice President and Branch Manager in the Toronto Branch Network of HSBC Bank Canada, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently holds the positions as member of the executive committee of the Boys' and Girls' Clubs Association of Hong Kong and Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA degree from the Chinese University of Hong Kong in 1984.

## IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

| Name | Position | Change | Beginning and ending dates of term |
|---|---|---|---|
| **Newly elected/appointed** | | | |
| Peter Wong Tung Shun | Vice Chairman of the Board of Directors | Elected | September 2016 – date of 2018 Annual General Meeting |
| Helen Wong Pik Kuen | Non-executive Director | Elected | August 2016 – the same as above |
| Liu Hanxing | Non-executive Director | Elected | August 2016 – the same as above |
| Luo Mingde | Non-executive Director | Elected | October 2016 – the same as above |
| Liu Haoyang | Non-executive Director | Elected | August 2016 – the same as above |
| Jason Yeung Chi Wai | Independent Non-executive Director | Elected | October 2016 – the same as above |
| Zhao Yuguo | Shareholder Representative Supervisor | Elected | June 2016 – the same as above |
| Liu Mingxing | Shareholder Representative Supervisor | Elected | June 2016 – the same as above |
| Zhang Lili | Shareholder Representative Supervisor | Elected | June 2016 – the same as above |
| Xia Zhihua | External Supervisor | Elected | June 2016 – the same as above |
| Guo Mang | Director of Corporate Banking | Appointed | February 2017 – February 2020 |
| **Resigned/Retired** | | | |
| Ma Qiang | Non-executive Director | Retired (due to election of new session of the Board of Directors) | September 2011 – June 2016 |
| Zhang Yuxia | Non-executive Director | Retired (due to election of new session of the Board of Directors) | August 2013 – June 2016 |
| Choi Yiu Kwan | Independent Non-executive Director | Retired (due to election of new session of the Board of Directors) | September 2011 – October 2016 |
| Lu Jiahui | External Supervisor | Retired (due to election of new session of the Board of Supervisors) | June 2013 – June 2016 |
| Teng Tieqi | Shareholder Representative Supervisor | Retired (due to election of new session of the Board of Supervisors) | June 2013 – June 2016 |
| Dong Wenhua | Shareholder Representative Supervisor | Retired (due to election of new session of the Board of Supervisors) | June 2013 – June 2016 |
| Li Jin | Shareholder Representative Supervisor | Retired (due to election of new session of the Board of Supervisors) | August 2007 – June 2016 |
| Gao Zhongyuan | Shareholder Representative Supervisor | Retired (due to election of new session of the Board of Supervisors) | June 2013 – June 2016 |
| Yan Hong | Shareholder Representative Supervisor | Resigned (due to work arrangement) | August 2008 – March 2017 |
| Shuai Shi | Employee Representative Supervisor | Retired (due to election of new session of the Board of Supervisors) | August 2008 – June 2016 |
| Yang Dongping | Chief Risk Officer | Resigned (due to personal arrangement) | August 2007 – February 2017 |
| Lv Benxian | Director of Corporate Banking | Resigned (due to personal arrangement) | September 2012 – October 2016 |

## V. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

During the Reporting Period, changes in information of Directors and Supervisors are as below: Mr. Peter, Wong Tung Shun, Vice Chairman of the Board of Directors and Non-executive Director, was appointed as a member of Advisory Committee of China (Guangdong) Pilot Free Trade Zone Qianhai & Shenkou Area of Shenzhen, and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen; Mr. Chen Zhiwu, Non-executive Director, was appointed as the Director of Asia Global Institute at the University of Hong Kong, Professor (Economics) of Victor Fung Kwok-king & William Fung Kwok-lun Fund, and Distinguished Professor of School of Economics of Peking University. Mr. Liu Li, Non-executive Director, was appointed as Independent Director of China International Capital Corporation Limited ("CICC") and Shenzhen Success Electronic Co., Ltd., ceased to be the Independent Director of Langfang Development Co., Ltd. and China Oil HBP Science & Technology Co., Ltd. Ms. Chen Qing, Employee Representative Supervisor, was appointed as the Director General of Audit Supervisory Bureau of the Bank and ceased to be the Head of the General Office for the Board of Supervisors; Mr. Fan Jun, Employee Representative Supervisor, was appointed as the Head of the General Office for the Board of Supervisors and ceased to be the Director General of Audit Supervisory Bureau of the Bank.

## VI. EMOLUMENTS AND SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (I) Details of Emoluments and Shareholdings

| | | Total taxable emoluments received during the Reporting Period (in RMB0'000) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Position | Emoluments | Other benefits | Total | Emoluments received from related parties or not | 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) |
| Niu Ximing | Chairman of the Board of Directors and Executive Director | 48.44 | 16.18 | 64.62 | – | A Share | 210,000 | 0 | 210,000 |
| | | | | | | H Share | 310,000 | (130,000) | 180,000 |
| Peng Chun | Vice Chairman of the Board of Directors, Executive Director and President | 48.44 | 16.18 | 64.62 | – | A Share | 150,000 | 0 | 150,000 |
| | | | | | | H Share | 50,000 | 0 | 50,000 |
| Peter Wong Tung Shun | Vice Chairman of the Board of Directors and Non-executive Director | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Yu Yali | Executive Director and Executive Vice President | 43.60 | 15.75 | 59.34 | – | A Share | 80,000 | 0 | 80,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Hou Weidong | Executive Director and Executive Vice President | 43.60 | 15.75 | 59.34 | – | A Share | 80,000 | 0 | 80,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Hu Huating | Non-executive Director | 67.20 | 20.43 | 87.63 | – | A Share | 80,000 | 0 | 80,000 |
| | | | | | | H Share | 30,000 | 0 | 30,000 |
| Wang Taiyin | Non-executive Director | 67.20 | 20.43 | 87.63 | – | A Share | 80,000 | 0 | 80,000 |
| | | | | | | H Share | 30,000 | 0 | 30,000 |
| Liu Changshun | Non-executive Director | 67.20 | 20.43 | 87.63 | – | A Share | 50,000 | 0 | 50,000 |
| | | | | | | H Share | 30,000 | 0 | 30,000 |
| Helen Wong Pik Kuen | Non-executive Director | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Liu Hanxing | Non-executive Director | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Luo Mingde | Non-executive Director | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Liu Haoyang | Non-executive Director | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |

| Name | Position | Total taxable emoluments received during the Reporting Period (in RMB0'000) | | | Emoluments received from related parties or not | 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) |
|---|---|---|---|---|---|---|---|---|---|
| | | Emoluments | Other benefits | Total | | | | | |
| Peter Hugh Nolan | Independent Non-executive Director | 25.00 | 0 | 25.00 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Chen Zhiwu | Independent Non-executive Director | 25.00 | 0 | 25.00 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Yu Yongshun | Independent Non-executive Director | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Li Jian | Independent Non-executive Director | 25.00 | 0 | 25.00 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Liu Li | Independent Non-executive Director | 25.00 | 0 | 25.00 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Jason Yeung Chi Wai | Independent Non-executive Director | 4.91 | 0 | 4.91 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Song Shuguang | Chairman of the Board of Supervisors | 48.44 | 17.35 | 65.79 | – | A Share | 130,000 | 0 | 130,000 |
| | | | | | | H Share | 50,000 | 0 | 50,000 |
| Gu Huizhong | Shareholder Representative Supervisor | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Zhao Yuguo | Shareholder Representative Supervisor | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Liu Mingxing | Shareholder Representative Supervisor | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Zhang Lili | Shareholder Representative Supervisor | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Tang Xinyu | External Supervisor | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Xia Zhihua | External Supervisor | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Chen Qing | Employee Representative Supervisor | 76.48 | 18.08 | 94.56 | – | A Share | 40,000 | 0 | 40,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Du Yarong | Employee Representative Supervisor | 76.85 | 18.08 | 94.93 | – | A Share | 60,000 | 0 | 60,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Fan Jun | Employee Representative Supervisor | 75.66 | 18.08 | 93.74 | – | A Share | 40,000 | 0 | 40,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Xu Ming | Employee Representative Supervisor | 75.73 | 18.08 | 93.81 | – | A Share | 0 | 40,000 | 40,000 |
| | | | | | | H Share | 180,000 | (180,000) | 0 |
| Shou Meisheng | Commissioner of Discipline Inspection | 43.60 | 15.75 | 59.34 | – | A Share | 79,100 | 0 | 79,100 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Shen Rujun | Executive Vice President | 43.60 | 16.92 | 60.52 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Wang Jiang | Executive Vice President | 43.60 | 15.75 | 59.34 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 30,000 | 0 | 30,000 |
| Du Jianglong | Secretary of the Board of Directors | 67.20 | 20.43 | 87.63 | – | A Share | 80,000 | 0 | 80,000 |
| | | | | | | H Share | 20,000 | (20,000) | 0 |
| Wu Wei | Chief Financial Officer | 67.20 | 20.25 | 87.45 | – | A Share | 46,000 | 0 | 46,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Guo Mang | Director of Corporate Banking | – | – | – | – | A Share | 50,000 | 0 | 50,000 |
| | | | | | | H Share | 20,000 | (20,000) | 0 |
| Ng Siu On | HSBC-BoCom Strategic Cooperation Consultant | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 30,000 | 0 | 30,000 |

| Name | Position | Total taxable emoluments received during the Reporting Period (in RMB0'000) Emoluments | Other benefits | Total | Emoluments received from related parties or not | 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) |
|---|---|---|---|---|---|---|---|---|---|
| **Directors, Supervisors, Senior Management resigned/retired** | | | | | | | | | |
| Ma Qiang | Former Non-executive Director | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Zhang Yuxia | Former Non-executive Director | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Choi Yiu Kwan | Former Independent Non-executive Director | 20.09 | 0 | 20.09 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Lu Jiahui | Former External Supervisor | 0 | 0 | 0 | – | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Teng Tieqi | Former Shareholder Representative Supervisor | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Dong Wenhua | Former Shareholder Representative Supervisor | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Li Jin | Former Shareholder Representative Supervisor | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Gao Zhongyuan | Former Shareholder Representative Supervisor | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Yan Hong | Former Shareholder Representative Supervisor | 0 | 0 | 0 | Yes | A Share | 0 | 0 | 0 |
| | | | | | | H Share | 0 | 0 | 0 |
| Shuai Shi | Former Employee Representative Supervisor | 74.32 | 18.08 | 92.39 | – | A Share | 40,600 | 0 | 40,600 |
| | | | | | | H Share | 31,000 | 0 | 31,000 |
| Yang Dongping | Former Chief Risk Officer | 43.60 | 9.07 | 52.66 | – | A Share | 150,000 | 0 | 150,000 |
| | | | | | | H Share | 20,000 | 0 | 20,000 |
| Lv Benxian | Former Director of Corporate Banking | 61.60 | 18.20 | 79.80 | – | A Share | 80,000 | 0 | 80,000 |
| | | | | | | H Share | 40,000 | 0 | 40,000 |

Notes:
1. In 2016, the remuneration of Directors with central management, Supervisors and Senior Management was strictly determined in accordance with specifications of central financial enterprise remuneration measurement for person in charge. According to related regulations, the final remuneration of them in 2016 are now subjected to be confirmed; and the rest of which will be disclosed when confirmed.
2. The Bank's Employee Representative Supervisors received their remuneration as employees, and did not received any remuneration as Employee Representative Supervisors.
3. Mr. Guo Mang was serving as Director of Corporate Banking From February 2017. During the reporting period, Mr. Guo received his remuneration as responsible personnel of relevant Branches.
4. The above equity changes are all buy-ins or sell-outs in the secondary market.
5. As the table above illustrating during the report period, total taxable emoluments received by the Directors, Supervisors and Senior Management (excluding who resigned or retired) was RMB14.1283 million.

Save as disclosed above, as at 31 December 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 filed to the Bank and HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code to be filed to the Bank and HKEx.

### (II) Remuneration Decision-Making Process and the Deciding Factors

According to the corporate governance procedure, the remuneration plan for Directors and Senior Management is drafted by Personnel & Remuneration Committee and is submitted to the Board for review. Furthermore, the Directors' remuneration is required to be submitted to the General Meeting for approval; supervisors' remuneration plan is submitted to the Board of Supervisors for approval by Nomination and Remuneration Committee of the Board of Supervisors. After the approval by the Board of Supervisors, such plan is submitted to the Shareholders' General Meeting for final approval.

The annual performance-based remuneration for Directors, Supervisors and Senior Management is determined in accordance with relevant requirements of government and the Bank's performance measurement. For the Bank's Directors, Supervisors and Senior Management personnel managed by central government, the remuneration was strictly determined in accordance with National financial enterprise remuneration measurement specifications for persons in charge. For the Bank's Directors, Supervisors and Senior Management who are not managed by central government but receiving remuneration from the Bank, the remuneration consisted of the basic annual salary, annual performance bonus and other benefits. In order to balance the incentives and risk constraints, certain portion of the annual performance bonus will be subject to deferred payment in the next three years, which supposed to be paid by 1/3 each year.

## VII. HUMAN RESOURCE MANAGEMENT

### (I) Basic Information of Employees

As at the end of 2016, the Bank had a total of 92,556 domestic and overseas employees, of which 90,165 employees were based domestically and 2,391 were local employees in overseas branches. There were 2,623 employees in the Bank's major subsidiaries.

| | Head Office | Northern China | Eastern China | Central and Southern China | Western China | North Eastern China | Overseas |
|---|---|---|---|---|---|---|---|
| Number of employees | 2,661 | 11,491 | 38,144 | 18,348 | 10,180 | 9,341 | 2,391 |

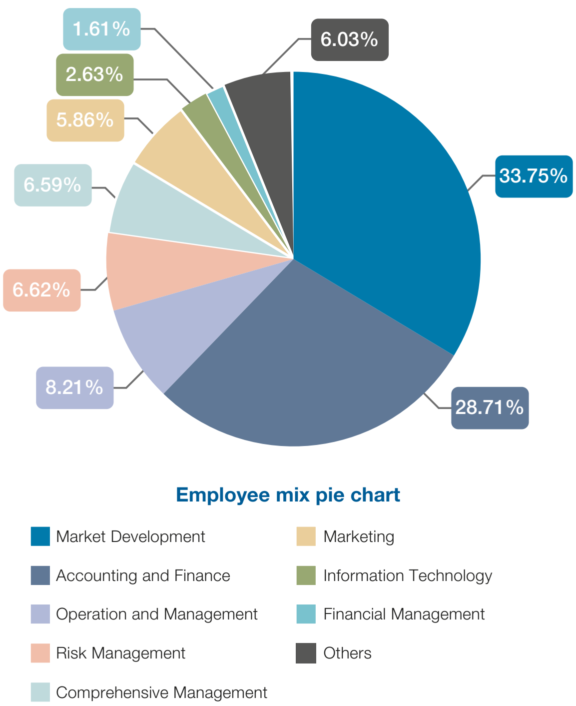
Note: The number of employees in Head Office excluded the number of employees in the Pacific Credit Card Center.

Among employees in domestic institutions, 32,349 employees hold professional and technical qualifications, of which 580 employees hold senior professional and technical qualifications, accounting for approximately 0.64%; 16,647 employees hold intermediate professional and technical qualifications, accounting for approximately 18.46%; and 15,122 employees hold junior professional and technical qualifications, accounting for approximately 16.77%.

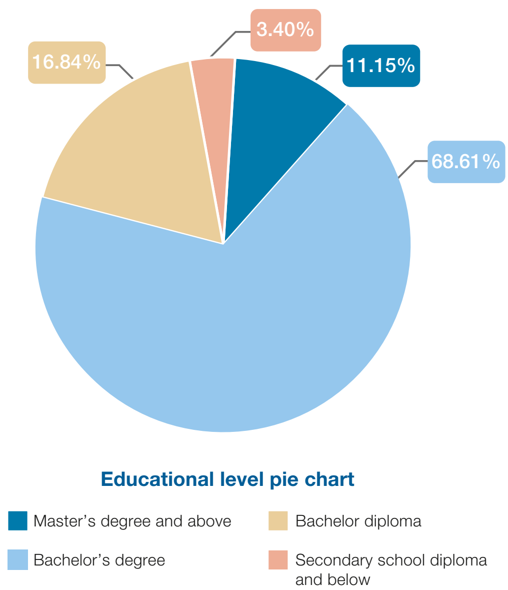
The average age of the Bank's employees in domestic institutions was 36, with 36,578 employees under or at the age of 30, accounting for 40.57%; 26,465 employees between the age of 31 and 40, accounting for 29.35% of total domestic employees; 20,374 employees between the age of 41 and 50 inclusively, accounting for 22.60%; and 6,748 employees above or at the age of 51, accounting for 7.48%.

Among employees in domestic institutions, 10,054 employees possessed postgraduate or higher academic degrees, accounting for 11.15%; 61,860 employees possessed undergraduate degrees, accounting for 68.61%; 15,181 employees possessed college diploma, accounting for 16.84%, and 3,070 employees possessed secondary vocational school certificate or lower qualifications, accounting for 3.40%.

In 2016, expenses of 2,665 retired employees were provided by the Bank's.




**Employee mix pie chart**




**Educational level pie chart**

## (II) Remuneration Policy

Under the nationwide deepening reform, the Bank actively carried out the assessment of employment, remuneration and performance under the remuneration management system which is "based on Positions, as well as Integrating Position Value and Performance Value", optimized the allocation of remuneration resources, with emphasis on performance oriented, and more restricted incentives. Based on the risk accountability system, the Bank continued to improve the deferred payment system for the performance based incentives of the employees in key positions on corporate governance and risk management for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits such as annuity.

The remuneration of Directors who receive remuneration from the Bank will be determined in accordance with the Articles of Association of the Bank and relevant regulations, taking into consideration of their performance and annual evaluation.

## (III) Performance Management

In response to the deepening reform in employment, remuneration and performance measurement and with strategy oriented objectives, the Bank further optimized the performance evaluation system and assessment procedures. The Bank focused on profit oriented performance measurement principle, enhanced synergy of performance measurement among business units, and implemented an integrated performance measurement system across operating units of the Group. Based on product profitability and electronic performance measurement platform, and directed by the strategy, the Bank clearly recorded the employees' performance, motivated the people and effectively demonstrated positive effect of its performance measurement and incentive system.

## (IV) Training Management

The Group continued to conduct three key tasks of deepening reform, promoting transformation development and strengthening Party-self discipline. The Group followed the studies on the theoretical and practical issues of Party building, focused on Party Constitution, Party regulations and professional skill training, continued to reform and innovation, focused on effective training, and improved the training quality. The Group made breakthroughs in education and training, which contributed significantly to the talent growth and operating transformation.

The Bank conducted the training by management personnel expert talent, AB grade level of staff and new staff. The Bank organized training for over 500,000 staff and long-distant training for over 600,000 staff with total staff coverage of 97%. The Group also developed 3,700 on-line courses. Staff satisfaction rate of courses was around 97.3%. It was a remarkable progress of training with various training methods and achievements.

## (V) Talent Training and Reserve

The Group continued to carry out the cultivation and utilize of expert talents. In accordance with the Bank's "13th Five-Year Plan", the Bank formulated BoCom Expert Talent Team Building Plan for the "13th Five-Year Plan" Period, and issued Opinion on Expert Talent Team Building. On the basis of former mission which planned to cultivate 2,000 experts in 3 years, the Group move forward constructive goals to build a talent team equipped with 4,000 experts in 5 years. With the training standards of "well-practiced professional, well-performed skilled and well-educated talents", the Group cultivated the expert talent in a steady manner. In 2016, the Group developed 200 experts of the first batch, organized the training events and on-job training for 196 backup experts; and identified 1,100 potential experts.


The Group continuously reinforced to develop talent overseas. Under the strategy of internationalization and BoCom Talent Reserve Five-Year Plan for Overseas Institutions and integration of the overseas development, the Group continued the job rotation, exchange of overseas training program and international talent projects. The Group plans to build up well trained international talent with multi-skills in different departments. The Group selected and developed over 110 international talent during 2015 to 2016.

## (VI) Employee Pension Scheme

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

# REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year ended 31 December 2016.

## (I) PRINCIPAL ACTIVITIES

The Group was principally engaged in the banking and related financial services. Details of the Group's operating results by business segments for the year are set out in Note 45 to the Consolidated Financial Statements. In accordance with the Schedule 5 in Hong Kong Companies Ordinance (Chapter 622 of Hong Kong laws), further discussion about the Bank's businesses (including a description of the principal risks and uncertainties facing the Group, and an indication of likely future development in the Group's businesses) is set out in the section headed "Management Discussion and Analysis" for Page 24 to page 88, which is a part of the Report of the Board of Directors.

## (II) SUMMARY OF FINANCIAL INFORMATION

Summary of the operating performance, assets and liabilities for the five years ended 31 December 2016, 2015, 2014, 2013 and 2012 is set out in the section headed "Financial Highlights of the Annual Report".

## (III) RESULTS AND PROFIT DISTRIBUTION

1. The operating performance of the Group during the year is set out in Page 184 of the consolidated income statement.
2. Details on the Group's undistributed profits are set out in Note 34.
3. The proposal or plan of the profit distribution of ordinary shares and conversion of capital reserve to share capital in the last three years.

*(In millions of RMB unless otherwise stated)*

| Year of dividend distribution | Number of bonus shares for every 10 shares (share) | Cash dividends per 10 shares (before tax, RMB) | Number of conversion for every 10 shares (share) | Amount of cash dividends (before tax) | Net profit distributable to shareholders of listed companies in the consolidated statements for the year of dividend distribution | Proportion in net profit distributable to shareholders of listed companies in the consolidated statements (%) |
|---|---|---|---|---|---|---|
| **2016** | **–** | **2.715** | **–** | **20,162** | **67,210** | **30.00** |
| 2015 | – | 2.70 | – | 20,051 | 66,528 | 30.14 |
| 2014 | – | 2.70 | – | 20,051 | 65,850 | 30.45 |

Note: The profit distribution plan of the Group for the year of 2016 will be subject to the consideration and approval of the shareholders at the General Meeting of the Bank. There was no proposal or plan of the Group regarding conversion of capital reserve to share capital in the last three years.

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

The proposal in relation to the *Amendments to the Articles of Association of the Bank of Communications Co., Ltd*. was approved at the 2012 Annual General Meeting of the Bank held on 25 June 2013. Article 242 of the amended *Articles of Association* clearly stated that the Group may distribute dividends in cash or shares. The Board of Directors and the General Meeting should give full play to the opinions of the Independent Directors, the Board of Supervisors and the public investors, communicate and exchange views with public investors through a variety of channels, and accept supervisions from the Independent Directors, the Board of Supervisors and public investors on the profit distribution of the Bank. The profit distribution of the Bank should focus on the reasonable return on investments for investors, and the profit distribution policy should maintain its continuity and stability; unless under special circumstances, the Bank should distribute dividends mainly in the form of cash if it records profit in the year and the accumulated undistributed profit are also positive, and the total profit distributed in the form of cash dividends for the last three years should not be less than 30% of the average annual distributable profit of the State Council. (The *Articles of Association* has been published on the official website of the Bank at www.bankcomm.com, the website of SSE at www.sse.com.cn and the website of HKEx at www.hkexnews.hk).

The profit distribution policy of the Group was in compliance with the requirements of the *Articles of Association* as well as the approval procedures. The policy, commented by Independent Directors, fully protected the legitimate rights and interests of medium and small investors and had clear standards on dividends distribution and dividends distribution ratio. The conditions and procedures of the adjustment and modification on the profit distribution policy were in compliance with relevant requirements and transparent.

## (IV) CAPITAL RESERVE

Details on the movements of capital reserve of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on Page 186.

## (V) CHARITABLE DONATIONS

Charitable donations made by the Group during the year 2016 amounted to RMB25.8333 million[1].

## (VI) FIXED ASSETS

Changes in the Group's fixed assets during the year 2016 are set out in Note 23 to the Consolidated Financial Statements.

## (VII) PUBLIC FLOAT

During 2016 and for the period up to the latest practicable date prior to the publication of this Annual Report, the Group fulfilled the minimum public float requirement in compliance with the Hong Kong Listing Rules, based on the information that was publicly available to and within the knowledge of the Directors.

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[1] Including individual donations of employees.

## (VIII) DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

## (IX) INTERESTS OF DIRECTORS AND SUPERVISORS IN TRACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

During the Reporting Period, neither the Bank's Directors or Supervisors, nor their connected parties had any direct or indirect material interests in any significant transaction, arrangement and contract entered into by the Bank or any of its holding companies, subsidiaries and fellow subsidiaries.

## (X) MANAGEMENT CONTRACT

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

## (XI) CONFLICTING INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS OF THE BANK

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

## (XII) REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The annual performance-based remuneration for Directors, Supervisors and Senior Management is determined in accordance with relevant requirements of government and the Bank's performance measurement. For the Bank's Directors, Supervisors and Senior Management personnel managed by the central government, the remuneration was strictly determined in accordance with National financial enterprise remuneration measurement specifications for persons in charge. For the Bank's Directors, Supervisors and Senior Management who are not managed by central government but receiving remuneration from the Bank, the remuneration consisted of the basic annual salary, annual performance bonus and other benefits. In order to balance the incentives and risk constraints, certain portion of the annual performance bonus will be subject to deferred payment in the next three years, which supposed to be paid by 1/3 each year.

## (XIII) RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no financial relationship, business relationship, family relationship or any other significant relationship subject to disclosure among Directors, Supervisors and Senior Management of the Bank.

## (XIV) PURCHASE, SALE OR REPURCHASE OF THE BANK'S SHARES

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

## (XV) PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There were no provisions regarding pre-emptive rights of the shareholders under the Bank's *Articles of Association* or relevant laws and regulations of the People's Republic of China and currently the Bank did not have any arrangements with respect to the share options.

## (XVI) RIGHTS OF DIRECTORS AND SUPERVISORS TO SUBSCRIBE FOR SHARES OR DEBENTURES

By the end of 31 December 2016, the Bank did not grant to Directors or Supervisors any rights to subscribe the shares or debentures of the Bank or any of its subsidiaries, nor any such rights to subscribe for the above mentioned shares or debentures were exercised by them. The Bank or its subsidiaries also did not enter into any agreement or arrangement which was to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other relevant companies.

## (XVII) MAJOR CUSTOMERS

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

## (XVIII) CONTINUING CONNECTED TRANSACTIONS

### 1. The Inter-Bank Transactions Master Agreement

The Bank and its subsidiaries have regularly engaged in various transactions in the normal course of banking businesses with HSBC and its subsidiaries and associates (the "**HSBC Group**"), including but not limited to the transactions of bonds, money market, foreign currency and swaps and options. To regulate the continuing transactions mentioned above, the Bank has entered into the continuing connected transaction agreement with HSBC in 2005, which was subsequently renewed in 2008, 2011 and 2014, respectively.

On 29 April 2014, the Bank renewed and entered into an interbank transactions master agreement (the "**Interbank Transactions Master Agreement**") with HSBC for a term of three years, commencing from 1 June 2014 to 31 May 2017, and set the annual cap for the continuing connected transactions contemplated thereunder for the two fiscal years ended 31 December 2016, and the periods from 1 June 2014 to 31 December 2014 and from 1 January 2017 to 31 May 2017, respectively. The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include the transactions of bonds, money market, foreign currency and swaps and options. There was no fixed price or rate for the transactions under the Interbank Transactions Master Agreement. However, both parties agree to apply the prevailing market prices or rates normally used by the independent counterparty to the particular type of transactions under the Interbank Transactions Master Agreement.

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

During the period from 1 January 2016 to 31 December 2016, the continuing connected transactions under the Interbank Transactions Master Agreement did not exceed their respective caps:

(1) The realized gains and losses and the unrealized gains or losses (as appropriate) arising from the non-exempt continuing connected transactions did not exceed RMB7,896 million.

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

## 2. The Independent Non-Executive Directors' Annual Review of the Non-Exempt Continuing Connected Transactions

Upon detailed review of the continuing connected transactions in 2016, all of the Independent Non-executive Directors of the Bank considered that the continuing connected transactions entered into by the Group are as follows:

(1) In the ordinary course of businesses of the Group;

(2) Under normal or more favorable commercial terms; and

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

## 3. The Auditors' Annual Review of the Non-Exempt Continuing Connected Transactions

The auditors have issued a letter to the Board of Directors in respect of the continuing connected transactions in 2016 confirming the follows:

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

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

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

(4) The actual transaction amount of the non-exempt continuing connected transactions in 2016 did not exceed their respective caps.

4. During the Reporting Period, the Balance of Transactions between the Bank and HSBC Group are as Follows:

(1) As at 31 December 2016, the aggregated balance of deposits placed with and loans made to the HSBC Group by the Bank amounted to RMB5.118 billion; the aggregate bond investments amounted to RMB2.067 billion. The interest income arising from these deposits, loans, and bond investments was approximately RMB84 million in 2016.

(2) As at 31 December 2016, the aggregated balance of deposits placed by and loans granted by the HSBC Group amounted to RMB16.482 billion, and the interest expenses arising from these deposits and loans was approximately RMB151 million in 2016.

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

The Bank has confirmed that the specific agreements under the continuing connected transactions for the year ended 31 December 2016 mentioned above were entered into and executed in accordance with the pricing principles pertaining thereto.

Save as disclosed above, no related party transaction or continuing related party transaction set out in Note 44 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction that need to be disclosed under the Hong Kong Listing Rules. Regarding the connected transaction and continuing connected transactions, the Bank has complied with the disclosure requirements as specified in Chapter 14A of the Hong Kong Listing Rules.

## (XIX) ISSUANCE OF SHARES AND DEBT SECURITIES

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

## (XX) PERMITTED INDEMNITY PROVISION

Subject to the applicable laws and the coverage of the director liability insurance the Bank placed for the Directors, each Director of the Bank will be entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto. Such provisions were in force during the course of the financial year ended 31 December 2016 and remained in force as of the date of this Annual Report.

## (XXI) ENVIRONMENT POLICIES AND PERFORMANCE

The Group always adheres to the philosophy of dual emphasis on development and environmental protection. During the Reporting Period, the Bank continued to make greater efforts on implementation of "Green Credit" policy, where the proportion of number of "green" customers and the relative credit balance remained high. In addition, loans made to customers and projects from low-carbon economy, energy-saving and environmental protection industry continued to increase, while loans made to sectors characterized by "heavy pollution, high energy consumption and over-capacity" were effectively suppressed. The Bank was dedicated to "green finance" with strong emphasis on e-banking services in order to provide more efficient, low-cost, and convenient financial products and services with better quality. During the Reporting Period, the utilization rate of e-banking services increased significantly to 91.42%, which helped to protect the environment by reducing CO2 emission by nearly 11,919.72 tons, representing a year-on-year increase of 40.2%. For more details, please refer to the section "Corporate Social Responsibilities" in this report.

## (XXII) COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, to the knowledge of the Bank's Directors, the Group had no violation of related laws and regulations significant to the Group.

## (XXIII) RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

Emphasizing on supplier selection, the Group encouraged fair and public competition and intended to establish the long-term cooperation relationship with high quality suppliers based on mutual trust. Based on the core value of integrity, the Group was devoted to providing better financial services and creating a reliable service environment for customers. For the year ended 31 December 2016, the Group had no important and material dispute with its suppliers/or customers.

By order of the Board of Directors
*Chairman*
**Niu Ximing**

28 March 2017, Shenzhen, PRC

# REPORT OF THE BOARD OF SUPERVISORS

In 2016, in accordance with the requirements of laws and regulations, regulatory requirements and Articles of Association, the Board of Supervisors constantly adapted to the new normal of economy and changes of operation management, built and improved its supervision system, promoted the breadth and depth of work by new methods. All members worked in due course and were royal to their responsibilities and maintained their independence in corporate governance. The review of our work in 2016 are as follows:

## I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS

In 2016, the Board of Supervisors held 5 meetings, discussed 18 resolutions, and reviewed 7 reports with specific topics; three Special Committees under the Board of Supervisors held 7 meetings, and discussed 16 resolutions and reports. The new election of the Board of Supervisors was completed in 2016. The Eighth Session of the Board of Supervisors and Special Committees were elected. All Supervisors diligently fulfilled their responsibilities, with attendance rate of 93.3%. Over the past year, the Board of Supervisors mainly carried out the following work:

### (I) Strengthened Supervision over Strategic Plan and Execution, Enhanced Overall Operation Decision Making Ability

**First**, the Board of Supervisors strengthened the Bank's overall strategic plan and execution. Based on the understanding of interbank strategic competition, the Board of Supervisors analyzed overall planning, execution and evaluation of strategies, monitored the planning stage of the 13th Five-Year Plan, supervised and analyzed the bank-wide strategic management, and designated the lead department, to effectively integrate strategic plan, operation plan and budgeting and performance evaluation and management, and to form an interconnected group strategy and moved forward the strategies. **Second**, the Board of Supervisors enhanced the analysis of the peer banks' strategies, emphasized the focus on core strategies, adhered to the strategies, developed the overall strategies through multi-level strategic cooperation, and upgraded strategies to respond to the changing market trend and customers' needs. **Third**, the Board of Supervisors intensified the supervision and analysis on strategic business areas. The Committee implemented special supervision on mobile banking businesses, proposed to further define the strategic positioning, strengthened resources integration and business innovation, established and improved business entry and exit assessment mechanism to effectively improve the Bank's customer service level; the Committee carried out supervision and interviewed the investment banking businesses, and proposed to improve the setup of investment banking management system, reinforce intra-group business linkage and maintain an effective track management of emerging businesses, in order to effectively enhance the Bank's core competitiveness.

(Ii) Enhanced the Monitoring of Finance, Risk and Internal Controls, Facilitated the Stable Operation

1. Stronger financial inspection and analysis. The Board of Supervisors carried out financial analysis and supervision on a quarterly basis, especially the financial management, operating data and significant financial activities. **First**, by examining the internal and external inspection reports and documents, timely understood the financial management over the Board of Directors, Senior Management and related operating departments. **Second**, the Committee analyzed the financial data, identified the problems of the operation layout, mechanism, strategy management and operating results by comparing the interbank and historical data, provided recommendation. **Third**, the Committee analyzed the ratios of capital adequacy, capital return and cost of capital to monitor the capital management with focus on capital measurement, capital injection and risk allowance management.

2. Stronger operation monitoring. The Board of Supervisors carried out supervision on market and liquidity risk, credit granting management, credit risk management, pressure test, small enterprises businesses, interbank businesses, compliance management and auditing; and proposed to reinforce liquidity risk management of overseas institutions and subsidiaries and to value the importance on the market and liquidity management of new products, new businesses and new institutions; the Committee cultivated the bank-wide risk management culture and linked up the top down risk management chain, developed a comprehensive risk management at different stage; the Committee actively explored to innovate the operating mode of small and micro businesses and the risk management mode, strengthened risk prevention and management in key areas, improved the Bank's risk management ability; the Committee moved forward the construction of the bank-wide internal control environment and consolidated the vertical leadership to the audit departments in branches to increase the auditing capabilities.

3. Stronger institution monitoring. **First**, the Board of Supervisors strengthened the supervision on operation management of business divisions, monitored and inspected the risk situations the sub-center of asset management in Hong Kong, proposed that asset allocation management will be reinforced while expanding the overseas businesses, risk management mechanism will be improved and strictly followed. The anticipations, studies and judgements on investments will be strengthened. The Committee also studied the operation mechanisms of Asset Management Committee and Investment Management Committee for the optimized recommendations. **Second**, the Board of Supervisors strengthened the supervision on operation management of subsidiaries, carried out on-site supervision and interview on BoCom Leasing, and recommended the Bank to exploit its development potential and strengthen the construction of professional capacity by learning international interbank experience and practice and taking advantage of the Bank's strengths, in order to balance rewards and risks. **Third**, the Committee strengthened the supervision on operation management of key branches. The Committee conducted supervision and interview on 3 branches, and recommended each branch to set up its own long-term development plan and target together

with Bank-wide strategy, and establish an operation principle of sustainable development. For the purpose of stable development, the Committee also proposed to reinforce internal controls, implement the overall risk management processes and strengthen the overall management over the branches within same province.

(III) Monitored the Information Disclosure, Ensured the Compliance of Laws and Regulations

The Board of Supervisors highly noted the importance of information disclosure by improving the monitoring of information disclosure management, insider management and investor relationship management to closely protect the interests of the Bank and all of the shareholders. **First**, the Committee set up the regular communications with the Board of Directors, timely noted the public information disclosure and preparation by monitoring the reporting and disclosing procedures. **Second**, the Committee timely concluded and provided recommendation by comparing the regulations and good practice of peer banks to ensure the timely, accurate and transparent information disclosure. **Third**, the Committee evaluated the execution of information disclosure process in compliance with laws and regulations and disclosed in the annual report.

(IV) Implemented Highly Effective Monitoring Role, Focused on the Interview of Duties and Responsibilities

The Board of Supervisors aimed to enhance the process, methodology and content of performance supervision, focusing more on the duty performance of the Directors and Senior Management on annual basis and the daily supervision, which efficiently increased the pertinence of performance interview. **First**, the Committee strengthened the supervision of performance on annual basis by monitoring general and specific basis and attending the meetings, timely noted the duty performance of the Board of Directors, Senior Management and their members, set up the supervision records of the Board of Directors and Senior Management. The Committee noted the individual duties and weaknesses before the individual duty reporting. **Second**, the Committee increased the pertinence of on-site performance interview. At the end of the year, the Committee interviewed the Board of Directors and Senior Management for their duty performance, by listening the performance summary, the problems either existing within the Bank or specific role and recommendations to the Bank. The discussion related to the key areas and provided the preliminary feedback. **Third**, the Committee improved the development process of performance assessment feedback. Combined the monitoring inspection, interview, individual performance report and third party information, the Committee evaluated the supervision list one by one and formed the opinion on the duty performance of the Board of Directors and Senior Management. The Committee also requested the feedback from them and formed the *Opinion of the Board of Supervisors on the Discharge of Duty by the Board of Directors and Senior Management*. As at the evaluation date, there were 18 Directors and Senior Management have been appointed over 6 months of the Bank. Their evaluation is divided into three categories, namely "competent", "basically competent" and "not competent". The Board of Supervisors evaluated 18 Directors and Senior Management as "competent".

(V) Improved the Self-Operation Function of the Board of Supervisors, Promoted the Work in Logic and Systematic Manner

1. Improved the work system of the Board of Supervisors. The Board of Supervisors constantly improved its overall work layout, combined the supervision, performance assessment, review and approval together with the meetings, internal and external relationship and self-development. **First**, the Board of Supervisors made overall plans for and coordinated supervision and evaluation. The Committee seriously carried out routine supervision and special supervision to understand the duties of the Board of Directors and Senior Management and move forward evaluation feedback. Additionally, the Committee also evaluated their duty performance and work. **Second**, the Board of Supervisors set its meeting agenda. The Committee reviewed and discussed special issues such as supervision reports on strategy, finance and risk management, facilitating its supervision and timely understanding the situations, to enforce the core responsibilities. **Third**, the Board of Supervisors strengthened internal and external relationship. The Committee strengthened the communications with the regulatory authorities such as the CBRC, and conducted supervision and interview on key departments, subsidiaries, business divisions and the operating institutions, enforcing the role of supervision all the way. **Fourth**, the Board of Supervisors strengthened its self-development. The Committee continuously better its working system and mode, and standardized its performance assessment system to ensure the fair and objective evaluation results and duty performance under laws and accountability to the shareholders.

2. Established and improved the supervision system of the Board of Supervisors. Putting the work in practice, the Board of Supervisors built a supervision system comprising "supervision list", "supervision criteria" and "supervision procedure", which served as the basis of supervision and made supervision work more orderly. **First**, the Board of Supervisors prepared a supervision list of the major duties, targets and contents of supervision. Besides the above mentioned financial supervision, risk supervision, internal control supervision and performance supervision, the Committee added "strategic and operational supervision" and "information disclosure supervision" to the contents of supervision, and expanded its duties to 50 areas (levels) in 6 aspects and 223 matters. **Second**, the Board of Supervisors developed a set of supervision criteria which defined specific standards for the positioning, direction and quality of supervision activities, including basic requirements, standards for supervision by categories to the targets and evaluation standards of supervision results. **Third**, the Board of Supervisors developed its supervision procedures for standardization which makes the supervision work well-organized and exercised the function of supervision.

3. New supervision method. **First**, the Board of Supervisors interviewed, rather than simple reporting. The Committee implemented routine supervision by strict "inquiring and supervising" procedure, not just simply listening the reports from the Senior Management, department lines or operation units, which expanded supervision levels and enhanced the pertinence and effectiveness of supervision. **Second**, the Board of Supervisors focused on specific supervision. The Committee established the issue list, defined key points and direction of supervision, carried out special supervision on prominent and significant key matters and provided recommendations, which facilitated the problem solving and management improvement. **Third**, the Board of Supervisors improved its routine work system. The Committee developed the *Work Letter of the General Office of the Board of Supervisors* through which the General Office of the Board of Supervisors reported to supervisors regarding the routine work and key to facilitate the discharge of duty by supervisors. **Fourth**, the Board of Supervisors established a supervision information platform. The Committee launched a supervision information platform covering main business areas to help the Committee to learn timely collect the operation and management data, to note significant problems and clues, and to improve the active, timely and pertinent supervision.

In 2016, the Board of Supervisors of BoCom moved forward to embrace new challenges under the support of the Board of Directors and Senior Management and achieved good results. The Bank was awarded "Twenty Best Practices of Board of Supervisors of Public Companies" by China Association for Public Companies, SSE and Shenzhen Stock Exchange.

## II. INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

### 1. Compliance with Applicable Laws.

During the Reporting Period, the Bank undertook its businesses pursuant to applicable laws and its decision-making process was in compliance with relevant laws, regulations and the Bank's Articles of Association.

### 2. Truthfulness of the Financial Statements.

The financial statements truly and fairly presented the financial position and financial performance of the Bank. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have respectively issued unqualified auditor's report on the Group's financial statements for the year ended 31 December 2016 and the Board of Supervisors has no objection to the report.

### 3. Use of Proceeds Raised.

During the Reporting Period, the Bank used the proceeds raised according to the purposes as disclosed in the Prospectus.

4. Acquisition and Disposal of Assets.

   During the Reporting Period, the Board of Supervisors was not aware of any acquisition or disposal of assets by the Bank which may harm the interests of the shareholder or which may cause impairment to the Bank's assets.

5. Related Party Transactions.

   During the Reporting Period, the Board of Supervisors was not aware of any related party transactions that would damage the interests of the Bank.

6. Implementation of Information Disclosure.

   During the Reporting Period, the Board of Supervisors did not identified false records, misleading statements or material omissions.

7. Related Deliberations.

   The Board of Supervisors has no objection to the proposals submitted to the Shareholders' General Meeting and considered that the Board of Directors well performed the resolutions of the Shareholders' General Meeting.

The Bank attached significant importance to the development of its internal control system, with continuous enhancement made to perfect its internal control systems. The Board of Supervisors has no objection to the *Internal Control Self-Appraisal Report for 2016* of the Bank.

The Bank vigorously performed its corporate social responsibility. The Board of Supervisors has no objection to the *Corporate Social Responsibility Report for 2016* of the Bank.

By order of the Board of Supervisors
Chairman
**Song Shuguang**

28 March 2017, Shenzhen, PRC

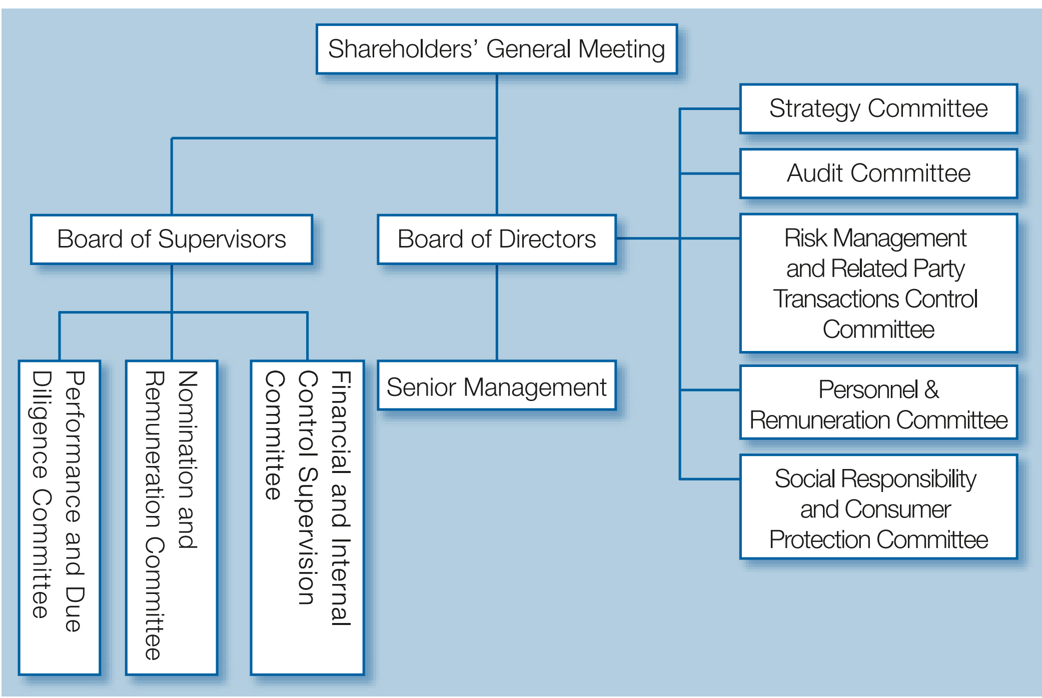
# CORPORATE GOVERNANCE REPORT

Sound corporate governance is the system guarantee for sustainable development and the key for prudent operation of a commercial bank. Targeting at becoming the “Best Bank in Corporate Governance”, the Bank always adheres to the key initiative of enhancing the standardization and efficiency of its corporate governance in order to promote in-depth reform and transformation development. The Bank was committed to improving a modern corporate governance mechanism comprising the Shareholders’ General Meeting, the Board of Directors, the Board of Supervisors and Senior Management with “clear defined roles, authorities and responsibilities, mutual coordination and effective operation” for large-scale commercial banks with Chinese characteristics, to protect the legitimate rights and interests of shareholders and other stakeholders.

The corporate governance of the Bank strictly abides by the *Company Law*, the *Securities Law* and the requirements stipulated by the China Securities Regulatory Commission. For the year ended 31 December 2016, the Board of Directors confirmed that the Bank fully complied with the principles and code provisions under the *Corporate Governance Code* as set out in Appendix 14 to Hong Kong Listing Rules, and followed most of the recommended best practices contained in the *Corporate Governance Code*.

## I. CORPORATE GOVERNANCE STRUCTURE

The Bank established a corporate governance structure comprising the Shareholders’ General Meeting, the Board of Directors, the Board of Supervisors and Senior Management, with clearly defined authorities and responsibilities, balanced equilibrium, and coordinated and independent operation.




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

## II. POLICY AND MECHANISM OF CORPORATE GOVERNANCE

During the Reporting Period, the Board of Directors and Strategic Committee of the Board of Directors actively fulfilled the responsibilities of corporate governance, examined and evaluated the execution of corporate governance in due course and continuously moved forwarded the establishment of the governance policy and mechanism. During the Reporting Period, the Board of Directors reviewed and developed the *Suggestions for Improving the Authorized Operation Mechanism of the Corporate Governance*, and established an authorized operation and management mechanism for the corporate governance with "coordinated operations, equal rights and obligation, equilibrium, and dynamic adjustment", further motivating and exercising new power; the Bank's Board of Directors revised the *Rules of Work of Risk Management and Related Party Transactions Control Committee* and the *Rules of Work of Social Responsibility and Consumer Protection Committee* timely, further defining the assignment of responsibilities such as related party transaction controls, management of risks from the United States and customer rights protection and refining the assignments of duties and authorities of Special Committees under the Board of Directors, to enhance the effectiveness of the corporate governance.

## III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

As at 31 December 2016, the total number of issued ordinary shares of the Bank was 74,262,726,645 shares, consisting of 52.85% A shares and 47.15% H shares. There is no controlling shareholder of the Bank. The largest shareholder, the Ministry of Finance, and the second largest shareholder, HSBC, held 26.53% and 19.03% of the equity interests in the Bank respectively. The Bank is independent from all shareholders in terms of its businesses, employees, assets, institutions and finance, and possesses the capacity of independent and complete autonomy over its businesses and operations. The entire businesses of the Bank listed as a whole. Therefore there is no horizontal competitions or related transactions arising from certain restructuring.

Pursuant to the *Articles of Association*, shareholders have the right to obtain relevant information, including the Articles of Association, status of the share capital, records of the Shareholders' General Meeting, resolutions of meetings of the Board of Directors, and resolutions of meetings of the Board of Supervisors. Shareholders can also make enquires to the Board of Directors through the contact information set out on page 4 under the "CONTACT DETAILS" section in this Annual Report.

The Shareholders' General Meeting is the highest authority of the Bank. Shareholders individually or jointly holding more than 10% of the voting shares of the Bank have the right to request in written form to convene an Extraordinary General Meeting. Shareholders individually or jointly holding more than 3% of the voting shares of the Bank have the right to put forward written form proposals to the Shareholders' General Meeting. Shareholders individually or jointly holding more than 3% of the voting shares of the Bank have the right to put forward written form proposals to the Shareholders' General Meeting. The Bank adopts multiple ways of voting including onsite voting and online voting in order to facilitate shareholders' participation and ensure the exercise of shareholders' right. Each substantially separated matter of the Bank is put forward as separate resolution in Shareholder's General Meeting and resolved by voting.

During the Reporting Period, the Bank held one Annual General Meeting, one Extraordinary General Meeting, one A Shareholders' Class Meeting and one H Shareholders' Class Meeting. All resolutions passed at general meetings were fully executed. The resolution announcements for all Shareholders' General Meetings has been disclosed on the websites of SSE, HKEx and the Bank, and published in *China Securities Journal, Shanghai Securities News and Securities Times*.

On 27 June 2016, the Bank held the 2015 Annual General Meeting in Shanghai, at which the following were reviewed and approved: *2015 Work Report of the Board of Directors, 2015 Report of the Board of Supervisors, 2015 Financial Statements, 2015 Profit Appropriation Plan, Resolution in relation to the Appointment of Auditors for the Year of 2016, 2016 Fixed Assets Investments Plan, Resolution in relation to the Election Plan of the Board of Directors, Resolution in relation to the Election Plan of the Board of Supervisors, Proposals on the Amendments to 'Dilution of Current Period Return from Preference Shares Issued by Bank of Communications Co., Ltd. and Remedial Measures', Proposal on Submittal to Annual General Meeting for Granting General Authority for Issuance of Shares to Board of Directors, Resolution in relation to Issuance of Tier-2 Capital Bonds.*

On 28 October 2016, the Bank held 2016 first Extraordinary General Meeting, 2016 first A Shareholders' Class Meeting and 2016 first H Shareholders' Class Meeting in Shanghai, at which the following were reviewed and approved: *Proposal in Relation to the Plan and Relevant Authorization of the Overseas Listing of BoCom International Holdings Company Limited, Proposal in Relation to the Compliance of the Overseas Listing of BoCom International Holdings Company Limited with the 'Circular on Issues in Relation to Regulating Overseas Listing of Subsidiaries of Domestic Listed Companies', Proposal in Relation to the Undertaking of Maintaining Independent Listing Status of the Bank, Proposal in Relation to the Description of the Sustainable Profitability and Prospects of the Bank, Proposal Regarding the Provision of Assured Entitlement to H share Shareholders of the Bank Only for the Spin-off and Overseas Listing of BoCom International Holdings Company Limited*.

## Summary of Shareholders' General Meetings

| Session | Date | Proposal | Resolution | Website Designated for Publishing Resolution |
|---|---|---|---|---|
| 2015 Annual General Meeting | 27 June 2016 | 11 proposals including *2015 Work Report of the Board of Directors* | Passed | Disclosed on the official website of the Bank at www.bankcomm.com, SSE website at www.sse.com.cn and HKEx HKExnews website at www.hkexnews.hk. |
| 2016 first Extraordinary General Meeting, 2016 first A Shareholders' Class Meeting and 2016 first H Shareholders' Class Meeting | 28 October 2016 | 5 proposals including *Proposal in Relation to the Plan and Relevant Authorization of the Overseas Listing of BoCom International Holdings Company Limited* | Passed | Disclosed on the official website of the Bank at www.bankcomm.com, SSE website at www.sse.com.cn and HKEx HKExnews website at www.hkexnews.hk. |

Attendance of members of the Board of Directors at Shareholders' General Meeting during the Reporting Period is set out as follows:

| | Attendance | Attendance Percentage (%) |
|---|---|---|
| **Executive Directors** | | |
| Niu Ximing | 1/2 | 50% |
| Peng Chun | 1/2 | 50% |
| Yu Yali | 1/2 | 50% |
| Hou Weidong | 1/2 | 50% |
| **Non-executive Directors** | | |
| Peter Wong Tung Shun | 0/2 | 0% |
| Hu Huating | 2/2 | 100% |
| Wang Taiyin | 2/2 | 100% |
| Liu Changshun | 2/2 | 100% |
| Helen Wong Pik Kuen | 1/1 | 100% |
| Liu Hanxing | 1/1 | 100% |
| Luo Mingde | 0/1 | 0% |
| Liu Haoyang | 1/1 | 100% |
| **Independent Non-executive Directors** | | |
| Peter Hugh Nolan | 1/2 | 50% |
| Chen Zhiwu | 0/2 | 0% |
| Yu Yongshun | 2/2 | 100% |
| Li Jian | 2/2 | 100% |
| Liu Li | 2/2 | 100% |
| Jason Yeung Chi Wai | 1/1 | 100% |
| **Directors resigned/retired** | | |
| Ma Qiang | 0/1 | 0% |
| Zhang Yuxia | 0/1 | 0% |
| Choi Yiu Kwan | 1/1 | 100% |

Note: Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for changes in Directors (same applies hereinafter).

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

### (I) Composition of the Board of Directors

The Bank understands and recognizes the importance of diversification of members of the Board of Directors, which the Bank regards as a key supporting factor for improving the corporate governance and achieving the sustainable development of the Bank. Hence, the Bank has adopted the *Policy on Diversity of Members of the Board of Directors*, according to which the Bank will set the membership composition of the Board of Director by considering about diversity of members of the Board of Directors in various perspectives including gender, age, nationality, academic background, professional qualification, industry expertise and so on. During the process of selecting and appointing members of the Board of Directors, adequate consideration should be given to diversity, and a comprehensive assessment of the capabilities, skills, experience and background of the candidates is required to make an objective evaluation of their potential contributions to the Bank, to ensure the Board of Directors have diversified points of views in due course, resulting in the best matching between the members of the Board of Directors and the strategic development of the Bank.

As at 31 December 2016, the Board of Directors comprised eighteen members, including four Executive Directors, namely Mr. Niu Ximing, Mr. Peng Chun, Ms. Yu Yali and Mr. Hou Weidong; eight Non-executive Directors, namely Mr. Peter Wong Tung Shun, Mr. Hu Huating, Mr. Wang Taiyin, Mr. Liu Changshun, Ms. Helen Wong Pik Kuen, Mr. Liu Hanxing, Mr. Luo Mingde and Mr. Liu Haoyang; and six Independent Non-executive Directors, namely Mr. Peter Hugh Nolan, Mr. Chen Zhiwu, Mr. Yu Yongshun, Ms. Li Jian, Mr. Liu Li and Mr. Jason Yeung Chi Wai. The number of the Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the relevant regulatory requirements. Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for the changes of the members of the Board of Directors and their biographical details.

Mr. Niu Ximing is the Chairman of the Board of Directors. Mr. Peng Chun is the Vice Chairman of the Board of Directors and President of the Bank. Mr. Peter Wong Tung Shun is the Vice Chairman of the Board of Directors. The roles and responsibilities of the Chairman and President are mutually independent and clearly defined.

Note: In January and March 2017, Mr. Raymond Woo Chin Wan and Mr. Cai Hongping were nominated as the Bank's Independent Non-executive Director at the sixth Meeting and at the seventh Meeting of the Eighth Session of the Board of Directors respectively, which will be submitted to the Shareholders' General Meeting for approval. Once Mr. Raymond Woo Chin Wan and Mr. Cai Hong Ping are elected by the General Meeting and obtained approval by CBRC, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu will no longer serve as the Bank's Independent Non-executive Directors.

### (II). Responsibilities of the Board of Directors

The Board of Directors is the strategic decision-making body of the Bank and responsible for the Shareholders' General Meeting. The Board of Directors exercises powers and performs duties within the terms of reference as stipulated under the laws, regulations and the *Articles of Association*, and as authorized by the Shareholders' General Meeting to protect the legitimate interests of the Bank and its shareholders. The main responsibilities include convening and reporting to Shareholders' General Meeting, executing resolutions of Shareholders' General Meetings, determining the Bank's business plans and investment proposals, listening to reports from the President and monitoring the performance of Senior Management.

In 2016, with the support from Shareholders and effort of Senior Management, the Board of Directors maintained the stable operating profits and asset quality, adhered to the overall strategy, made progress, maintained stability, promoted the reform of internal control mechanism and transformation and innovative operations according to the *Reformation Strengthening Plan of Bank of Communications Co., Ltd*. approved by the State Council. In 2016, the Board carried out the following major tasks: first, the Board of Directors firmly implemented the plans of the State and actively supported the real economy to accomplish the structural reform on the supply side and top 5 tasks of "de-capacity, de-stocking, de-leveraging, cost reduction and weakness remediation". Second, the Board of Directors implemented reformation and development of key areas and projects as stated in the requirements of the reformation policy, in order to further improve the operation dynamics. Third, the Board of Directors continued promoting the "BoCom Strategy", resulting in fruitful achievements in international and integrated constructions, and enhancing the profitability of the Group. Fourth, the strategic management function was strengthened. Outlines of BoCom development plan under the 13th Five-Year Plan and related supporting plan were also issued to facilitate reformation. Fifth, the Board of Directors established a comprehensive risk management system to ensure the stability of the asset quality and prevent the occurrence of systematic risk. Sixth, the management of the disclosure of investor relationships and information was improved, resulting in a sound system to protect shareholders' interests. Seventh, a capital replenishment mechanism was established and capital management were intensified to ensure the operation stability of the Bank. Lastly, the Board of Directors proactively fulfilled its corporate social responsibilities to improve its brand image.

### (III). Meetings of the Board of Directors

The Bank formulated Rules of Procedures for Board of Directors Meetings, which specified stringent requirements regarding the convening manner, notice, procedures, agendas and minutes of Board's meetings. During the Reporting Period, eight Board's meetings were held, including six on-site meetings and two telecommunication conferences, to discuss and approve sixty-eight resolutions and reports, such as the Board of Directors' annual report, President's report, financial reports, profit appropriation plan and proposals for the new session of the Board of Directors. In addition, twenty-one meetings were held by the five special committees under the Board of Director, and sixty-nine resolutions and reports were discussed. All of the above meetings were held in accordance with the requirements of *the Articles of Association, Rules of Procedures for Board of Directors Meetings and the Code of Corporate Governance*.

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

| | Attendance at Meetings | Attendance Percentage (%) | Attendance at Meetings in Person | Attendance in Person Percentage (%) |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Niu Ximing | 8/8 | 100.00% | 7/8 | 87.50% |
| Peng Chun | 8/8 | 100.00% | 7/8 | 87.50% |
| Yu Yali | 8/8 | 100.00% | 8/8 | 100.00% |
| Hou Weidong | 8/8 | 100.00% | 7/8 | 87.50% |
| **Non-executive Directors** | | | | |
| Peter Wong Tung Shun | 8/8 | 100.00% | 6/8 | 75.00% |
| Hu Huating | 8/8 | 100.00% | 7/8 | 87.50% |
| Wang Taiyin | 8/8 | 100.00% | 8/8 | 100.00% |
| Liu Changshun | 8/8 | 100.00% | 8/8 | 100.00% |
| Helen Wong Pik Kuen | 3/3 | 100.00% | 3/3 | 100.00% |
| Liu Hanxing | 2/2 | 100.00% | 2/2 | 100.00% |
| Luo Mingde | 2/2 | 100.00% | 1/2 | 50.00% |
| Liu Haoyang | 2/2 | 100.00% | 2/2 | 100.00% |
| **Independent Non-executive Directors** | | | | |
| Peter Hugh Nolan | 8/8 | 100.00% | 6/8 | 75.00% |
| Chen Zhiwu | 8/8 | 100.00% | 5/8 | 62.50% |
| Yu Yongshun | 8/8 | 100.00% | 8/8 | 100.00% |
| Li Jian | 8/8 | 100.00% | 8/8 | 100.00% |
| Liu Li | 8/8 | 100.00% | 6/8 | 75.00% |
| Jason Yeung Chi Wai | 2/2 | 100.00% | 2/2 | 100.00% |
| **Directors resigned/retired** | | | | |
| Ma Qiang | 3/3 | 100.00% | 2/3 | 66.67% |
| Zhang Yuxia | 3/3 | 100.00% | 3/3 | 100.00% |
| Choi Yiu Kwan | 6/6 | 100.00% | 6/6 | 100.00% |
| Average Attendance/Attendance in Person Percentage (%) | | 100.00% | | 88.19% |

## (IV) Special Committees under the Board of Directors

The Board of Directors has set up five special committees, namely Strategy Committee, Audit Committee, Risk Management and Related Party Transactions Control Committee, Personnel & Remuneration Committee and Social Responsibility and Consumer Protection Committee. The fulfillment of duties by the respective special committees during the Reporting Period is summarized as follows:

1. Strategy Committee. Strategy Committee is primarily responsible for formulating the operations and management objectives and long-term development strategies of the Bank, supervising and inspecting the implementation of the annual business plans and investment plans, inspecting and assessing the implementation of corporate governance system, and making recommendations to the Board for developing and improving the corporate governance policies and system.

   As at the end of 2016, Strategy Committee under the Board comprised eight members including Mr. Niu Ximing, Mr. Peng Chun, Ms. Yu Yali, Mr. Hou Weidong, Mr. Liu Hanxing, Mr. Luo Mingde, Mr. Liu Haoyang and Mr. Jason Yeung Chi Wai, with Chairman Mr. Niu Ximing serving as Chairman of the Committee. During the Reporting Period, Strategy Committee held five meetings, reviewed and approved fifteen proposals and reports including the Implementation of 2015 Annual Business Plan, Internal Assessment Report on Capital Adequacy for 2016-2018 and Issuance of Green Financial Bonds, and presented the recommendations to the Board of Directors.

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

   As at the end of 2016, Audit Committee under the Board of Directors comprised seven members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. Liu Changshun, Mr. Luo Mingde, Mr. Yu Yongshun, Ms. Li Jian and Mr. Jason Yeung Chi Wai, with Mr. Liu Li, an Independent Non-executive Director, serving as the chairman. During the Reporting Period, Audit Committee held five meetings, and reviewed and approved twenty proposals and reports, including 2015 financial report, 2015 profit distribution plan, 2015 annual report and results announcement, fixed asset investment plan for 2016, and presented the recommendations to the Board of Directors.

3. Risk Management and Related Party Transactions Control Committee. The Committee played important roles as follows: monitoring and evaluating the risk management and controls of the Bank in areas of credit, market, operations and compliance, periodically assessing the Bank's risks, management status, and risk tolerance level; reviewing significant fixed asset investments, asset disposals, asset pledges or external guarantees; supervising and evaluated the risk management of America-involved operations; reviewing significant related party transactions; and making recommendations to the Board of Directors on improving the Bank's risk management and internal controls.

   As at the end of 2016, the Risk Management and Related Party Transactions Control Committee of the Bank comprised seven members, including Ms. Li Jian, Mr. Hu Huating, Mr. Liu Hanxing, Mr. Liu Haoyang, Mr. Peter Hugh Nolan, Mr. Chen Zhiwu and Mr. Yu Yongshun, with Ms. Li Jian, an Independent Non-executive Director, serving as chairman. During the Reporting Period, the Risk Management and Related Party Transactions Control Committee held five meetings, reviewed and approved sixteen proposals and reports, including the reports on disposal plan of non-performing assets, rename and working guidance revision of Risk Management Committee under the Board of Directors and the application for extending the implementation scope of advanced capital management method, and presented the recommendations to the Board of Directors.

4. Personnel & Remuneration Committee. Personnel & Remuneration Committee is primarily responsible for formulating the remuneration and incentive plans for Directors and Senior Management according to the strategic plans and operational targets approved by the Board of Directors, presenting proposals on remuneration plans to the Board of Directors and monitoring the implementation of such plans, developing the criteria and procedures for election and appointments of Directors and Senior Management and performing initial assessments, as well as approving and amending the policies on diversification of members of the Board of Directors and evaluation of implementation. Personnel & Remuneration Committee performed the functions of both a nomination Committee and a remuneration Committee to optimize the Bank's corporate governance structure and improve the effectiveness of the Bank's operations.

   As at the end of 2016, Personnel & Remuneration Committee comprised five members, including Mr. Liu Li, Mr. Wang Taiyin, Ms. Helen Wong Pik Kuen, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu. Mr. Liu Li, an Independent Non-executive Director, served as chairman. During the Reporting Period, the Personnel and Remuneration Committee held four meetings, and reviewed and approved ten proposals, including the election plans of the Board of Directors, the appointments of Ms. Chen Qing as Director General of Audit Supervisory Bureau, 2015 remuneration plan for Directors 2015 remuneration plan for the Senior Management, and presented recommendations to the Board of Directors.

5. Social Responsibility and Consumer Protection Committee. The Committee is primarily responsible for conducting research and formulating the Bank's social responsibility strategies and policies, monitoring, inspecting and evaluating the fulfilment of social responsibility by the Bank, approving external donations according to the authorization of the Board of Directors, reviewing the strategies, policies and goals on protecting the consumers' rights in banking businesses, as well as reviewing credit policies relating to environment and sustainable development.

   As at the year end of 2016, Social Responsibility and Consumer Protection Committee of the Bank comprised five members, including Mr. Peng Chun, Mr. Peter Wong Tung Shun, Ms. Yu Yali, Mr. Hu Huating and Mr. Liu Changshun, with Mr. Peng Chun, the Vice Chairman of the Board of Directors, serving as chairman. During the Reporting Period, Social Responsibility and Consumer Protection Committee held two meetings and considered eight proposals and reports, including the issuance of green financial bonds, 2015 working report on "Green Credit Policy" and 2015 report on protecting the consumers' rights, and presented its recommendations to the Board of Directors.

During the Reporting Period, the meeting procedures, voting methods and proposals consideration of all the above meetings of the special committees of the Board of Directors were in compliance with the requirements of relevant laws, regulations, the Articles of Association and working guidance of the committees. The summary of attendance of members at the meetings (for those not attended the meeting, written opinions were submitted) is set out as follows:

| | Strategy Committee | Audit Committee | Risk Management and Related Party Transactions Control Committee | Personnel & Remuneration Committee | Social Responsibility and Consumer Protection Committee |
|---|---|---|---|---|---|
| Niu Ximing | 5/5 | | | | |
| Peng Chun | 5/5 | | | | 2/2 |
| Peter Wong Tung Shun | 3/3 | | | | – |
| Yu Yali | 5/5 | | | | 2/2 |
| Hou Weidong | 5/5 | | | | |
| Hu Huating | | | 5/5 | | 2/2 |
| Wang Taiyin | | 5/5 | | 4/4 | |
| Liu Changshun | | 5/5 | | | 2/2 |
| Helen Wong Pik Kuen | | | | 1/1 | |
| Liu Hanxing | 1/1 | | 1/1 | | |
| Luo Mingde | 1/1 | 1/1 | | | |
| Liu Haoyang | 1/1 | | 1/1 | | |
| Peter Hugh Nolan | | | 5/5 | 4/4 | |
| Chen Zhiwu | | | 5/5 | 4/4 | |
| Yu Yongshun | | 5/5 | 5/5 | | |
| Li Jian | | 5/5 | 5/5 | | |
| Liu Li | | 5/5 | | 4/4 | |
| Jason Yeung Chi Wai | 1/1 | 1/1 | | | |
| **Directors resigned/ retired** | | | | | |
| Ma Qiang | 3/3 | | 3/3 | | |
| Zhang Yuxia | 3/3 | 3/3 | | | |
| Choi Yiu Kwan | 4/4 | 4/4 | | | |

### (V) Independent Non-Executive Directors

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

During the Reporting Period, the time that each Independent Non-executive Directors devoted to the work of the Bank was in compliance with the requirements of the *Working Practice of Independent Directors* of the Bank. Currently, three of the special committees under the Board of Directors, namely Audit Committee, Risk Management and Related Party Transactions Control Committee and Personnel & Remuneration Committee, were all chaired by Independent Non-executive Directors. These Independent Non-executive Directors actively participated in discussions during the meetings of the Board of Directors, and demonstrated the objectivity in decision-making process of the Board of Directors. The Board of Directors paid great attention to comments or suggestions proposed by Independent Non-executive Directors, and required Senior Management to specially assign specific persons to study them. In addition to attending meetings, each Independent Non-executive Director communicated with Senior Management regularly via various channels including on-site research and discussion sessions. During the Reporting Period, the Independent Non-executive Directors gave independent opinions on significant matters, including connected transactions, nomination of Directors and appointment of Senior Management and presented the resolutions of the Board of Directors and any other matters.

### (VI) Participation in Training and Research by Directors during the Reporting Period

During the Reporting Period, the Bank constantly emphasized improving the professional capabilities of the Directors. The Bank actively organized the Directors to attend different training sessions, provided opportunities for the Directors to participate in continuous career development plans. The Bank also provided timely information on commercial banks, regulations and capital market through weekly newsletter and monthly information. During the Reporting Period, the Bank organized the existing Directors to participate in the training course for Directors and Supervisors of listed companies, and introduced the newly-appointed Directors regarding their responsibilities and the regulations as well as the Bank's operation. Some of the Directors participated at lower level operating units research. Main research projects include:

1. Mr. Hu Huating, Mr. Liu Changshun and Mr. Wang Taiyin, Non-executive Directors, conducted research on business operations, asset quality, internal control audit and human resources of branches.

2. Mr. Choi Yiu Kwan, an Independent Non-executive Director, conducted research on the business operation and risk management of branches.

3. Mr. Liu Li, an Independent Non-executive Director, conducted research on management architecture, business operation and business development of branches.

4. Mr. Liu Li and Mr. Yu Yongshun, Independent Non-executive Directors, conducted research on the operations, audit and risk.

### (VII) Responsibility of the Board of Directors for the Financial Statements

The Directors are responsible for monitoring the preparation of annual financial statements to give a true and fair view of the Group's financial condition, operating results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2016, the Group selected and consistently applied appropriate accounting policies and made reasonable and prudent accounting judgements and estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's statement of reporting responsibility for their report is set out in the Auditor's Report on page 177 of the Annual Report.

### (VIII) Specific Notification and Independent Opinion of the Independent Non-Executive Directors on External Guarantees Provided by the Bank

The Independent Non-executive Directors of the Bank considered that the provision of external guarantees was in the ordinary course of the Bank's businesses as approved by the banking regulatory authorities in China. The Bank developed prudent risk management and monitoring policies, particularly on the standard of the credit assessment of guarantees, as well as operational and credit approval procedures, etc., so as to effectively control the risks of its external guarantee businesses.

## V. BOARD OF SUPERVISORS AND SPECIAL COMMITTEES UNDER THE BOARD OF SUPERVISORS

The Board of Supervisors is the supervisory body of the Bank and reports to shareholders. In accordance with the requirements of relevant laws and regulations, the responsibilities of the Board of Supervisors include strategic and operational supervision, capital and financial supervision, internal control and compliance supervision, risk monitoring, supervision of information disclosure and performance monitoring, of which strategic and operational supervision serve as a direction while supervisions on capital and finance, internal control and compliance, and risk serve as the foundation. The supervision of information disclosure plays an important role in corporate governance, while performance monitoring comprehensively reflects the results of the above-mentioned supervisions.

There are eleven members on Board of Supervisors, including the Chairman, four Shareholder Representative Supervisors, two External Supervisors, and four Employee Representative Supervisors. Mr. Song Shuguang serves as the Chairman of Board of Supervisors. Four Shareholder Representative Supervisors are senior management of large-scale state-owned companies. Two External Supervisors were the responsible personnel of related departments of a large-scale insurance company and a peer bank before their retirement. Four Employee Representative Supervisors are the responsible personnel of audit department, inspection department, Board of Supervisors Office and employee union department. The Board of Supervisors has three Special Committees: Performance and Due Diligence Supervision Committee has four members including the Chairman of Board of Supervisors as the Chairman, two External Supervisors and one Employee Representative Supervisor. They are responsible for the supervision of the performance of the Board of Directors and Senior Management. Nomination and Remuneration Committee has six members including the External Supervisor as the Chairman, two Shareholder Representative Supervisors, one External Supervisor and two Employee Representative Supervisors. They are responsible for setting Supervisor's election and appointment procedures and standards, qualification assessment of the elected and appointed Supervisors, the remuneration of the Supervisors and the evaluation of their annual performance. Finance and Internal Control Supervision Committee has six members, including the External Supervisor as the Chairman, two Shareholder Representative Supervisors, one External Supervisor and two Employee Representative Supervisors. They are responsible for the supervision of financial management, internal controls and risk management of the Group.

In 2016, in accordance with the requirements of related State's laws and regulations, the regulatory requirements and the Articles of Association, the Board of Supervisors constantly adapted to the new normal of economy and changes in the Bank's operation management, explored and improved its working system in practice, built and completed supervision system, and strived to innovate its working mode to improve the breadth and width of supervision. All the Supervisors faithfully and diligently fulfilled their duties, giving full play to the independent role of Board of Supervisors in corporate governance.

In 2016, attendance of the Supervisors of the Bank of the meetings of the Board of Supervisors is set out as follows:

**Attendance about Current Supervisors**

| Supervisors | Position | Attendance at Meetings in Person | Attendance in Person Percentage (%) |
|---|---|---|---|
| Song Shuguang | Chairman of the Board of Supervisors | 5/5 | 100 |
| Gu Huizhong | Shareholder Representative Supervisor | 3/5 | 60 |
| Zhao Yuguo | Shareholder Representative Supervisor | 3/3 | 100 |
| Liu Mingxing | Shareholder Representative Supervisor | 3/3 | 100 |
| Zhang Lili | Shareholder Representative Supervisor | 2/3 | 66.7 |
| Tang Xinyu | External Supervisor | 5/5 | 100 |
| Xia Zhihua | External Supervisor | 3/3 | 100 |
| Chen Qing | Employee Representative Supervisor | 5/5 | 100 |
| Du Yarong | Employee Representative Supervisor | 5/5 | 100 |
| Fan Jun | Employee Representative Supervisor | 5/5 | 100 |
| Xu Ming | Employee Representative Supervisor | 3/3 | 100 |
| Average attendance in person percentage | | | 93.3 |

**Attendance about Supervisors Resigned/Retired**

| Former Supervisors | Former Position | Attendance at Meetings in Person | Attendance in Person Percentage (%) |
|---|---|---|---|
| Lu Jiahui | External Supervisor | 2/2 | 100 |
| Teng Tieqi | Shareholder Representative Supervisor | 1/2 | 50 |
| Dong Wenhua | Shareholder Representative Supervisor | 0/2 | 0 |
| Li Jin | Shareholder Representative Supervisor | 1/2 | 50 |
| Gao Zhongyuan | Shareholder Representative Supervisor | 0/2 | 0 |
| Yan Hong | Shareholder Representative Supervisor | 4/5 | 80 |
| Shuai Shi | Employee Representative Supervisor | 2/2 | 100 |
| Average attendance in person percentage | | | 54.3 |

## VI. SENIOR MANAGEMENT

The Bank's Senior Management comprised the President, Executive Vice President, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. The Bank adheres to a system under which the President, as the ultimate responsible officer, reports to the Board of Directors. All functional departments, branches, offices and other Senior Management report to President. The President has the authority to conduct the Bank's business operations in compliance with the relevant laws and regulations, the Articles of Association and authorization from the Board of Directors, with primary responsibilities including but not limited to day-to-day operational business management of the Bank, implementation the resolutions of the Shareholders' General Meetings and meetings of Board of Directors, draft of annual business plans and investment strategy plans, and implementation of such plans upon approvals by Shareholders' General Meeting or meetings of the Board of Directors.

During the Reporting Period, Senior Management conducted business operations within the scope authorized by the Articles of Association and the Board of Directors, and achieved the business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the work of Senior Management for the year 2016.

## VII. RISK MANAGEMENT

The Group builds the risk management framework within the organized structure and clear responsibility; defined roles and responsibilities among the Board of Directors, Board of Supervisors, Senior Management, the operating departments, Risk Management Department and Internal Audit Department, which made mechanism of risk management work in a cooperative and balanced way at different levels.

The Board of Directors has the ultimate responsibility, takes the final responsibility of comprehensive risk management, and is the highest decision-making authority and monitors and evaluates the bank-wide risk management matters through Risk Management and Related Party Transactions Control Committee. Board of Supervisors monitors the overall risk management work, is mainly responsible for the inspection and monitoring of the accountability of the Board of Directors and Senior Management. Senior Management are responsible for the overall risk management implementation, mainly including the setup of feasible risk management framework, risk appetite, plan for clear execution and accountability to ensure the risk management procedures are effectively implemented. Senior Management set up a core of "1+3+2" Risk Management Committee for daily risk decision making process.

The procedures of risk identification and evaluation include the follows: First, with the consideration of changing external economic and financial situation, regulatory requirement, the Bank evaluates the risks facing operations and management and determines the risk for evaluation. Second, considering the risk environment, the Bank evaluates the possibility and degree of risks and determines the nature. Third, the Bank evaluates the risk management ability and effectiveness from management framework, process management mechanism, to ensure the risk management mechanism is able to effectively identify, monitor and manage the relevant risks. Regarding the primary risks, besides the overall framework and detailed procedures of risk management, the Bank provides sufficient allowance on specific basis for the unexpected loss, Please refer to the "Risk Management" under "Management Discussion and Analysis" section in this Annual Report for the Group's risk management.

During the Reporting Period, facing a complex economic and financial situations at home and abroad, the Group proactively dealt with the changing market and continued putting risk management at top priority. The Board of Directors approved the *Risk Management Plan of Bank of Communications Co., Ltd. for the Period of the 13th Five-Year Plan (2016-2020),* the *Risk Culture Policy of Bank of Communications Co., Ltd.,* the *Report Policy of Risk Management of Bank of Communications Co., Ltd.,* the *Risk Reserves Management Policy of Bank of Communications Co., Ltd.*, and etc. The Group continued improving the risk management framework, listened the Senior Management reporting of risk management on quarterly basis, understood the credit risk, market risk, liquidity risk, operation risk, country risk, interest rate risk, reputation risk, IT risk and other risks, and timely provided findings and recommendations. The Group was able to identify, measure, evaluate, monitor, manage and report risk by effective risk management system. The Group effectively managed, not eliminated, risk of the operation objectives to ensure efficient and effective operations, and reasonably ensured the true and fair of financial report and compliance of legal and regulatory requirements and ensure the stable asset quality. The Board of Directors confirmed the risk management system was stable and effective.

## VIII. INTERNAL CONTROL

### (I) Statement of the Board of Directors on Internal Control Responsibility

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

The Bank's internal controls aim to ensure the compliance of the Bank's business activities with the provisions of State's laws and the Bank's internal regulations and rules, truthfulness and completeness of information in the financial report, effectiveness of risk management system and safeguard of assets; improve operation efficiency and effectiveness, and ultimately facilitate the achievement of operational objectives and development strategies.

(II) 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 and relevant guidelines, as well as other regulatory requirements on internal control. During the Reporting Period, the Board of Directors reviewed the risk management and internal control systems of the Bank and its subsidiaries, and found them stable and effective.

(III) Self-Assessment Report on Internal Control and Auditor's Report on Internal Control

The Bank disclosed the assessment report on internal control and auditor's report on internal control along with the Annual Report.

The Board of Directors conducted assessment on the effectiveness of internal controls of the Bank as at 31 December 2016 (as the date of the assessment report on internal control) in accordance with the *Guidelines on Internal Control for Commercial Banks*, the *Basic Standard for Enterprise Internal Control*, and relevant guidelines, as well as other regulatory requirements on internal controls. Based on the Bank's standard criteria for evaluating deficiencies of internal control over financial reporting, there were no material weakness or significant deficiencies of internal controls over financial reporting as at the base date of the assessment report on internal control, and the Bank maintained effective internal control over financial reporting in all material respects. In accordance with the Bank's internal control on the identification of non-financial reporting deficiencies, no significant deficiencies were identified in the internal control of non-financial reporting. The Bank proactively put efforts in improving and monitoring items with rooms for improvement, which did not pose any substantial impacts on the soundness and effectiveness of internal control and reliability of financial reporting.

No event influencing the effectiveness of internal control assessment was identified from reporting date to the issuance date of the internal control assessment report.

PricewaterhouseCoopers Zhong Tian LLP was engaged by the Bank to assess the effectiveness of the internal control of financial reporting. It was considered that the Bank maintained effective internal control on the key areas of financial reporting in accordance with *the Basic Internal Control Norms for Enterprises* and related regulatory requirements.

In 2016, the Bank maintained the overall stability and effectiveness of internal control system. In 2017, the Bank will continue to prudently operate in compliance with laws and regulations and constantly continue to enhance the requirements of internal controls.

## IX. ACCOUNTABILITY OF MATERIAL MISTAKES IN INFORMATION DISCLOSURE OF ANNUAL REPORT

The Bank was devoted to enhancing the quality of its annual report by improving its disclosure. With the establishment of an annual report disclosure system and the implementation of *Administrative Measures for the Disclosure of Information, Administrative Measures for Report with Major Information, Administration Measures for the Confidentiality of Insider Information and Administrative Measures for Subsidiaries' Report with Major Information*, the reporting, preparation and examining of information disclosure were specified. The responsibilities of every position were further clarified, and employees were accountable for their actions, thereby preventing material mistakes in information disclosure. In 2016 annual report, there was no material mistake in information disclosure.

## X. MANAGEMENT OF INSIDE INFORMATION

The Bank put great emphasis on the management of insider information and insiders, thereby the Bank adopted various ways to prevent insider trading. The Bank strictly adhered to BoCom's policies, such as *Insider Registration Policy and Administration Measures for the Confidentiality of Insider Information*, to establish a system for the registration and administration of people with access to the insider information, and ensure the confidentiality of the insider information. In addition, the Bank strictly controlled the number of people with access to insider information with a timely registration system, especially in the periods of results announcements and significant events. During the Reporting Period, there was no leakages of insider information.

For the details of the Bank's *Insider Registration Policy*, please refer to the Bank's website at www.bankcomm.com, SSE website at www.sse.com.cn and HKEx website at www.hkexnews.hk.

## XI. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank required that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares* issued by the CSRC. The Bank also adopted Model Code. After specific enquiries, all the Directors, Supervisors and Senior Management of the Bank complied with the above rules in 2016, except for Mr. Xu Ming, an Employee Representative Supervisor, who sold 180,000 H shares of the Bank on 22 November 2016, 28 November 2016, 1 December 2016 and 5 December 2016, in total.

## XII. AUDITOR'S REMUNERATION

The Bank's 2015 Annual General Meeting approved *Resolution in relation to the Appointment of Auditors for the Year* of 2016. PricewaterhouseCoopers Zhong Tian LLP was appointed by the Bank to perform the audit for 2016 financial statements under CAS and internal control of the Bank: PricewaterhouseCoopers was appointed by the Bank to perform the audits for 2016 financial statements under IFRSs. Both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have provided audit services for the Bank for three consecutive years (year of 2014, year of 2015 and year of 2016).

In 2016, PricewaterhouseCoopers and its network member firms were engaged to provide services to the Group (including the Group's subsidiaries and overseas branches) with a total audit fees of approximately RMB42.403 million, which included financial statement audit fees of RMB37.225 million, internal control audit fees of RMB2.23 million and non-audit service fees of RMB2.948 million.

During the Reporting Period, the non-audit services provided by PricewaterhouseCoopers and its network member firms to the Group mainly included the assurance services for the report on corporate social responsibilities and translation services. The Audit Committee satisfied that such services did not impaired the independence of PwC.

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

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

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

## XIV. INVESTOR RELATIONS (IR)

During the Reporting Period, the Bank focused on communications with investors via multiple channels, proactively provided services to shareholders and promoted the investment value of BoCom.

- The Bank enhanced the communications with investors and analysts through multiple channels such as "Bring In and Go Global" and "online + offline". The Bank met "Bring In" investors and participated in investment forums through "Go Global", closely interacting with the capital market. The investor relationship team met 48 groups of institutional investors and analysts and communicated with 208 personnel from 139 domestic and overseas investment institutions face to face; the team participated in 10 investors' forums held by domestic and overseas investment banks and securities traders and shared with more than 300 investors. In addition to the offline communication channels of Shareholders' General Meetings and meetings with the investors, the Bank continued to highlight the Bank's deepening reform and transformation development with the market, introduced the Bank's investment value and answered investor-concerned problems in a timely manner via the five existing online platforms (including investor mailbox, investor hotline, website columns, SSE e-interaction Platform and WeChat public account).

- The Bank promoted the effective integration of investor relationship and shareholder-customer services. The Bank established the service website for domestic corporate shareholder-customers, built the information platform "Shareholder-Customer Service of BoCom", closely combined the business development and shareholder services, and actively implemented the dedicated action plans for shareholder-customers relationship.

# CORPORATE SOCIAL RESPONSIBILITIES

Based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society", the Group earnestly puts the State's macro-economic policies into practice, continuously upholds the "BoCom Strategy" to support the real economy, proactively fulfills its corporate social responsibilities and the demands of stakeholders, and strives for the coordination of economic, environmental and social benefits.

## I. ENHANCEMENT ON RESPONSIBILITY MANAGEMENT

The Bank was the first listed domestic company to establish the Corporate Social Responsibility Committee under the Board of Directors. During the Reporting Period, the Bank further improved the organizational structure in term of responsibility governance by renaming Corporate Social Responsibility Committee under the Board of Directors to Social Responsibility and Consumer Protection Committee under the Board of Directors. The Committee, adhered to domestic and overseas supervisory regulations, focused on fulfilling corporate social responsibilities, put "Green Credit" into practice and safeguarded the legal rights and benefits of stakeholders. During the Reporting Period, the Committee held two meetings, during which eight proposals and reports including the annual corporate social responsibility report, the "Green Credit" report, the employee care report and the summary and plan of donation were reviewed and approved, and related comments and suggestions were provided to the Bank, which served as guidelines to the fulfilment of responsibilities across the Bank.

The Group placed great emphasis on the communication with stakeholders. During the Reporting Period, based on the expectations and requirements of the eight types of major stakeholders identified, i.e., customers, shareholders, government agencies, employees, environment, communities, partners and social organizations, the Group continued to commit itself to the key issues under its corporate social responsibilities and set targets correspondingly. The Group's efforts in corporate social responsibilities were well-recognized by stakeholders, media and professional institutes. The Bank was awarded the "Best Social Responsibility Award for Financial Institution" by the China Banking Association for another time.

During the Reporting Period, social contribution value per share of the Bank reached RMB3.77.

## II. TARGETED POVERTY ALLEVIATION

### (I) Five-Year Plan for Targeted Poverty Alleviation

The Bank made *2016-2020 Poverty Alleviation Plan of BoCom* and *2016 Poverty Alleviation Plan of BoCom* in the beginning of the year, creating a solid foundation for poverty alleviation.

1. Basic strategies: the Bank implemented the guidelines of the 18th National Party Congress and those of the Second, Third, Fourth, Fifth Plenary Sessions of the 18th Central Committee, put the principles emphasized by the General Secretary Xi Jinping into practice. The Bank also actively used its financial expertise to alleviate poverty by ways of finance, industry, technology and education, and facilitated economic development in poverty areas, under the leadership of CPC and the instructions of the government.

2. Overall objective: in accordance with the principles of Fifth Plenary Session of the 18th session of Central Committee of the CPC and Poverty Alleviation and Development Meeting held by the Central Committee of the CPC and the PBOC's requirements for providing suitable financial services for poverty alleviation and development, the Bank assisted local governments of Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province to set up a record of people in poverty. The Bank integrated local resources and its own resources to improve local economy with an emphasis on its corporate social responsibility as a state-owned enterprise.

3. Major tasks: Eight major tasks were carried out by focusing on the regional poverty alleviation, actively putting forward financial poverty alleviation plan, developing industries featuring poverty alleviation, promoting technical advancements for poverty alleviation, selecting the right person for the poverty alleviation projects, facilitating education, strengthening "internet + poverty alleviation", and gathering all resources across the Bank for the targeted poverty alleviation.

4. Safeguards: a leadership mechanism and a committee were established. The focuses included on-site studies guided by branches leaders, setup of fund management mechanism for poverty alleviation, setup of evaluation system of poverty alleviation work, promotion of poverty alleviation projects, creating a good atmosphere in the Bank.

## (II) Overview of 2016 Targeted Poverty Alleviation

During the Reporting Period, the Bank achieved "Three Stabilities and Five Focuses", in which "Three Stabilities" means "stable financial poverty alleviation, progressive direct-targeted poverty alleviation by Head Office, and stable and orderly direct-targeted poverty alleviation by branches" and "Five Focuses" mean focuses on "top-level design, policy integration, targeted projects, coordinated procedures and publicity". In 2016, with the support of State Council Leading Group Office of Poverty Alleviation and Development, the Bank assisted in the reduction of poverty population of Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province by 11,700, 7,500 and 4,057, achieving the objective of the year.

1. **Focus on top-level design.** The Bank established a team for poverty alleviation with President Niu Ximing as the team leader, arranging poverty alleviation projects for Head Office and branches. Chairman Niu Ximing led the team in person to carry out on-site studies and work at Litang County in Sichuan Province, Tianzhu County in Gansu Province and Hunyuan County in Shanxi Province with an average elevation of 4,300 meters above the sea level. The Chairman of the Board of Supervisors, Song Shuguang, and Vice Presidents, Yu Yali and Wang Jiang, also performed on-site studies and work on poverty alleviation respectively, creating a solid foundation for targeted poverty alleviation. The Bank actively sent personnel to support poverty alleviation in poor areas by seconding five personnel from Head Office and fifty-two personnel from branches and first secretaries to targeted region.

2. **Focus on financial poverty alleviation.** The Bank positively carried out financial poverty alleviation by issuing *Suggestions on Actively Facilitating Targeted Financial Poverty Alleviation*, by setting up new finance models serving the real economy, providing financial support to the areas with special difficulties and direct support to the old revolutionary areas and central soviet areas with special poverty alleviation funds. As at the end of the Reporting Period, the poverty alleviation fund was over RMB70 billion. The Bank used its financial expertise and introduced corporate investments totalling RMB1.6 billion, to improve the economy in poor areas.

3. **Focus on targeted projects.** The Bank's poverty alleviation personnel actively conducted studies and work on targeted poverty alleviation projects. In Tianzhu County, Gansu Province, RMB2 million was invested in building 95 green houses, benefiting 420 peasants and herdsmen, while in Hunyuan County, Shanxi Province, RMB1.26 million was invested in supporting a comprehensive development project of eco-breeding of poultry and a construction project of deep wells and auxiliary facilities in Yaocun Village, Caicun Town, enabling 2,115 people to get out of poverty. In Litang County, Sichuan Province, RMB1.5 million was invested in establishing pasture, which helped to reduce the poverty population by 444.

*Livestock's Shed of Poverty Alleviation, BoCom*

4. **Focus on coordination.** The Bank was in active cooperation with middle and primary schools and introduced an online teaching platform, into Tianzhu County, Gansu Province and donated 115 second-hand computers to Chakouyi Village, Tianzhu County. The Bank also held different activities for teenagers living in poverty, such as summer camps. The Bank innovated "Internet +" poverty alleviation program by creating a "Targeted Poverty Alleviation" module on "Healthy BoCom", a mobile platform, motivating employees in Head Office to purchase agricultural products and by-products from poverty areas, amounting to RMB1.4 million. Under the cooperation of the Communist Party and labor union, the Bank launched a youth employment plan for poor college graduates, actively held "Poverty Alleviation Day" activities, and introduced a household support plan to increase household income.

5. **Focus on propaganda.** The Bank reported information about poverty alleviation to superior authorities, and promoted BoCom's experience in poverty alleviation externally and internally. The Bank organized internal reporting and promotion of poverty alleviation information, and related in-depth reports in a timely manner. A special column about targeted poverty alleviation was issued in *BoCom*, a newspaper in which many poverty alleviation stories during "Poverty Alleviation Day" were written in "Cultural BoCom" for better poverty alleviation culture.

(III) Achievements in Targeted Poverty Alleviation

**Statistics about 2016 Targeted Poverty Alleviation**

*(RMB0'000 unless otherwise stated)*

| Index | Quantity and Status |
|---|---|
| I. Overview | |
| Including: 1. Capital | 1,777.74 |
| 2. Number of recorded poor people helped by BoCom | 2,549 |
| II. Investment by Project | |
| 1. Social poverty alleviation | |
| Including: 1.1 Investment in direct-targeted poverty alleviation | 1,149.61 |
| 2. Other projects | |
| Including: 2.1 Number of projects | 153 |
| 2.2 Investments | 628.13 |
| 2.3 Description of other projects | Poverty alleviation projects in other channels such as employees' donation |
| III. Awards (Content and Grade) | |
| At 2016 Ceremony for Social Responsibility and Charity in China held by xinhuanet and Research Center for Corporate Social Responsibility Chinese Academy of Social Sciences, the Bank was awarded the "2016 Social Responsibility Award on Targeted Poverty Alleviation of China". | |
| At the Award Ceremony for Targeted Poverty Alleviation and Dual Action Assessment held by Gansu provincial party committee of the provincial government, the Bank was given the "Popularity Award" for its efforts on targeted poverty alleviation. | |
| The case that BoCom helps Tianzhu County, Gansu Province, is listed as a good example in *2016 Blue Book of Poverty Alleviation by Enterprises* prepared by China Foundation for Poverty Alleviation. | |

In addition to poverty alleviation donation initiated by Head Office for regional targeted poverty alleviation, the Bank utilized its financial expertise to conduct financial poverty alleviation. As at the end of the Reporting Period, the Bank's loans on targeted financial poverty alleviation were RMB6.22 billion.

### (IV) Subsequent Plan of Targeted Poverty Alleviation

In 2017, BoCom will, in accordance with *2016-2020 Poverty Alleviation Plan of BoCom* and *2017 Poverty Alleviation Plan of BoCom*, put every effort to facilitate all targeted poverty alleviation projects and help Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province, assigned by the State Council to BoCom, to alleviate poverty.

## III. SUPPORT TO REAL ECONOMY

During the Reporting Period, the Bank put the State's macro policies into practice by firmly upholding five development concepts, continuously following key State's strategies and arrangements such as strategic initiative "Belt and Road" and Free Trade Zone, and actively establishing reserves for implementation of key projects. In addition, the Bank actively promoted the strategic thinking of national economic transformation and progression, supported supply-side structural reforms, optimized the credit structure, put the principle of "de-capacity, de-stocking, de-leveraging, cost reduction and weakness remediation" into practice and utilized its financial resources for the development of a balanced regional economic development.

*(In 100 millions of RMB)*

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Total loan balance | 34,317.35 | 37,220.06 | **41,029.59** |
| Central and western China | 9,211.45 | 10,031.51 | **11,053.40** |
| Medium, small and micro enterprises | 12,591.51 | 12,302.28 | **12,768.70** |
| Agriculture related enterprises | 5,602.07 | 5,992.70 | **6,247.68** |

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

## IV IMPROVEMENT OF PEOPLE'S LIVELIHOOD

During the Reporting Period, the Bank provided credit products to individual customers to meet their reasonable financing needs, supported the transformation in consumption, industrial development under new consumption models, and put more effort in supporting consumption on education, health, retirement, culture, tourism and housing. As at the end of the Reporting Period, the growth of the balances of loans made to individuals, sciences, education, culture and public health sectors, and security housing projects was higher than industrial average.

*(in 100 millions of RMB)*

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Loans to security housing projects | 352.25 | 353.27 | **426.10** |
| Loans to sciences, education, culture and public health sectors | 598.33 | 717.31 | **805.97** |
| Loans to individuals | 8,683.57 | 9,933.19 | **11,861.87** |

## V. GREEN CREDIT

During the Reporting Period, the Bank actively innovated green financial products and services and issued the first tranche of green financial bonds amounting to RMB30 billion successfully. Accordingly, the proportion of "green" customers and the related outstanding balance remained at a high level. In addition, loans made to enterprises in low-carbon economy, energy-saving and environmental protection areas continued to increase, while loans made to sectors characterized by "heavy pollution, high energy consumption and over-capacity" were effectively reduced.

*(in 100 millions of RMB unless otherwise stated)*

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| The proportion of "green" customers (%) | 99.58 | 99.64 | **99.66** |
| The proportion of loan balance made to "green" customers (%) | 99.78 | 99.79 | **99.84** |
| Loan balance made to energy-saving and emission reduction sectors | 1,524.31 | 2,047.95 | **2,411.99** |

Note 1: "Loan balance made to energy-saving and emission reduction sectors" is the balance of the "green" customers according to the Bank's policy regarding low-carbon economy, environmental protection and comprehensive resource utilization.

## VI. GREEN SERVICES

The Bank developed e-banking channels and increased the amount of e-banking products and services, so as to lower the time cost of customers, save social resources and reduce negative environmental impacts. During the Reporting Period, the channel diversion rate of e-banking services increased significantly to 91.42%, which created positive environmental impacts equivalent to the reduction of carbon dioxide emission by nearly 11,919.72 tons, representing an increase of 40.2% compared with last year.

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Channel diversion rate of e-banking services (%) | 83.13 | 88.13 | **91.42** |

## VII. GREEN OPERATIONS

The Bank was dedicated to becoming an environmentally friendly enterprise by putting green operation concept into practice. During the Reporting Period, the Bank reduced resource consumption at each operating and managing segment, making great achievements in energy-saving and emission reduction, recycling, green procurement and green construction. The Bank set up an energy-saving organization to check energy-saving projects regularly and advocate environmental protection and green office among employees. It required not only the Bank but suppliers to comply with policies and rules on green purchases, to consider environmental factors during purchases, reduce environmental impacts, and become more aware of environmental protection. Therefore, the Bank's Zhangjiang Project Phase III was awarded "2016-2017 National Quality Engineering Award". In addition, the Bank actively advocated and encouraged green charity practices among employees, and promoted environmental protection in the society.

## VIII. CUSTOMER SERVICES

Upholding the belief in "One BoCom for One Customer", the Bank improved customer relationship management, service quality and service quality management system, enhanced customer services and customer rights protection, and spared no efforts to be the best in the financial service industry. During the Reporting Period, the Bank was ranked No. 1 in China Retail Banking Satisfaction Study conducted by J.D. Power for three consecutive years, with a score of 846. The Bank actively participated in the 2016 "Top 1000" model unit assessment organized by the China Banking Association in which 140 branches of the Group were awarded, ranking No.1 in the banking industry with the highest number of awarded outlets in 2016. Besides, the Bank was awarded "Best Private Bank in China – Best Customer Service" at the "2016 International Private Wealth Management Forum & China Award" held by the Wealth APAC.

## IX. CARES ABOUT EMPLOYEES

The Bank motivated and inspired employees and facilitated corporate development by creating a respectful, diverse and harmonious working environment and atmosphere. At the end of the Reporting Period, the Bank had 92,556 employees in China, of which 52.82% were female. During the Reporting Period, the Bank did not hire any part-time staff.

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Total number of employees | 93,658 | 91,468 | **92,556** |
| Number of female employees served as medium-to-top management | 2,419 | 2,474 | **2,512** |
| Number of ethnic minority employees | 3,240 | 3,658 | **3,832** |
| Employee happiness index | 64.69 | 66.09 | **68.93** |

During the Reporting Period, the Bank strengthened its employees care mechanism and continuously facilitated the development of “Happiness BoCom”. Head Office established the Happiness BoCom Management Committee. In order to use the happiness index as a “wind vane” in the “1+3+1” strategic appraisal system, prepared and issued under the *Provisional Measures of BoCom on Happiness Index Management* and *Implementation Plan of Comprehensive Appraisal System for Happiness BoCom*. Meanwhile, the Bank constantly developed and constructed “healthy hut” and devoted to doing practical works to boost employees’ happiness, optimized and upgraded “Healthy BoCom” to improve employees’ experience, and held different cultural, sports and art activities to enhance employees’ happiness, belonging and honor, thus making employees feel like home.

## X. DEVOTION TO PUBLIC WELFARE


*Condolences to Nursing Home by Volunteers, Hong Kong Branch*

During the Reporting Period, the Bank was dedicated to public charity. The Bank launched "Gateway to Tomorrow – academic grant for disabled teenagers", thereby granting RMB100 million in total to subsidize 37,000 disabled students and 126 special education schools, award 1,400 excellent special education instructors and 184 outstanding disabled university students, and support related trainings, benefiting 5,280 special education instructors. The Bank and HSBC Bank (China) Company Limited jointly launched BoCom·HSBC Shanghai Yi Le Action Plan for senior citizens with a contribution of RMB1.943 million, to develop new community retirement models, subsidize 80-100 retirement service projects, and benefit 50,000 senior citizens in communities. Meanwhile, the Bank was devoted to disaster recovery and reconstruction, and donated RMB4,709,100 in total to the earthquake stricken areas in south Taiwan and Kumamoto, Japan, and tornado-stricken areas in Yancheng, Jiangsu Province, flooded areas in Hebei, and the police forces engaged in flood-fighting and emergency rescues. Furthermore, employees of the Bank also proactively participated in various volunteer services such as visiting elderly and children, caring left-behind children, supporting and helping the poor, promoting financial literacy and environmental protection.

For further information about the fulfilment of corporate social responsibilities of the Bank, please refer to the *Corporate Social Responsibility Report 2016 of Bank of Communications Co., Ltd*. at the Bank's website, the website of SSE, and the website of HKEx.

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

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

As at 31 December 2016, the Group has been involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB1.669 billion. The Group is of the view that these litigations will not have any material effect on the financial position of the Group.

## II. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Group and its related parties were the monetary transactions conducted during the ordinary course of business. No significant related party transaction occurred during the Reporting Period.

As at the end of the Reporting Period, details of continuing related party transactions of the Group are disclosed in Note 44 to the Consolidated Financial Statements set out in this Annual Report. Directors, Supervisors and Senior Management of the Bank had outstanding loan balance of RMB729,000 in the Bank as at 31 December 2016.

## III. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

### (I) Material Trust, Sub-Contract and Lease

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

### (II) Material Guarantees

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

### (III) Other Material Contracts

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

## IV. IMPLEMENTATION OF UNDERTAKINGS

(I) On 8 July 2015, the Bank was notified by the Ministry of Finance, the largest shareholder, who committed to not reducing its share holdings in the Bank during the period of abnormal stock market volatility. The Ministry of Finance did not reduce its holdings from the date of commitment to the date of this report.

(II) At 2015 Annual General Meeting dated 27 June 2016, the Bank deliberated and approved the Proposals on the Amendments to 'Dilution of Current Returns on Preference Shares Issued by Bank of Communications Co., Ltd. and Remedial Measures'. The Bank was committed to remediating the possible dilution of current returns on ordinary shares due to the private placement of preference shares by strengthening raised capital management, taking full advantages of capital, enhancing the capital constraint mechanism, promoting capital allocation efficiency, optimizing asset structure, transforming the mode of business development, focusing on shareholders' returns and implementing stable profit distribution policies. Meanwhile, as required by the CSRC, the Bank's Directors and Senior Management also have committed to the implementation of the return remedies. During the commitment period, all of the Bank and the Directors and Senior Management fulfilled their commitments.

## V. OVERVIEW OF SHARE INCENTIVE PLAN

As part of the incentive scheme, the Bank granted to members of Senior Management share appreciation rights in 2005 and 2006, respectively. The issue of share appreciation rights issued do not involve any issue of new shares or dilution of the shareholding of the existing shareholders. As at 31 December 2016, the share appreciation rights granted in 2005 and 2016 were expired, and no one exercised any rights in the expiry period. Details of the share appreciation rights are set out in Note 12(c) to the Financial Statements.

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

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

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

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

## VIII. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM AND SPONSOR INSTITUTION

During the Reporting Period, PricewaterhouseCoopers Zhong Tian LLP was appointed by the Bank to perform the audits for the financial statements under CAS and the internal control of the Bank and provide other related professional services. PricewaterhouseCoopers was appointed by the Bank to perform audits for the financial statements under IFRSs and provide other related professional services.

The Bank appointed Guotai Junan Securities Co., Ltd to perform as sponsor of non-public offering of domestic preference shares.

| | |
|---|---|
| Change of accounting firm or not | No |
| Name of domestic accounting firm | PricewaterhouseCoopers Zhong Tian LLP |
| Current year remuneration[1] | RMB22.075 million |
| Audit period[2] | 3 years |
| Name of overseas accounting firm | PricewaterhouseCoopers[3] |
| Current year remuneration[1] | RMB15.15 million |
| Audit period[2] | 3 years |
| Accounting firm for audit on internal control | PricewaterhouseCoopers Zhong Tian LLP |
| Current year remuneration | RMB2.23 million |
| Name of sponsor institution | Guotai Junan Securities Co., Ltd |
| Remuneration of sponsor institution | RMB12 million (including sponsorship and underwriting fees) |

Notes:

1. The remuneration of accounting firm excludes the internal control audit fees and non-audit service fees.
2. The term of audit refers to the period in which the audit firm provides audit services for the Group continuously.
3. Including PricewaterhouseCoopers overseas network firms.

# ORGANISATION CHART OF THE GROUP (AS AT 31 DECEMBER 2016)

**Shareholders' General Meetings**

**Board of Directors**

**Senior Management**

Office of the Board of Directors

Audit Supervisory Bureau

Sub-bureau of Audit Supervisors
Beijing, Shanghai, Guangzhou,
Wuhan, Chengdu, Shenyang

## Headquarters & Domestic Subsidiaries

**Corporate & Business Module**
Corporate Business Department
[Investment Banking Business Center]
[Strategic Customers Department]
International Banking Department
[Cross-border Trade and Finance Center]
Small Enterprise Finance Department
Beijing Administrative Department
(Group Customer Department)
Asset Custody Business Center
(Asset Custody Department)
[Asset Custody and Operation Center]
Offshore Finance Business Center
Bank of Communications International Trust Co., Ltd.
Bank of Communications Financial Leasing Co., Ltd.
BoCom International Holdings Company Limited

**Retail and Private Business Module (Internet Finance Business Module)**
Personal Finance Business Department
(Consumer Protection Department)
Internet Channels Department
[Online Finance Business Center]
Private Banking Center
(Private Banking Department)
Pacific Credit Card Center
Internet Finance Business Center
Bank of Communications Schroder Fund Management Co., Ltd.
BoCommLife Insurance Company Limited

**Interbank and Market Business Module**
Financial Institution Department
[Interbank Strategic Customers Department]
Financial Market Business Center
Asset Management Business Center
Precious Metal Business Center
Bills Business Center

**Risk Control Module**
Risk Management Department
(Asset Preservation Department)
[Risk Monitoring Center]
Credit Authorization Department
Credit Authorization Approval Center
Legal Compliance Department

Offices
(Office of Party Committee, Security Department)

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

Asset and Liability Management Department

Financial Budget Department
[Management Information Center]

Strategic Investment Department

Operations Management Department
(Business Integration Department)

Information and Technology Management Department
[Office of General Engineer (Application and System Framework Department)]

Supervision Bureau
(Anti-fraud Department)

Office of Inspection Leadership Team

Corporate Culture Department
(Publicity Department of the Party Committee)

Employee Work Department
(Labor Union, Youth League Committee, Party Committee)

Department of General Affairs

Development and Research Department
(Financial Research Center)

Training Center (Party School)

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

Software Development Center (Shanghai)

Software Development Center (Shenzhen)

Software Development Center (Beijing)

Data Center

Test Center

Note: Square brackets indicate internally established departments, round brackets indicate cooperation for specific function.

## Board of Supervisors

- Office of the Board of Supervisors

### Domestic Branches

- 37 Provincial Branches Directly Managed by Head Office
  - 195 Branches Managed by Provincial Branches
- 3,285 Banking outlets

### Overseas Branches, Subsidiaries

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

### Other Subsidiaries

- China BoCom Insurance Co., Ltd.

### Rural Banks

- Dayi BoCom Xingmin Rural Bank
- Anji BoCom Rural Bank
- Xinjiang Shihezi BoCom Rural Bank
- Qingdao Laoshan BoCom Rural Bank

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

## List of Domestic Provincial Branches and Directly Operating Branches of Head Office

| No. | 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 Autonomous 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 |

| No. | 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 | BoCom Tower, 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 Center, Longhua District, Haikou City, Hainan Province |
| 29 | Bank of Communications Chongqing Branch | No. 158 Zhongshan Third Road, Yuzhong District, Chongqing City |
| 30 | Bank of Communications Sichuan Provincial Branch | Bank of Communications Building, No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province |
| 31 | Bank of Communications Guizhou Provincial Branch | No. 4 Shengfu Road, Yunyan District, Guiyang City, Guizhou Province |
| 32 | Bank of Communications Yunnan Provincial Branch | Bank of Communications Building, No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province |
| 33 | Bank of Communications Shaanxi Provincial Branch | No. 88 Xixin Street, Xincheng District, Xi'an City, Shaanxi Province |
| 34 | Bank of Communications Gansu Provincial Branch | No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province |
| 35 | Bank of Communications Ningxia Hui Autonomous Region Branch | No. 296 MinZu North Street, Xingqing District, YinChuan City, NingXia Hui Autonomous Region |
| 36 | Bank of Communications Xinjiang Uygur Autonomous Region Branch | No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region |
| 37 | Bank of Communications Qinghai Provincial Branch | No. 29 Wusi West Road, Chengxi District, Xining City, Qinghai Province |

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

## List of Overseas Banking Institutions

| No. | Name | Address |
|---|---|---|
| 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. |
| | Bank of Communications San Francisco Branch | 575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105 U.S.A. |
| 3 | Bank of Communications Tokyo Branch | SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan |
| 4 | Bank of Communications Singapore Branch | 50 Raffles Place #18-01 Singapore Land Tower |
| 5 | Bank of Communications Seoul Branch | 6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea |
| 6 | Bank of Communications Frankfurt Branch | Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany |
| 7 | Bank of Communications Macau Branch | 16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau |
| 8 | Bank of Communications Ho Chi Minh City Branch | 17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN |
| 9 | Bank of Communications Sydney Branch | Level 27, 363 George Street Sydney NSW 2000 Australia |
| | Bank of Communications Brisbane Branch | Level 35, 71 Eagle Street, Brisbane, Australia |
| 10 | Bank of Communications Taipei Branch | A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan |
| 11 | Bank of Communications London Branch/Bank of Communications (UK) Co., Ltd. | 4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK |
| 12 | Bank of Communications (Luxemburg) Co., Ltd./ Bank of communications Luxemburg Branch | 7 Ruede la Chapelle, Luxembourg L-1325 |
| 13 | Bank of Communications Toronto Representative Office | 130 King Street West Suite 2125, Toronto, Ontario, Canada, M5X 1C8 |
| 14 | Bank of communications (Luxemburg) Limited. Paris Branch | 90, Avenue des Champs-Elysees, 75008, Paris, France |
| 15 | Bank of communications (Luxemburg) Limited. Rome Branch | 3rd floor, Piazza Barberini 52, Rome, 00187 |
| 16 | Banco BBM S.A. | Praca Pio X, 98. 7 andar 20091 040 Rio de Janeiro RJ, Brazil |

## List of Major Subsidiaries and Rural Banks

| No. | 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 Center, No. 8 Century Avenue, Pudong New District, Shanghai |
| 4 | Bank of Communications International Trust Co., Ltd. | Oriental Financial Center, No.333 Lujiazui Ring Road, Pudong New District, Shanghai<br>No. 847 Jianshe Avenue, Wuhan |
| 5 | Bank of Communications Financial Leasing Ltd. | Oriental Financial Center, No. 333 Lujiazui Ring Road, Pudong New District, Shanghai |
| 6 | BoCommLife Insurance Company Limited | Oriental Financial Center, No. 333 Lujiazui Ring Road, Pudong New District, Shanghai |
| 7 | Dayi BoCom Xingmin Rural Bank Ltd. | No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province |
| 8 | Anji BoCom Rural Bank Co., Ltd. | Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province |
| 9 | Xinjiang Shihezi BoCom Rural Bank Co., Ltd. | No. 127 Dongyi Road, Shihezi City, Xinjiang Uygur Autonomous Region |
| 10 | Qindao Laoshan BoCom Rural Bank Co., Ltd. | No. 458 Xianggang East Road, Laoshan District, Qingdao City, Shandong Province |

pwc 羅兵咸永道

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

## OPINION

### What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 184 to 325, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

1. Impairment allowances for loans and advances to customers
2. Transfer of loans
3. Consolidation assessment of structured entities
4. Transformation from business tax to value-added tax

## KEY AUDIT MATTERS *(Continued)*

**Key Audit Matter**

*Impairment allowances for loans and advances to customers*

Refer to Notes 2.6, 2.34(a), 3.1.5, 19.2, and 19.3 to the Group's consolidated financial statements.

As at 31 December 2016, the Group reported a gross amount of loans and advances to customers of RMB4,102,959 million with impairment allowances of RMB93,913 million. The net book value of loans and advances to customers was RMB4,009,046 million.

Impairment allowances for loans and advances represent best estimates made by the management for the losses in the existing loan and advance portfolios.

For a loan or advance that is individually significant, the Group assesses it individually for impairment. For a loan or advance that is not individually significant, the Group assesses it individually for impairment or includes it in a group of loans or advances with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment.

The impairment loss for a loan and advance that is individually assessed is the difference between estimated discounted future cash flows and book value of the loan and advance. When loans and advances are collectively assessed for impairment, management uses estimates based on historical loss experience of assets with similar credit risk characteristics. Impairment loss is adjusted based on the relevant observable data which reflect current economic conditions.

We focused on this area because loans and advances to customers accounted for 47.71% of the Group's total assets and the assessment of impairment loss involved significant estimates and judgments. We particularly focused on the following judgmental areas: timely identification of impaired loans, estimation of future cash flows of impaired loans for individual assessment, selection of models, determination of assumptions and parameters which included segmentation of loan portfolios, historical loss experience, loss identification period, risk adjustments for specific products, industries, and changes of macro-economic environment applied for collective assessment.

**How our audit addressed the Key Audit Matter**

We understood, evaluated and validated the design and operating effectiveness of relevant controls over impairment assessment and calculation. These included relevant controls over timely identification of individual impaired loans and advances, estimates of future cash flows and valuation of collaterals for impaired loans and advances which are assessed on an individual basis, and selection of models and determination of key assumptions, parameters and risk adjustments for collective assessment.

In addition, we have performed the following procedures:

1. For a sample of loans and advances not being identified by management as impaired, we tested management's assessment by examining the underlying loan information and external evidence available;

2. Where impairment was assessed on an individual basis, we assessed the forecasts, calculation and assumptions of future cash flows prepared by management by examining the underlying supporting evidence including external market data;

3. Where impairment allowances were assessed on a collective basis, we assessed if the impairment models used by management reflected the credit risk of loans and advances in the current economic environment. We also assessed key assumptions and parameters used by management in the impairment models, including segmentation of loan portfolios, historical loss experience, loss identification period, risk adjustments for specific industries, regions and changes of macro-economic environment based on our industry knowledge and available market information.

Based on the work undertaken above, we found that the evidence we obtained supported judgments made by management in the impairment assessment of loans and advances to customers.

## KEY AUDIT MATTERS *(Continued)*

| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
|---|---|
| *Transfer of loans*<br><br>Refer to Note 2.5(e), 2.34(g), 43.3, 43.4 to the Group's consolidated financial statements.<br><br>In 2016, the Group transferred loans with a gross amount of RMB40,994 million through packaged sales and securitisation.<br><br>The determination of whether these transferred loans can be de-recognized involves significant management judgment mainly in the following areas:<br><br>1. Whether the Group has transferred substantially all the risks and rewards of ownership of these transferred loans. Management uses a model to perform the risk and reward analysis;<br><br>2. If the Group neither transfers nor retains substantially all the risks and rewards of ownership, the Group further assesses whether it retains control of the transferred loans.<br><br>Therefore, our audit focused on management's de-recognition assessment of the transferred loans. | We understood, evaluated and validated the design and operating effectiveness of the relevant controls over transfer of loans including review and approval of pricing and other contractual terms as well as review and approval of de-recognition assessment.<br><br>To evaluate management's assessment on de-recognition of transferred loans, we conducted the following procedures:<br><br>1. We examined relevant asset transfer agreements and other related legal documents, on a sample basis, to assess whether the transfer of the loans met the transfer criteria according to the relevant accounting standards;<br><br>2. We assessed key parameters and assumptions used in management's risk and reward model, including future cash flow forecasts under various economic scenarios and discount rate used based on our industry knowledge and available market information. We tested the mathematical accuracy of the model;<br><br>3. For those transferred loans where the Group neither transferred nor retained substantially all the risks and rewards of ownership, we analysed the contract terms and market conditions to assess if the Group retained control over the transferred loans;<br><br>4. For a sample of transferred loans in the packaged sales, we tested their estimated recoverable amount which formed the basis of the total transfer price. In performing the testing, we examined the underlying loan information and assessed key inputs into future cashflow forecasts and valuation of collateral by reference to available market information.<br><br>Based on the work undertaken above, we found that the evidence obtained supported management's de-recognition assessment of the transferred loans. |

## KEY AUDIT MATTERS *(Continued)*

| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
|---|---|
| *Consolidation assessment of structured entities*<br><br>Refer to Notes 2.2, 2.34(f), 40 and 41 to the Group's consolidated financial statements.<br><br>The Group has managed or invested in a number of structured entities. As at 31 December 2016, among all these structured entities, approximately RMB761,239 million were consolidated by the Group while RMB2,009,829 million were not consolidated in accordance with relevant accounting standard.<br><br>Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.<br><br>We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments. | We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.<br><br>In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities:<br><br>1. Analyzed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;<br><br>2. Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment;<br><br>3. Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;<br><br>4. We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes.<br><br>Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable. |

## KEY AUDIT MATTERS *(Continued)*

**Key Audit Matter**

*Transformation from business tax to value-added tax*

Refer to Notes 2.35 and 31 to the Group's consolidated financial statements.

Pursuant to Notice on the Pilot Program of Levying Value-Added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36) issued by the Ministry of Finance ("MOF") on 23 March 2016, the pilot program of replacing business tax ("BT") with value-added tax ("VAT") became effective for the financial industry on and after 1 May 2016. Under the pilot program, the Group's major business income is subject to VAT from 1 May 2016.

Unlike the BT which is recorded as an operating expense of the Group, the output VAT is excluded from the Group's revenue for each business service and the input VAT arising from the Group's purchases of goods and services is then deducted from the output VAT in deriving the net VAT payable.

The transformation from BT to VAT in 2016 has a widespread impact on the Group's financial reporting function, mainly in the areas such as system functionality to separate the VAT from the revenue, costs and expenses, input VAT computation and recording. We therefore considered it a key area of audit focus.

**How our audit addressed the Key Audit Matter**

For the four-month period ended 30 April 2016, the Group paid BT on taxable income. We performed testing on the BT payable and recalculated the BT expense.

For the remaining eight-month period, we understood, evaluated and tested the design and operating effectiveness of relevant automated system controls which separate the VAT from revenue, costs and expenses.

We further tested relevant automated system controls over business income mapping and maintenance of tax rate and validated the recording of VAT transactions for the Group's major businesses and products.

In addition, we recalculated total output VAT of the Group's major business income including interest income, commission income and trading gains and compared our calculation results with the recorded amounts. We also inspected purchase invoices on a sample basis and tested the Group's calculation of input VAT.

Based on the work undertaken above, we found the Group's implementation of system changes in support of the transformation from BT to VAT for financial reporting purposes acceptable.

## OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 28 March 2017

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

| | Notes | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| Interest income | | 289,844 | 305,126 |
| Interest expense | | (154,973) | (160,954) |
| **Net interest income** | 4 | 134,871 | 144,172 |
| Fee and commission income | 5 | 39,884 | 38,231 |
| Fee and commission expense | 6 | (3,089) | (3,204) |
| **Net fee and commission income** | | 36,795 | 35,027 |
| Net gains arising from trading activities | 7 | 2,549 | 2,642 |
| Net gains arising from financial investments | | 1,079 | 1,567 |
| Share of profits of associates | | 96 | 76 |
| Insurance business income | | 9,596 | 4,051 |
| Other operating income | 8 | 9,076 | 7,023 |
| Impairment losses on loans and advances to customers | 9 | (28,480) | (27,160) |
| Insurance business expense | | (8,993) | (4,482) |
| Other operating expense | 10 | (70,479) | (76,904) |
| **Profit before tax** | | 86,110 | 86,012 |
| Income tax | 13 | (18,459) | (19,181) |
| **Net profit for the year** | | 67,651 | 66,831 |
| **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 | | 580 | 2,371 |
| Changes in fair value reclassified from equity to profit or loss | | (551) | (808) |
| Cash flow hedge reserve | | | |
| Changes in fair value recorded in equity | | (28) | (64) |
| Changes in fair value reclassified from equity to profit or loss | | (22) | – |
| Translation difference on foreign operations | | 1,577 | 1,116 |
| Others | | 1,336 | – |
| | | 2,892 | 2,615 |
| ***Item that will not be reclassified subsequently to profit or loss:*** | | | |
| Actuarial gains/(losses) on pension benefits | | (13) | 6 |
| Other comprehensive income for the year | 38 | 2,879 | 2,621 |
| **Comprehensive income for the year** | | 70,530 | 69,452 |
| **Net profit attributable to:** | | | |
| Shareholders of the Bank | | 67,210 | 66,528 |
| Non-controlling interests | | 441 | 303 |
| | | 67,651 | 66,831 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the Bank | | 70,284 | 69,063 |
| Non-controlling interests | | 246 | 389 |
| | | 70,530 | 69,452 |
| **Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)** | 14 | 0.89 | 0.90 |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | Notes | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 15 | **991,435** | 920,228 |
| Due from banks and other financial institutions | 16 | **715,787** | 611,191 |
| Financial assets at fair value through profit or loss | 17 | **216,444** | 173,309 |
| Loans and advances to customers | 19 | **4,009,046** | 3,634,568 |
| Financial investments – loans and receivables | 20 | **385,020** | 323,679 |
| Financial investments – available-for-sale | 20 | **342,755** | 264,739 |
| Financial investments – held-to-maturity | 20 | **1,407,449** | 933,683 |
| Investment in associates | 22 | **714** | 577 |
| Property and equipment | 23 | **114,425** | 90,393 |
| Deferred income tax assets | 24 | **12,567** | 16,684 |
| Other assets | 25 | **207,524** | 186,311 |
| **Total assets** | | **8,403,166** | 7,155,362 |
| **LIABILITIES** | | | |
| Due to banks and other financial institutions | 26 | **2,231,060** | 1,641,239 |
| Financial liabilities at fair value through profit or loss | 27 | **84,299** | 62,461 |
| Due to customers | 28 | **4,728,589** | 4,484,814 |
| Certificates of deposits issued | 29 | **318,950** | 89,265 |
| Current tax liabilities | | **5,164** | 8,604 |
| Deferred income tax liabilities | 24 | **145** | 119 |
| Debt securities issued | 30 | **229,515** | 170,106 |
| Other liabilities | 31 | **173,037** | 160,662 |
| **Total liabilities** | | **7,770,759** | 6,617,270 |
| **EQUITY** | | | |
| Share capital | 32 | **74,263** | 74,263 |
| Preference shares | 33 | **59,876** | 14,924 |
| Capital surplus | 32 | **113,392** | 113,392 |
| Other reserves | | **280,913** | 259,208 |
| Retained earnings | | **100,698** | 73,098 |
| **Equity attributable to shareholders of the bank** | | **629,142** | 534,885 |
| Non-controlling interests | | **3,265** | 3,207 |
| **Total equity** | | **632,407** | 538,092 |
| **Total equity and liabilities** | | **8,403,166** | 7,155,362 |

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2017 and signed on its behalf by:

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

| | Share capital Note 32 | Preference shares Note 33 | Capital surplus Note 32 | Other reserves: Statutory reserve Note34 | Other reserves: Discretionary reserve Note 34 | Other reserves: Statutory general reserve Note 34 | Other reserves: Revaluation reserve for available-for-sale financial assets Note 34 | Other reserves: Cash flow hedge reserve | Other reserves: Translation reserve on foreign operations | Other reserves: Actuarial changes reserve | Others Note 38 | Retained earnings Note 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 year | – | – | – | – | – | – | – | – | – | – | – | 67,210 | 67,210 | 441 | 67,651 |
| Other comprehensive income | – | – | – | – | – | – | 224 | (50) | 1,577 | (13) | 1,336 | – | 3,074 | (195) | 2,879 |
| Total comprehensive income | – | – | – | – | – | – | 224 | (50) | 1,577 | (13) | 1,336 | 67,210 | 70,284 | 246 | 70,530 |
| Issuance of preference shares | – | 44,952 | – | – | – | – | – | – | – | – | – | – | 44,952 | – | 44,952 |
| Increase of non-controlling interests due to acquisition | – | – | – | – | – | – | – | – | – | – | – | – | – | 227 | 227 |
| Dividends paid to ordinary shares | – | – | – | – | – | – | – | – | – | – | – | (20,051) | (20,051) | (48) | (20,099) |
| Dividends paid to preference shares | – | – | – | – | – | – | – | – | – | – | – | (884) | (884) | – | (884) |
| Transfer to reserves | – | – | – | 6,552 | – | 12,079 | – | – | – | – | – | (18,631) | – | – | – |
| Purchase of non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (44) | (44) | (367) | (411) |
| Balance at 31 December 2016 | 74,263 | 59,876 | 113,392 | 50,650 | 139,764 | 87,732 | 1,832 | (114) | (291) | 4 | 1,336 | 100,698 | 629,142 | 3,265 | 632,407 |
| Balance at 1 January 2015 | 74,263 | – | 113,496 | 37,522 | 105,242 | 71,549 | 131 | – | (2,984) | 11 | – | 71,825 | 471,055 | 2,550 | 473,605 |
| Net profit for the year | – | – | – | – | – | – | – | – | – | – | – | 66,528 | 66,528 | 303 | 66,831 |
| Other comprehensive income | – | – | – | – | – | – | 1,477 | (64) | 1,116 | 6 | – | – | 2,535 | 86 | 2,621 |
| Total comprehensive income | – | – | – | – | – | – | 1,477 | (64) | 1,116 | 6 | – | 66,528 | 69,063 | 389 | 69,452 |
| Issuance of preference shares | – | 14,924 | – | – | – | – | – | – | – | – | – | – | 14,924 | – | 14,924 |
| Capital increase in a subsidiary | – | – | (12) | – | – | – | – | – | – | – | – | – | (12) | 277 | 265 |
| Dividends paid to ordinary shares | – | – | – | – | – | – | – | – | – | – | – | (20,051) | (20,051) | (9) | (20,060) |
| Transfer to reserves | – | – | – | 6,578 | 34,522 | 4,104 | – | – | – | – | – | (45,204) | – | – | – |
| Capital increase in an associate | – | – | (97) | – | – | – | – | – | – | – | – | – | (97) | – | (97) |
| Others | – | – | 5 | (2) | – | – | – | – | – | – | – | – | 3 | – | 3 |
| Balance at 31 December 2015 | 74,263 | 14,924 | 113,392 | 44,098 | 139,764 | 75,653 | 1,608 | (64) | (1,868) | 17 | – | 73,098 | 534,885 | 3,207 | 538,092 |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | Notes | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net profit before tax: | | 86,110 | 86,012 |
| Adjustments for: | | | |
| Provision for impairment losses on loans and advances to customers | | 28,480 | 27,160 |
| Provision for impairment of finance lease receivables | | 973 | 558 |
| Provision for impairment of financial investments | | 643 | 1,151 |
| Provision for/(Reversal of) impairment of others | | 91 | (18) |
| Provision for impairment losses on property and equipment | | 3 | 2 |
| Provision for impairment losses on foreclosed assets | | 22 | 61 |
| Provision for insurance contracts reserve | | 5,856 | 1,999 |
| Depreciations and amortisations | | 7,939 | 7,200 |
| Provision for/(Reversal of) outstanding litigation and unsettled obligation | | (40) | 179 |
| Net gains on disposal of property and equipment | | (60) | (26) |
| Net gains on disposal of foreclosed assets | | (5) | (127) |
| Interest income from financial investments | | (66,978) | (50,049) |
| Unwind of discount on allowances during the period | | (1,959) | (1,971) |
| Fair value gains/(losses) | | 2,223 | (1,065) |
| Share of profits of associates | | (96) | (76) |
| Net gains arising from financial investments | | (1,079) | (1,567) |
| Interest expense on debt securities issued | | 7,781 | 6,213 |
| Operating cash flows before movements in operating assets and liabilities | | 69,904 | 75,636 |
| Net (increase)/decrease in mandatory reserve deposits | | (36,490) | 10,758 |
| Net (increase)/decrease in due from banks and other financial institutions | | (152,643) | (62,280) |
| Net increase in financial assets at fair value through profit or loss | | (41,301) | (15,479) |
| Net increase in loans and advances to customers | | (403,738) | (304,970) |
| Net increase in other assets | | (12,523) | (8,459) |
| Net increase in due to banks and other financial institutions | | 586,529 | 232,964 |
| Net increase in financial liabilities at fair value through profit or loss | | 16,918 | 2,657 |
| Net increase/(decrease) in due to customers | | 481,557 | 512,864 |
| Net increase in other liabilities | | (5,824) | 1,621 |
| Net increase/(decrease) in value-added tax, business tax and surcharges payable | | 349 | 842 |
| Income tax paid | | (17,672) | (20,059) |
| **Net cash from operating activities** | | 485,066 | 426,095 |

## CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

| | Notes | Year ended 31 December 2016 | 2015 |
|---|---|---|---|
| **Cash flows from investing activities:** | | | |
| Purchase of financial investments | | (1,158,997) | (795,491) |
| Disposal or redemption of financial investments | | 546,036 | 330,052 |
| Dividends received | | 353 | 489 |
| Interest received from financial investments | | 61,668 | 46,758 |
| Acquisition of subsidiaries, net of cash acquired | | (442) | – |
| Purchase of non-controlling interests | | (411) | – |
| Purchase of intangible assets and other assets | | (770) | (1,056) |
| Disposal of intangible assets and other assets | | 60 | 11 |
| Purchase and construction of property and equipment | | (34,814) | (25,711) |
| Disposal of property and equipment | | 2,372 | 560 |
| **Net cash from investing activities** | | (584,945) | (444,388) |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of preference shares | | 45,000 | 14,982 |
| Cash payments for transaction cost of preferences shares issued | 33 | (48) | (58) |
| Proceeds from debt securities issued | | 60,585 | 42,069 |
| Interest paid on debt securities issued | | (3,970) | (6,548) |
| Dividends paid to ordinary shareholders of the Bank | | (20,051) | (20,051) |
| Dividends paid to preference shareholders of the Bank | | (884) | – |
| Capital contribution by non-controlling interests | | – | 277 |
| Repayment of principals of debt securities issued | | (2,719) | (679) |
| Dividends paid to non-controlling interests | | (48) | (9) |
| **Net cash from financing activities** | | 77,865 | 29,983 |
| **Effect of exchange rate changes on cash and cash equivalents** | | 7,975 | 5,119 |
| **Net increase/(decrease) in cash and cash equivalents** | | (14,039) | 16,809 |
| **Cash and cash equivalents at the beginning of the year** | | 330,435 | 313,626 |
| **Cash and cash equivalents at the end of the year** | 39 | 316,396 | 330,435 |
| **Net cash flows from operating activities include:** | | | |
| Interest received | | 228,140 | 250,732 |
| Interest paid | | (153,432) | (160,632) |

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

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

# 1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 232 city-level and above branches in Mainland China and 20 overseas institutions including branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London and Bank of Communications (England) Co., Ltd.,, Luxembourg and Bank of Communications (Luxembourg) Co., Ltd.,, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Banco BBM S.A ("BBM Bank") and representative office of Toronto. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on The Stock Exchange of Hong Kong Limited.

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

# 2 SIGNIFICANT ACCOUNTING POLICIES

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

## 2.1 Basis of presentation

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

### *2.1.1 Application of new and revised IFRSs*

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

In the current year, the Group has adopted the following amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2016 and the relevant impact is set out below:

| | |
|---|---|
| Amendments to IFRS 11 | Accounting for acquisitions of interests in joint operation |
| Amendments to IAS 16 and IAS 38 | Clarification of acceptable methods of depreciation and amortisation |
| 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 |

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of presentation *(Continued)*

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

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

Amendments to IFRS 11

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

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

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

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

Amendments to IAS 16 and IAS 38

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

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.1 Basis of presentation *(Continued)*

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

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

Annual Improvements to IFRSs (2012 – 2014 Cycle)

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

Amendments to IFRS 10, IFRS 12 and IAS 28

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

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

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

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.1 Basis of presentation *(Continued)*

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

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

Amendments to IAS 1

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

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

The key areas addressed by the changes are as follows:

- Materiality: an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;
- Disaggregation and subtotals: the amendments clarify what additional subtotals are acceptable and how they should be presented;
- Notes: an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;
- Accounting policies: how to identify a significant accounting policy that should be disclosed;
- Other comprehensive income from equity accounted investments: other comprehensive income of associates and joint ventures should be separated into the share of items that will subsequently be reclassified to profit or loss and those that will not.

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

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

| | | **Effective for annual period beginning on or after** |
|---|---|---|
| Amendments to IAS 7 | Statement of cash flows | 1 January 2017 |
| Amendments to IAS 12, | Income taxes | 1 January 2017 |
| 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. |
| Amendments to IAS 40 | Transfer of investment property | 1 January 2018 |
| Amendments to IAS 28 | IASB Annual Improvements 2014 – 2016 cycle | 1 January 2018 |
| Amendments to IFRS 2 | Classification and measurement of share-based payment transactions | 1 January 2018 |
| Amendments to IFRS 4 | Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts | 1 January 2018 |
| Amendments to IFRS 12 | IASB Annual Improvements 2014 – 2016 cycle | 1 January 2017 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 16 | Lease | 1 January 2019 |

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of presentation *(Continued)*

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

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

Amendments to IAS 7

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

Amendments to IAS 12

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

Amendments to IFRS 10 and IAS 28

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

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

Amendments to IAS 40

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IAS 28 (2014 – 2016 cycle)

The IASB Annual Improvements (2014 – 2016) Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Amendments to IFRS 2

These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in IFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of presentation *(Continued)*

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

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

Amendments to IFRS 4

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Amendments to IFRS 12

The IASB Annual Improvements (2014 – 2016) Cycle include the amendments to IFRS 12 – Disclosure of Interest in Other Entities. These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, expect for those summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

IFRS 15

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

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of presentation *(Continued)*

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

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

IFRS 9

IFRS 9 (2014) Financial instruments replaces the whole of IAS 39.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

"Hedge Accounting" in IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.

The Group is analyzing its business models, loans and other financial instruments' contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Bank's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the risk management organization, process and key functions, budgeting and performance review, as well as the IT systems. The Bank is starting to carry out an assessment of the need for any system modification related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training.

The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Bank's operating results and financial position has not yet been quantified.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of presentation *(Continued)*

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

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

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position.Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB13,593 million, see note 36. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

Except the above mentioned impact of IFRS 9 and IFRS 16, 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 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.2 Consolidation

### *2.2.1 Subsidiary undertakings*

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

### *2.2.2 Transactions with non-controlling interests*

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive are reclassified to profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Consolidation *(Continued)*

#### 2.2.3 *Structured entities*

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 40 and 41.

#### 2.2.4 *Investment in an associate*

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognized immediately in profit or loss.

At each period end, the Group assesses whether these is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized only to the extent of interests in the associate that are not related to the Group.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Derivative financial instruments

Derivative financial instruments include, but are not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognized in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

### 2.4 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

***Fair value hedges***

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognized as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognized, the unamortised carrying value adjustment is recognized immediately in the profit or loss.

***Cash flow hedge***

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in equity in the “capital reserve”. The ineffective portion is recognized immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Hedge accounting *(Continued)*

***Cash flow hedge*** *(Continued)*

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

### 2.5 Financial assets

The Group's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

***(a) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Financial assets *(Continued)*

**(b) *Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

**(c) *Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in other is comprehensive income accumulated at which time in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognized in profit or loss.

**(d) *Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

**(e) *De-recognition of financial assets***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Financial assets *(Continued)*

#### *(f) Asset securitisation*

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group may hold part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognizes the transferred assets in full or in part based on the extent of the risks and rewards retained and the control over the transferred assets.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control of the financial assets while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognized when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognized when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control of the financial asset, it derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control of the financial asset, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

### 2.6 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Impairment of financial assets *(Continued)*

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract, such as a default or delinquency in interest or principal payments;

(3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(5) The disappearance of an active market for that financial asset because of financial difficulties;

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group;

(7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

(8) A significant or prolonged decline in the fair value of equity instrument investments; and

(9) Other objective evidence indicating impairment of the financial asset.

***(a) Impairment of financial assets carried at amortised cost***

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.6 Impairment of financial assets *(Continued)*

### *(b) Impairment of available-for-sale financial assets*

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in other comprehensive income is reclassified to profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognized in profit or loss.

### *(c) Impairment of financial assets measured at cost*

If an impairment loss has been incurred on an investment in an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

## 2.7 Financial liabilities/Equity instruments

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Financial liabilities/Equity instruments *(Continued)*

#### *(a) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognized in profit or loss.

#### *(b) Other financial liabilities*

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from de-recognition or amortisation recognized in profit or loss.

#### *(c) De-recognition of financial liabilities*

The Group derecognizes a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Financial liabilities/Equity instruments *(Continued)*

#### *(d) Determination of fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

#### *(e) Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Interest income and expense

Interest income and expense are recognized in profit or loss for interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognized using the original interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

### 2.9. Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognized when the services are rendered.

### 2.10 Dividend income

Dividends are recognized when the right to receive the dividends is established.

### 2.11 Assets transferred under repurchase agreements

***(a) Financial assets sold under repurchase agreements***

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognized in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

***(b) Financial assets purchased under reverse repurchase agreements***

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognized in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially and subsequently recognized at fair value, with changes in fair value arising from re-measurement recognized directly in profit or loss in the period in which they arise.

### 2.13 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

| **Type of assets** | **Estimated useful lives** | **Estimated residual value rate** | **Depreciation rate** |
|---|---|---|---|
| Land and buildings | 25 years – 50 years | 3% | 1.94% – 3.88% |
| Equipment | 3 years – 11 years | 3% | 8.82% – 32.33% |
| Transportation equipment (excluding equipment under operating leases) | 4 years – 8 years | 3% | 12.13% – 24.25% |
| Property improvement | Over the shorter of the economic useful lives and remaining lease terms | – | – |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Property and equipment *(Continued)*

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 15 to 25 years.

### 2.14 Foreclosed assets

Foreclosed assets are initially recognized at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognized in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognized in profit or loss.

### 2.15 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

### 2.16 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecongnised.

### 2.17 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.18 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

### 2.19 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***(a) The Group as lessor***

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognized as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognized as unearned finance income. Unearned finance income is recognized as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

***(b) The Group as lessee***

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

### 2.21 Provisions

Provisions are recognized when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

### 2.22 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

***(a) Current income tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

***(b) Deferred income tax***

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.22 Current and deferred income taxes *(Continued)*

### (b) Deferred income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income, in which case the current and deferred tax are also recognized in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 2.23 Share capital

### (a) Share capital

Share capital comprises ordinary shares issued.

### (b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

## 2.24 Dividend

### (a) Dividends on ordinary shares

Dividends on ordinary shares are recognized in the period in which they are declared and approved by the Bank's shareholders.

### (b) Dividends on preference shares

Preference share dividend distribution is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

# 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.25 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

## 2.26 Employee benefits

### *(a) Staff benefit and retirement benefit obligations*

In the reporting period in which an employee has rendered services, the Group recognizes the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognizes all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognized in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognized in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognized in profit or loss.

### *(b) Share-based compensation*

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.27 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiary choose its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognized in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognized as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognized in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

### 2.28 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognized as a provision.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.29 Insurance contracts

#### (a) Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

#### (b) Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

#### (c) Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

### 2.30 Financial guarantee contracts and credit related commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with IAS 18 Revenue.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.31 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognized as assets and liabilities of the Group.

### 2.32 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

### 2.33 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously.

### 2.34 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.34 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

#### *(a) Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio and objective evidence of impairment. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data that reflects current economic conditions are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *(b) Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

#### *(c) Income taxes*

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

#### *(d) Held-to-maturity investments*

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling or reclassifying an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value, not at amortised cost.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.34 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

#### *(e) Impairment of available-for-sale financial assets*

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial condition and near-term business outlook of the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

Objective evidence of impairment for a debt investment exists when one or more events have occurred after the initial recognition of the available-for-sale debt investment that reduces the estimated future cash flows to be recoverable from the debt investment. The Group recognizes an impairment loss for the debt investment when there is objective evidence that the debt investment is impaired.

#### *(f) Consolidation of structured entities*

During the evaluation, the Group considers many factors to assess whether it takes the role as the agent or the trustee, such as: the scope of asset manager's decision-making power, rights held by other parties, commission levels as management service provider, and any other arrangements (such as direct investment) which could affect the exposure to variable returns from its involvement.

#### *(g) De-recognition of financial assets*

When assessing whether loans transferred through packaged sales and securitisation meet the de-recognition criteria for financial assets, the Group exercises adjustment to assess whether the transfer of the loans met the transfer criteria and whether all the risks and rewards of ownership of the loans have been transferred out. If the Group neither transfers nor retains substantially all the risks and rewards of ownership, the Group further accesses whether it retains control of the transferred loans. In making this assessment, the Group considers several factors, such as whether the transaction arrangement is attached with repurchase clauses. The Group sets up scenario hypothesis and tests the transfer of risks and rewards using discounted cash flow model. The Group derecognises the loans only when substantially all the risks and rewards of ownership of the loans have been transferred to another entity. If the Group substantially retains all the risks and rewards of ownership of transferred loans, these loans would continue to be recognised and the proceeds received would be recognised as financial liabilities. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred loans, the Group recognises its retained interest in the asset and an associated liability for the amounts it may have to pay.

### 2.35 Transformation from business tax to value-added tax

Since 1 May 2016, according to the "Notice on the Pilot Program of Levying Value-added Tax in Lieu of Business". (Cai Shui [2016] No. 36) issued by the MOF, the pilot program for replacing business tax with value-added tax for various industries including the financial industry had become effective nation-wide. The business tax is still applicable before 1 May 2016. Value-added Tax is excluded from price of goods and services sold, is recorded separately from revenue, expense and cost, and is not recorded in statement of profit and loss.

## 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 minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and the latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at Head Office undertakes the overall risk management functions of the Group. The subordinate 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 recognised 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 utilised credit limit, interest receivable, and the anticipated usage of unutilised 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 summarised a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which is used for determination of the borrower's credit ranking within the internal rating system. In order to improve the model's accuracy and stability, the Group performs evaluation of the model at least every six months and monitors the results by performing back testing and comparing the results from model using the default data from customers. In practice, the monitoring and back testing has been performed quarterly.

The Group has issued credit commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by industry, geography and customer type. This information is monitored regularly by senior management.

# 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)*

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, of which substandard, doubtful and loss loans are regarded as non-performing loans. The allowances for impairment losses are 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 honour 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 collaterals or guarantees are invoked. |
| Doubtful: | Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals 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.

(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.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1. Credit risk *(Continued)*

### 3.1.1 Credit risk assessment *(Continued)*

(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 favourable 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 group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below:

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1. Credit risk *(Continued)*

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

*(a) Collaterals*

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 collaterals. The principal types of collaterals 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 Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

| **Collaterals** | **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 minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1. Credit risk *(Continued)*

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

(b) *Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement is affected by credit risk.

### *3.1.3 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 recognised 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);
- Bankrupt proceedings launched;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collaterals; and
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group periodically identifies potential risks in the corporate loan assets through the asset risk management system, and applies discounted cash flow model to assess the expected losses on loan-by-loan basis to identify impaired loan assets. With regard to the impaired loan assets, the Group develops customer-based action plan, appoints certain employees for further clearing, retrieval and disposal of the loan assets, and provides impairment Allowances in accordance with the estimated actual losses. With regard to the loan assets not impaired, the Group performs collective assessment based on its migration model.

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed financial assets are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated cash flows from that individual asset.

(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)*

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 collaterals held or other credit enhancements*

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| **Assets** | | |
| Balances with central banks | 973,823 | 902,581 |
| Due from banks and other financial institutions | 715,787 | 611,191 |
| Financial assets at fair value through profit or loss (debt securities and derivatives) | 136,301 | 133,328 |
| Loans and advances to customers | | |
| – Loans to corporate entities | 2,841,728 | 2,658,147 |
| – Loans to individuals | 1,167,318 | 976,421 |
| Financial investments – loans and receivables | 385,020 | 323,679 |
| Financial investments – available-for-sale (debt securities) | 334,049 | 259,322 |
| Financial investments – held-to-maturity | 1,407,449 | 933,683 |
| Other financial assets | 183,391 | 164,682 |
| Total | 8,144,866 | 6,963,034 |
| **Off-balance sheet exposures** | | |
| Guarantees, acceptances and letters of credit | 638,145 | 778,644 |
| Other credit related commitments | 614,324 | 529,855 |
| Total | 1,252,469 | 1,308,499 |

The above table represents a worst case scenario of credit risk exposure to the Group as at 31 December 2016 and 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, 49% 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;
- 97.35% 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 1.52%. (2015: 1.51%).

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1. Credit risk *(Continued)*

### *3.1.5 Loans and advances to customers*

| | As at 31 December 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 | 3,994,254 | 715,787 | 3,608,277 | 611,191 |
| Past due but not impaired | 46,305 | – | 57,523 | – |
| Individually impaired | 62,400 | – | 56,206 | – |
| Gross | 4,102,959 | 715,787 | 3,722,006 | 611,191 |
| Less: Allowances for collectively assessed impairment losses | (63,756) | – | (64,004) | – |
| Allowances for individually assessed impairment losses | (30,157) | – | (23,434) | – |
| Net | 4,009,046 | 715,787 | 3,634,568 | 611,191 |

Further information of the impairment allowances for loans and advances to customers is provided in Note19.

As at 31 December 2016, the Group's total loans and advances to customers increased by 10.24% 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 minimise the potential risk of increased credit risk exposure.

*(a) Loans and advances neither past due nor impaired*

| | As at 31 December 2016 | | |
|---|---|---|---|
| | Normal | Special-mention | Total |
| Corporate loans and advances | 2,750,060 | 81,912 | 2,831,972 |
| Individual loans and advances | 1,161,972 | 310 | 1,162,282 |
| Total | 3,912,032 | 82,222 | 3,994,254 |

| | 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 31 December 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 collaterals |
| Corporate entities | | | | | | |
| – Commercial loans | 7,493 | 3,316 | 2,632 | 24,736 | 38,177 | 27,846 |
| Individuals | | | | | | |
| – Mortgages | 1,668 | 597 | 384 | 23 | 2,672 | 3,562 |
| – Credit Cards | 3,048 | 692 | 506 | – | 4,246 | – |
| – Others | 330 | 193 | 226 | 461 | 1,210 | 1,478 |
| **Total** | 12,539 | 4,798 | 3,748 | 25,220 | 46,305 | 32,886 |
| 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 collaterals |
| Corporate entities | | | | | | |
| – Commercial loans | 5,465 | 3,828 | 3,380 | 35,041 | 47,714 | 28,994 |
| Individuals | | | | | | |
| – 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 realisation of collaterals.

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1. Credit risk *(Continued)*

### ***3.1.5 Loans and advances to customers*** *(Continued)*

*(c) Loans and advances individually impaired*

As at 31 December 2016, impaired loans and advances to customers before taking into consideration the collaterals held is RMB62,400 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 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Corporate entities | **48,097** | 44,284 |
| Individuals | **14,303** | 11,922 |
| Impaired loans | **62,400** | 56,206 |
| Fair value of collaterals | | |
| – Corporate entities | **16,032** | 13,782 |
| – Individuals | **9,461** | 7,577 |
| Impaired loans | **25,493** | 21,359 |

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

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

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Unsecured loans | **1,246,423** | 1,064,595 |
| Guaranteed loans | **828,651** | 799,315 |
| Collateralised and other secured loans | **2,027,885** | 1,858,096 |
| – Loans secured by collaterals | **1,551,431** | 1,427,607 |
| – Pledged loans | **476,454** | 430,489 |
| Gross amount of loans and advances before impairment allowances | **4,102,959** | 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 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| | | % | | % |
| North of China (1) | **568,598** | **13.86** | 544,823 | 14.64 |
| Northeast (2) | **202,216** | **4.93** | 190,285 | 5.11 |
| East of China (3) | **1,768,551** | **43.10** | 1,590,358 | 42.73 |
| South and middle of China (4) | **761,294** | **18.55** | 687,517 | 18.47 |
| West of China (5) | **417,904** | **10.19** | 382,623 | 10.28 |
| Overseas (6) | **384,396** | **9.37** | 326,400 | 8.77 |
| Gross amount of loans and advances | **4,102,959** | **100.00** | 3,722,006 | 100.00 |

Notes:

(1) Including Beijing, Tianjin, Hebei province, Shanxi province and Inner Mongolia Autonomous Region;

(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 Autonomous Region and Hainan Province;

(5) Including Chongqing, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province, Xinjiang Autonomous Region and Ningxia Autonomous Region;

(6) Including Hong Kong, New York, Tokyo, Singapore, Souel, Frankfurt, Macau, Ho Chi Minh City, Sydney, United Kingdom, San Francisco, Luxembourg, Taiwan, Toronto, Brisbane, Paris, Rome and Brazil.

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1. Credit risk *(Continued)*

#### 3.1.5 Loans and advances to customers *(Continued)*

*(f) Industry analysis*

| | As at 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| | | % | | % |
| **Corporate loans** | | | | |
| Mining | 107,787 | 2.63 | 101,647 | 2.73 |
| Manufacturing | | | | |
| – Petroleum and chemical | 106,514 | 2.60 | 125,952 | 3.38 |
| – Electronics | 59,942 | 1.46 | 75,424 | 2.03 |
| – Steel | 36,841 | 0.90 | 36,879 | 0.99 |
| – Machinery | 118,200 | 2.88 | 105,187 | 2.83 |
| – Textile and clothing | 33,714 | 0.82 | 40,680 | 1.09 |
| – Other manufacturing | 224,455 | 5.47 | 238,027 | 6.40 |
| Electricity, gas and water production and supply | 147,141 | 3.59 | 138,256 | 3.71 |
| Construction | 99,487 | 2.42 | 109,893 | 2.95 |
| Transportation, storage and postal service | 495,427 | 12.07 | 418,057 | 11.23 |
| Telecommunication, IT service and software | 20,594 | 0.51 | 13,413 | 0.36 |
| Wholesale and retail | 319,579 | 7.79 | 333,903 | 8.97 |
| Accommodation and catering | 34,489 | 0.84 | 35,070 | 0.94 |
| Financial institutions | 94,464 | 2.30 | 50,832 | 1.37 |
| Real estate | 204,111 | 4.97 | 227,061 | 6.10 |
| Services | 300,929 | 7.33 | 262,750 | 7.06 |
| Water conservancy, environmental and other public services | 188,622 | 4.60 | 132,061 | 3.55 |
| Education, science, culture and public health | 80,597 | 1.96 | 71,731 | 1.93 |
| Others | 117,290 | 2.86 | 94,420 | 2.53 |
| Discounted bills | 126,589 | 3.09 | 117,444 | 3.16 |
| **Total corporate loans** | 2,916,772 | 71.09 | 2,728,687 | 73.31 |
| **Individual loans** | | | | |
| Mortgages | 770,280 | 18.78 | 604,357 | 16.24 |
| Credit cards | 307,857 | 7.50 | 271,542 | 7.30 |
| Others | 108,050 | 2.63 | 117,420 | 3.15 |
| **Total individual loans** | 1,186,187 | 28.91 | 993,319 | 26.69 |
| Gross amount of loans and advances before impairment allowances | 4,102,959 | 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|---|
| Neither past due nor impaired | (a) | 2,228,199 | 1,618,254 |
| Past due but not impaired | | – | – |
| Impaired | (b) | 1,020 | 1,661 |
| Gross | | 2,229,219 | 1,619,915 |
| Less: | (c) | | |
| Collective impairment | | (2,703) | (2,691) |
| Individual impairment | | (920) | (1,522) |
| Net | | 2,225,596 | 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 31 December 2016 and 2015*

| | As at 31 December 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 | 14,450 | 43,169 | 768,807 | 51,890 | 878,316 |
| AA- to AA+ | 4,999 | 11,752 | 5,268 | 15,580 | 37,599 |
| A- to A+ | – | 4,330 | 630 | 2,234 | 7,194 |
| Below A- | – | 1,215 | – | 286 | 1,501 |
| Unrated (1) | 366,762 | 87,165 | 623,511 | 9,914 | 1,087,352 |
| Sub-total | 386,211 | 147,631 | 1,398,216 | 79,904 | 2,011,962 |
| **Foreign currency securities** | | | | | |
| AAA | – | 6,473 | 296 | 2,028 | 8,797 |
| AA- to AA+ | – | 43,603 | 2,190 | 2,765 | 48,558 |
| A- to A+ | – | 50,755 | 3,286 | 6,947 | 60,988 |
| Below A- | – | 27,257 | 1,005 | 2,845 | 31,107 |
| Unrated (1) | 1,412 | 58,330 | 2,456 | 4,589 | 66,787 |
| Sub-total | 1,412 | 186,418 | 9,233 | 19,174 | 216,237 |
| **Total** | 387,623 | 334,049 | 1,407,449 | 99,078 | 2,228,199 |

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1. Credit risk *(Continued)*

### ***3.1.6 Debt investments*** *(Continued)*

(a) *The table below presents an analysis of debt investments that are neither past due nor impaired by independent rating agencies designation as at 31 December 2016 and 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 |
| Below A- | – | 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 |
| Below A- | – | 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 31 December 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- | – | 30 | 350 | – | 380 |
| Unrated [1] | – | 440 | – | 200 | 640 |
| Total | – | 470 | 350 | 200 | 1,020 |

| | 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 allowances for debt investments*

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Allowances for collectively assessed impairment losses | 2,703 | 2,691 |
| Allowances for individually assessed impairment losses | 920 | 1,522 |
| | 3,623 | 4,213 |

The impaired debt investments were individual impaired loans and receivables, held-to-maturity and available-for-sale bond investments. As at 31 December 2016 (as at 31 December 2015), 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, commodity and interest rate derivative contracts and others with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

*Credit risk weighted amounts*

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Derivatives | | |
| – Foreign exchange and commodity contracts | 8,999 | 16,553 |
| – Interest rate contracts and others | 761 | 455 |
| | 9,760 | 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Buildings | 857 | 756 |
| Land use rights | 156 | 154 |
| Others | 15 | 15 |
| Gross | 1,028 | 925 |
| Less: Impairment allowances | (136) | (138) |
| Net | 892 | 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 31 December 2016** | | | | |
| **Financial assets** | | | | |
| Balances with central banks | 916,348 | 2,331 | 55,144 | 973,823 |
| Due from banks and other financial institutions | 577,560 | 54,440 | 83,787 | 715,787 |
| Financial assets at fair value through profit or loss (debt securities and derivatives) | 102,272 | 12,756 | 21,273 | 136,301 |
| Loans and advances to customers | 3,627,716 | 203,674 | 177,656 | 4,009,046 |
| Financial investments – loans and receivables | 383,620 | – | 1,400 | 385,020 |
| Financial investments – available-for-sale (debt securities) | 145,932 | 58,969 | 129,148 | 334,049 |
| Financial investments – held-to-maturity | 1,398,114 | 352 | 8,983 | 1,407,449 |
| Other financial assets | 132,197 | 8,734 | 42,460 | 183,391 |
| | 7,283,759 | 341,256 | 519,851 | 8,144,866 |
| **Off-balance sheet exposures** | | | | |
| Guarantees, acceptances and letters of credit | 606,995 | 10,718 | 20,432 | 638,145 |
| Other credit related commitments | 550,597 | 25,895 | 37,832 | 614,324 |
| | 1,157,592 | 36,613 | 58,264 | 1,252,469 |

| | Mainland China | Hong Kong | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| **Financial assets** | | | | |
| Balances with central banks | 832,370 | 22,182 | 48,029 | 902,581 |
| Due from banks and other financial institutions | 492,728 | 47,762 | 70,701 | 611,191 |
| Financial assets at fair value through profit or loss (debt securities and derivatives) | 107,488 | 12,285 | 13,555 | 133,328 |
| Loans and advances to customers | 3,310,035 | 130,002 | 194,531 | 3,634,568 |
| Financial investments – loans and receivables | 322,285 | – | 1,394 | 323,679 |
| Financial investments – available-for-sale (debt securities) | 140,801 | 13,436 | 105,085 | 259,322 |
| Financial investments – held-to-maturity | 927,610 | 224 | 5,849 | 933,683 |
| Other financial assets | 152,516 | 7,670 | 4,496 | 164,682 |
| | 6,285,833 | 233,561 | 443,640 | 6,963,034 |
| **Off-balance sheet exposures** | | | | |
| Guarantees, acceptances and letters of credit | 759,568 | 8,607 | 10,469 | 778,644 |
| Other credit related commitments | 475,775 | 21,998 | 32,082 | 529,855 |
| | 1,235,343 | 30,605 | 42,551 | 1,308,499 |

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Market risk

#### *3.2.1 Overview*

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the CBRC, the Group categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either for trading intent or economic hedging for other elements of the trading book. The banking book consists of the investments purchased by the Group with excess funds and other financial instruments that are not captured in trading book.

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Supervisors and senior management. The Assets and Liabilities 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 maximise 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* | | Year ended 31 December 2016 | | |
|---|---|---|---|---|
| | 31 December 2016 | Average | Maximum | Minimum |
| VaR | 777 | 514 | 858 | 158 |
| – Interest rate risk | 121 | 137 | 173 | 88 |
| – Foreign exchange risk | 772 | 515 | 908 | 147 |

| *Items* | | Year ended 31 December 2015 | | |
|---|---|---|---|---|
| | 31 December 2015 | Average | Maximum | Minimum |
| VaR | 167 | 160 | 244 | 118 |
| – Interest rate risk | 150 | 133 | 244 | 100 |
| – Foreign exchange risk | 145 | 100 | 199 | 31 |

### 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 changes in net interest income and other comprehensive income for the year on a monthly basis.

(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)*

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 31 December 2016 and 2015, caused by a parallel shift of 100 basis point of RMB, USD and HKD interest rates.

| | Expected changes in net interest income | |
|---|---|---|
| | **As at 31 December 2016** | As at 31 December 2015 |
| +100 basis points parallel shift in yield curves | **14,198** | 12,652 |
| -100 basis points parallel shift in yield curves | **(14,198)** | (12,652) |

The table below illustrates the impact on other comprehensive income of the coming year of the Group by the parallel shift of 100 basis point of RMB, USD and HKD interest rates.

| | Changes of other comprehensive income | |
|---|---|---|
| | **As at 31 December 2016** | As at 31 December 2015 |
| +100 basis points parallel shift in yield curves | **(5,364)** | (3,402) |
| -100 basis points parallel shift in yield curves | **5,280** | 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 are 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.

(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)*

*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 changes 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 changes in net profit/(loss) | |
|---|---|---|
| | **Year ended 31 December 2016** | Year ended 31 December 2015 |
| 5% appreciation of RMB | **(2,286)** | (2,768) |
| 5% depreciation of RMB | **2,286** | 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:

| | Changes of other comprehensive income | |
|---|---|---|
| | **Year ended 31 December 2016** | Year ended 31 December 2015 |
| 5% appreciation of RMB | **(681)** | (825) |
| 5% depreciation of RMB | **681** | 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 upper limit of floating of benchmark interest rate for deposit. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the published PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of the financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with the same maturity term.

The tables below summarise the Group’s exposures to interest rate risks. The tables show the Group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.2 Market risk *(Continued)*

### ***3.2.4 Interest rate risk*** *(Continued)*

| | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 958,845 | – | 240 | 152 | – | 32,198 | 991,435 |
| Due from banks and other financial institutions | 323,123 | 124,080 | 246,008 | 22,576 | – | – | 715,787 |
| Financial assets at fair value through profit or loss | 16,496 | 26,797 | 71,370 | 23,679 | 18,813 | 59,289 | 216,444 |
| Loans and advances to customers | 2,004,850 | 437,561 | 1,389,292 | 139,055 | 38,288 | – | 4,009,046 |
| Financial investments – loans and receivables | 3,102 | 22,167 | 90,876 | 180,658 | 88,217 | – | 385,020 |
| Financial investments – available-for-sale | 45,385 | 73,837 | 43,837 | 124,633 | 46,357 | 8,706 | 342,755 |
| Financial investments – held-to-maturity | 8,969 | 58,758 | 100,237 | 778,530 | 460,955 | – | 1,407,449 |
| Other assets | 2,863 | 6,023 | 23,157 | 63,304 | 19,545 | 220,338 | 335,230 |
| **Total assets** | 3,363,633 | 749,223 | 1,965,017 | 1,332,587 | 672,175 | 320,531 | 8,403,166 |
| **Liabilities** | | | | | | | |
| Due to banks and other financial institutions | (865,046) | (349,287) | (755,144) | (247,604) | (13,979) | – | (2,231,060) |
| Financial liabilities at fair value through profit or loss | (5,634) | (9,388) | (28,943) | (5,235) | – | (35,099) | (84,299) |
| Due to customers | (2,920,663) | (522,833) | (813,426) | (447,620) | (139) | (23,908) | (4,728,589) |
| Other liabilities | (23,347) | (45,088) | (106,502) | (283,039) | (114,830) | (154,005) | (726,811) |
| **Total liabilities** | (3,814,690) | (926,596) | (1,704,015) | (983,498) | (128,948) | (213,012) | (7,770,759) |
| **Total interest sensitivity gap** | (451,057) | (177,373) | 261,002 | 349,089 | 543,227 | 107,519 | 632,407 |

(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 31 December 2016, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.9370 (31 December 2015: 6.4936) and 1 HK dollar to RMB0.89451 (31 December 2015: 0.83778), respectively. The tables below summarise 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 categorised by the original currency.

| | RMB | USD (RMB Equivalent) | HKD (RMB Equivalent) | Others (RMB Equivalent) | Total |
|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | 884,619 | 74,999 | 3,122 | 28,695 | 991,435 |
| Due from banks and other financial institutions | 434,337 | 252,041 | 12,838 | 16,571 | 715,787 |
| Financial assets at fair value through profit or loss | 180,455 | 29,693 | 2,031 | 4,265 | 216,444 |
| Loans and advances to customers | 3,520,718 | 333,171 | 121,028 | 34,129 | 4,009,046 |
| Financial investments – loans and receivables | 383,608 | 1,412 | – | – | 385,020 |
| Financial investments – available-for-sale | 154,547 | 116,354 | 41,102 | 30,752 | 342,755 |
| Financial investments – held-to-maturity | 1,398,212 | 6,951 | 89 | 2,197 | 1,407,449 |
| Other assets | 234,978 | 94,794 | 3,705 | 1,753 | 335,230 |
| **Total assets** | 7,191,474 | 909,415 | 183,915 | 118,362 | 8,403,166 |
| **Liabilities** | | | | | |
| Due to banks and other financial institutions | (1,849,742) | (325,662) | (17,316) | (38,340) | (2,231,060) |
| Financial liabilities at fair value through profit or loss | (39,302) | (37,155) | (7,210) | (632) | (84,299) |
| Due to customers | (4,100,595) | (419,608) | (168,312) | (40,074) | (4,728,589) |
| Other liabilities | (597,321) | (100,284) | (7,195) | (22,011) | (726,811) |
| **Total liabilities** | (6,586,960) | (882,709) | (200,033) | (101,057) | (7,770,759) |
| **Net position** | 604,514 | 26,706 | (16,118) | 17,305 | 632,407 |
| **Financial guarantees and credit related commitments** | 987,558 | 218,233 | 21,291 | 25,387 | 1,252,469 |

(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. Most of the equity investments arise from taking possession of foreclosed assets due to historical reasons and from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk

### *3.3.1 Overview*

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 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 utilisation functions are centralised 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;
- Minimise liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolios.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 – 3.3.4).

Sources of funding are regularly reviewed by the Assets and Liabilities Management Department to maintain a wide diversification of fundings in terms of currency, geography, customer, product and maturity terms.

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### *3.3.3 Non-derivative financial instruments cash flows*

The table below presents the cash flows of the Group related to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

| | Overdue | Undated | On Demand | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2016** | | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| Due to banks and other financial institutions | – | – | (363,679) | (506,962) | (353,556) | (779,448) | (301,712) | (14,680) | (2,320,037) |
| Non-derivative financial liabilities at fair value through profit or loss | – | – | (492) | (5,635) | (9,412) | (29,127) | (5,544) | – | (50,210) |
| Due to customers | – | – | (2,451,037) | (498,104) | (529,964) | (831,500) | (468,320) | (149) | (4,779,074) |
| Certificates of deposits issued | – | – | – | (18,218) | (45,494) | (99,181) | (175,589) | – | (338,482) |
| Debt securities issued | – | – | – | (5,120) | – | (7,557) | (116,749) | (112,644) | (242,070) |
| Other financial liabilities | – | – | (25,101) | (210) | (277) | (1,510) | (6,519) | (15,825) | (49,442) |
| **Total liabilities (contractual maturity dates)** | – | – | (2,840,309) | (1,034,249) | (938,703) | (1,748,323) | (1,074,433) | (143,298) | (7,779,315) |
| **Assets** | | | | | | | | | |
| Cash and balances with central banks | – | 790,293 | 200,358 | 392 | – | 240 | 152 | – | 991,435 |
| Due from banks and other financial institutions | – | – | 102,099 | 221,231 | 124,495 | 251,760 | 22,623 | – | 722,208 |
| Non-derivative financial assets at fair value through profit or loss | – | 18,090 | 2,411 | 8,775 | 14,106 | 83,333 | 39,412 | 20,228 | 186,355 |
| Loans and advances to customers | 58,829 | – | – | 441,195 | 275,488 | 1,115,381 | 1,265,701 | 2,042,411 | 5,199,005 |
| Financial investments – loans and receivables | 100 | – | – | 2,650 | 23,104 | 93,641 | 204,350 | 100,949 | 424,794 |
| Financial investments – available-for-sale | – | 8,706 | – | 7,736 | 10,356 | 48,323 | 232,665 | 58,750 | 366,536 |
| Financial investments – held-to-maturity | – | – | – | 2,685 | 44,220 | 100,479 | 867,205 | 513,882 | 1,528,471 |
| Other financial assets | 306 | – | 21,131 | 2,760 | 6,846 | 26,329 | 71,329 | 22,011 | 150,712 |
| **Assets held for managing liquidity risk (contractual maturity dates)** | 59,235 | 817,089 | 325,999 | 687,424 | 498,615 | 1,719,486 | 2,703,437 | 2,758,231 | 9,569,516 |
| **Net position** | 59,235 | 817,089 | (2,514,310) | (346,825) | (440,088) | (28,837) | 1,629,004 | 2,614,933 | 1,790,201 |

(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) |
| Debt 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 31 December 2016** | | | | | | |
| **Assets** | | | | | | |
| **Derivative financial instruments held for trading** | | | | | | |
| – Foreign exchange and commodity contracts | – | 13 | 538 | – | – | 551 |
| – Interest rate contracts and others | 374 | 179 | 437 | 1,641 | 270 | 2,901 |
| **Total** | 374 | 192 | 975 | 1,641 | 270 | 3,452 |
| **Liabilities** | | | | | | |
| **Derivative financial instruments held for trading** | | | | | | |
| – Foreign exchange and commodity contracts | (185) | (17) | (434) | – | – | (636) |
| – Interest rate contracts and others | (246) | (236) | (549) | (1,202) | (29) | (2,262) |
| **Total** | (431) | (253) | (983) | (1,202) | (29) | (2,898) |

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Liquidity risk *(Continued)*

### ***3.3.4 Derivative financial instruments cash flows*** *(Continued)*

*(a) Derivative settled on a net basis (Continued)*

| | Up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 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 31 December 2016** | | | | | | |
| **Derivative financial instruments held for trading** | | | | | | |
| – Foreign exchange and commodity contracts | | | | | | |
| – Outflow | (545,115) | (428,459) | (891,908) | (80,432) | – | (1,945,914) |
| – Inflow | 546,486 | 429,092 | 893,733 | 80,531 | – | 1,949,842 |
| **Total** | 1,371 | 633 | 1,825 | 99 | – | 3,928 |

| | 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 31 December 2016 | | | | | | | | | |
| Assets | | | | | | | | | |
| Cash and balances with central banks | 200,358 | 392 | – | 240 | 152 | – | – | 790,293 | 991,435 |
| Due from banks and other financial institutions | 102,099 | 221,024 | 124,080 | 246,008 | 22,576 | – | – | – | 715,787 |
| Financial assets at fair value through profit or loss | 3,976 | 19,494 | 30,212 | 88,122 | 36,646 | 19,905 | – | 18,089 | 216,444 |
| Loans and advances to customers | – | 440,981 | 269,132 | 1,057,967 | 1,009,786 | 1,172,377 | 58,803 | – | 4,009,046 |
| Financial investments – loans and receivables | – | 2,595 | 22,482 | 90,276 | 181,348 | 88,219 | 100 | – | 385,020 |
| Financial investments – available-for-sale | – | 7,559 | 10,158 | 47,116 | 219,857 | 49,359 | – | 8,706 | 342,755 |
| Financial investments – held-to-maturity | – | 2,520 | 42,785 | 96,907 | 802,058 | 463,179 | – | – | 1,407,449 |
| Other assets | 19,088 | 9,900 | 17,159 | 31,075 | 89,264 | 28,290 | 2,021 | 138,433 | 335,230 |
| Total assets | 325,521 | 704,465 | 516,008 | 1,657,711 | 2,361,687 | 1,821,329 | 60,924 | 955,521 | 8,403,166 |
| Liabilities | | | | | | | | | |
| Due to banks and other financial institutions | (363,679) | (501,367) | (349,287) | (755,144) | (247,604) | (13,979) | – | – | (2,231,060) |
| Financial liabilities at fair value through profit or loss | (492) | (13,268) | (16,668) | (44,328) | (9,374) | (169) | – | – | (84,299) |
| Due to customers | (2,451,037) | (493,534) | (522,833) | (813,426) | (447,620) | (139) | – | – | (4,728,589) |
| Other liabilities | (44,750) | (43,985) | (62,039) | (136,437) | (322,358) | (117,242) | – | – | (726,811) |
| Total liabilities | (2,859,958) | (1,052,154) | (950,827) | (1,749,335) | (1,026,956) | (131,529) | – | – | (7,770,759) |
| Net amount on liquidity gap | (2,534,437) | (347,689) | (434,819) | (91,624) | 1,334,731 | 1,689,800 | 60,924 | 955,521 | 632,407 |

(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 31 December 2016** | | | | |
| Loan commitments and credit related commitments | **561,227** | **50,276** | **2,821** | **614,324** |
| Guarantees, acceptances and letters of credit | **506,635** | **110,865** | **20,645** | **638,145** |
| **Total** | **1,067,862** | **161,141** | **23,466** | **1,252,469** |
| **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 value 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 categorised 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.

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.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.4 Fair value of financial assets and liabilities *(Continued)*

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

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, precious metals and the second tier capital bonds and bond investments trading in inter-bank market. The fair value of RMB 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 convertible loan and unlisted equities 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 value of financial assets and liabilities *(Continued)*

#### *(b) Financial instruments not measured at fair value*

The table below summarised 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.

| | 31 December 2016 Carrying amount | 31 December 2016 Fair value | 31 December 2015 Carrying amount | 31 December 2015 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial investments – loans and receivables | 385,020 | 385,014 | 323,679 | 328,809 |
| Financial investments – held-to-maturity | 1,407,449 | 1,409,564 | 933,683 | 965,328 |
| **Financial liabilities** | | | | |
| Debt securities issued | (208,880) | (207,882) | (157,466) | (164,830) |

*Fair value hierarchy of financial instruments not measured at fair value*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| **Financial assets** | | | | |
| Financial investments – loans and receivables | – | 99,751 | 285,263 | 385,014 |
| Financial investments – held-to-maturity | 9,979 | 1,399,585 | – | 1,409,564 |
| **Financial liabilities** | | | | |
| Debt securities issued | – | (207,882) | – | (207,882) |

| | 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** | | | | |
| Debt securities issued | – | (164,830) | – | (164,830) |

The carrying amounts and fair values of these financial assets and liabilities including loans and advances to customers, 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 value of financial assets and liabilities *(Continued)*

#### *(c) Financial assets and financial liabilities measured at fair value on a recurring basis*

The table below summarises the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | | | | |
| – Governments and central banks | 4,062 | 6,252 | – | 10,314 |
| – Public sector entities | 97 | 377 | – | 474 |
| – Banks and other financial institutions | 4,210 | 27,875 | – | 32,085 |
| – Corporate entities | 1,167 | 55,038 | – | 56,205 |
| Fund investments | 47 | 18,009 | – | 18,056 |
| Equity securities | 25 | 9 | – | 34 |
| Derivative financial instruments | | | | |
| – Foreign exchange and commodity contracts | – | 34,546 | – | 34,546 |
| – Interest rate contracts and others | – | 2,677 | – | 2,677 |
| Precious metal contracts | – | 62,053 | – | 62,053 |
| | 9,608 | 206,836 | – | 216,444 |
| Available-for-sale financial assets | | | | |
| Debt securities | | | | |
| – Governments and central banks | 15,574 | 22,161 | – | 37,735 |
| – Public sector entities | 74 | 4,398 | – | 4,472 |
| – Banks and other financial institutions | 133,317 | 92,145 | – | 225,462 |
| – Corporate entities | 25,212 | 36,979 | 4,189 | 66,380 |
| Fund investments and others | 127 | 1,775 | – | 1,902 |
| Equity securities | 4,852 | 216 | 1,736 | 6,804 |
| | 179,156 | 157,674 | 5,925 | 342,755 |
| **Total assets** | 188,764 | 364,510 | 5,925 | 559,199 |
| Financial liabilities at fair value through profit or loss | | | | |
| Short position of securities held for trading | (1,206) | – | – | (1,206) |
| Certificates of deposits issued | (1,978) | (13,157) | – | (15,135) |
| Others | – | (9) | – | (9) |
| Derivative financial instruments | | | | |
| – Foreign exchange and commodity contracts | – | (32,447) | – | (32,447) |
| – Interest rate contracts and others | – | (2,152) | – | (2,152) |
| Financial liabilities related to precious metal contracts | – | (33,350) | – | (33,350) |
| Debt securities issued | – | (20,635) | – | (20,635) |
| **Total liabilities** | (3,184) | (101,750) | – | (104,934) |

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.4 Fair value of financial assets and liabilities *(Continued)*

### *(c)* ***Financial assets and financial 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 |
| Derivative financial instruments | | | | |
| – 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 |
| Available-for-sale financial assets | | | | |
| 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 and others | 1,793 | 208 | – | 2,001 |
| Equity securities | 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) |
| Derivative financial instruments | | | | |
| – 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) |

There was no transfer between level 1 and 2 during the year.

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.4 Fair value of financial assets and liabilities *(Continued)*

#### (c) ***Financial assets and financial liabilities measured at fair value on a recurring basis*** *(Continued)*

*Reconciliation of level 3 items*

| The Group | Debt securities – corporate entities | Equity investment – unlisted | Total |
|---|---|---|---|
| Balance at 1 January 2016 | – | 1,521 | 1,521 |
| Total gains or losses | | | |
| – Net gains arising from trading activities | – | 15 | 15 |
| – Other comprehensive income | – | – | – |
| Additions | 4,189 | 690 | 4,879 |
| Disposals | – | – | – |
| Transfer from current level to other levels | – | (490) | (490) |
| Balance at 31 December 2016 | 4,189 | 1,736 | 5,925 |
| Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2016 | | | |
| – Realised gains/(losses) | – | 15 | 15 |
| – Unrealised gains/(losses) | – | – | – |

| The Group | Debt securities – corporate entities | Equity investment – 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 | | | |
| – Realised gains/(losses) | – | 18 | 18 |
| – Unrealised gains/(losses) | – | – | – |

Available for sale financial instruments with fair values determined based on unobservable inputs are primarily convertible loan and unlisted share securities. The fair value of these financial instruments is determined primarily using market comparison method or discounted cash flow model. These valuation methods involve inputs from various unobservable assumptions such as price over book ratio and marketability discounts.

As at 31 December 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.

## 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 31 December 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.

### 3.6 Capital management

The Group's objectives in managing "capital", which is a broader concept than the "equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The Administrative Measures for the Capital of Commercial Banks (Provisional) includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% of Core Tier 1 Capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% of Core Tier 1 Capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

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

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional Tier 1 Capital, including additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Core Tier 1 Capital adequacy ratio (%) | **11.00** | 11.14 |
| Tier 1 Capital adequacy ratio (%) | **12.16** | 11.46 |
| Capital adequacy ratio (%) | **14.02** | 13.49 |
| Core Tier 1 Capital | **571,466** | 521,641 |
| Core Tier 1 Capital deductions | **(3,335)** | (3,154) |
| Net Core Tier 1 Capital | **568,131** | 518,487 |
| Additional Tier 1 Capital | **59,920** | 14,943 |
| Net Tier 1 Capital | **628,051** | 533,430 |
| Tier 2 Capital | **95,910** | 94,432 |
| Net Capital | **723,961** | 627,862 |
| Risk-weighted asset | **5,163,250** | 4,653,723 |

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

## 4 NET INTEREST INCOME

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| **Interest income** | | |
| Balances with central banks | 13,701 | 12,868 |
| Due from banks and other financial institutions | 15,026 | 22,813 |
| Loans and advances to customers | 189,973 | 214,127 |
| Financial investments | 71,144 | 55,318 |
| | 289,844 | 305,126 |
| **Interest expense** | | |
| Due to banks and other financial institutions | (55,720) | (55,212) |
| Due to customers | (86,392) | (97,743) |
| Debt securities issued | (7,781) | (6,213) |
| Certificates of deposits issued | (5,080) | (1,786) |
| | (154,973) | (160,954) |
| **Net interest income** | 134,871 | 144,172 |
| Including: | | |
| Interest income on impaired financial assets | 1,959 | 1,971 |
| Interest income on financial investments at fair value through profit or loss | 4,192 | 5,269 |
| Interest expense on financial liabilities at fair value through profit or loss | 610 | 520 |

## 5 FEE AND COMMISSION INCOME

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Settlement service and bank cards | 13,787 | 13,912 |
| Investment banking | 5,306 | 7,472 |
| Guarantee and commitment | 2,962 | 3,014 |
| Management service | 12,502 | 9,697 |
| Agency service | 4,636 | 3,403 |
| Others | 691 | 733 |
| | 39,884 | 38,231 |

| | Year ended 31 December | |
|---|---|---|
| | 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 | 873 | 611 |
| Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers | 2,437 | 1,899 |

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

## 6 FEE AND COMMISSION EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Settlement service and bank cards | 2,813 | 3,058 |
| Others | 276 | 146 |
| | 3,089 | 3,204 |

| | Year ended 31 December | |
|---|---|---|
| | 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 | 11 | 14 |

## 7 NET GAINS ARISING FROM TRADING ACTIVITIES

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Foreign Exchange | 4,520 | 1,483 |
| Interest rate instruments and others | 465 | (258) |
| Trading securities | (2,436) | 1,417 |
| | 2,549 | 2,642 |

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 losses arising from trading activities for the year ended 31 December 2016 include a gain of RMB127 million (for the year ended 31 December 2015: a loss of RMB5 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

## 8 OTHER OPERATING INCOME

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Profit on sales of property and equipment | 94 | 49 |
| Revaluation of investment property | 41 | 140 |
| Income from sales of precious metal merchandise | 1,920 | 2,435 |
| Leasing income | 4,796 | 2,543 |
| Others | 2,225 | 1,856 |
| | 9,076 | 7,023 |

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

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

## 9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Loans and advances to customers (Note 19.2) | | |
| – Collectively assessed losses provision | **9,439** | 12,420 |
| – Individually assessed losses provision | **19,041** | 14,740 |
| | **28,480** | 27,160 |

## 10 OTHER OPERATING EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Staff costs (Note 11) | **26,040** | 25,429 |
| Functional expenses | **26,310** | 24,771 |
| Depreciation and amortisation | **7,939** | 7,200 |
| Taxes and surcharges (1) | **5,962** | 14,590 |
| Impairment loss on finance lease receivables | **973** | 558 |
| Impairment loss on financial investments ((2), Note 20) | **643** | 1,151 |
| Charge/(reversal) of provision for litigations | **(40)** | 179 |
| Impairment of other receivables | **85** | (18) |
| Others | **2,567** | 3,044 |
| | **70,479** | 76,904 |

(1) Since 1 May 2016, value added tax had replaced business tax for the financial industry on a nation-wide basis. Business tax was applicable before 1 May 2016.

(2) Net impairment losses on financial investments

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Loans and receivables (Note 20) | **13** | 773 |
| Available-for-sale financial assets (Note 20) | **621** | 39 |
| Held-to-maturity investments (Note 20) | **9** | 339 |
| | **643** | 1,151 |

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

## 11 STAFF COSTS

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Salaries and bonuses | 17,850 | 17,625 |
| Post-employment benefit (a) | 3,176 | 3,073 |
| Housing benefits and subsidies | 392 | 282 |
| Other social security and benefit costs | 4,622 | 4,449 |
| | 26,040 | 25,429 |

### (a) Post-employment benefit

***Defined contribution plans***

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the period to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Expenses incurred for retirement benefit plans and unemployment insurance | 2,409 | 2,357 |
| Expenses incurred for annuity plan | 746 | 693 |
| Total | 3,155 | 3,050 |

The amount payable at the year end is as follows:

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Expenses incurred for retirement benefit plans and unemployment insurance | 26 | 37 |
| Expenses incurred for annuity plan | 68 | 40 |
| Total | 94 | 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 recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Statement of financial position | | |
| – Obligations for pension benefits | 427 | 443 |

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

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Components of defined benefit costs recognised in profit or loss | 21 | 23 |
| Components of defined benefit costs recognised in other comprehensive income | 13 | (6) |
| Total | 34 | 17 |

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

Movements in the unfunded obligations over the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Present value of unfunded obligations at the beginning of the year | 443 | 472 |
| Retirement benefits paid during the year | (50) | (46) |
| Net interest expense | 18 | 21 |
| Past service cost | 3 | 2 |
| Actuarial (gains)/losses | 13 | (6) |
| Present value of unfunded obligations at the end of the year | 427 | 443 |

The average duration of the supplementary retirement benefits plan at 31 December 2016 is 12.62 years (31 December 2015: 13.44 years).

## 11 STAFF COSTS *(Continued)*

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

***Defined benefit plan*** *(Continued)*

The Group expects to make a contribution of RMB42 million (2015: RMB42 million) to the supplementary retirement benefits plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.49% (31 December 2015: 3.30%) and 1.97% (31 December 2015: 1.43%) respectively as at 31 December 2016. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 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).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB30 million (increase by RMB34 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB34 million (decrease by RMB31 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB30 million (decrease by RMB30 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (a) Directors', supervisors' and senior management's emoluments before taxation

| *(in thousands of RMB)* | Year ended 31 December 2016 | | | |
|---|---|---|---|---|
| Name | Emoluments | Remuneration | Other benefits | Total |
| **Executive directors** | | | | |
| Mr. Niu, Ximing | – | 484 | 162 | 646 |
| Mr. Peng, Chun | – | 484 | 162 | 646 |
| Ms. Yu, Yali | – | 436 | 158 | 594 |
| Mr. Hou, Weidong | – | 436 | 158 | 594 |
| **Non-executive directors** | | | | |
| Mr. Wang, Dongsheng | – | – | – | – |
| Mr. Hu, Huating | – | 672 | 204 | 876 |
| Mr. Wang, Taiyin | – | 672 | 204 | 876 |
| Mr. Liu, Changshun | – | 672 | 204 | 876 |
| Ms. Huang, Bijuan | – | – | – | – |
| Mr. Liu, Hanxing | – | – | – | – |
| Mr. Luo, Mingde | – | – | – | – |
| Mr, Liu, Haoyang | – | – | – | – |
| Mr. Peter Hugh Nolan | 250 | – | – | 250 |
| Mr. Chen, Zhiwu | 250 | – | – | 250 |
| Mr. Yu, Yongshun | – | – | – | – |
| Ms. Li, Jian | 250 | – | – | 250 |
| Mr. Liu, Li | 250 | – | – | 250 |
| Mr. Yang, Zhiwei | 49 | – | – | 49 |
| **Supervisors** | | | | |
| Mr. Song, Shuguang | – | 484 | 174 | 658 |
| Mr. Gu, Huizhong | – | – | – | – |
| Mr. Zhao, Yuguo | – | – | – | – |
| Mr. Liu, Mingxing | – | – | – | – |
| Ms. Zhang, Lili | – | – | – | – |
| Ms. Tang, Xingyu | – | – | – | – |
| Ms. Xia, Zhihua | – | – | – | – |
| Ms. Chen, Qing | – | 765 | 181 | 946 |
| Mr. Du, Yarong | – | 769 | 181 | 950 |
| Mr. Fan, Jun | – | 757 | 181 | 938 |
| Mr. Xu, Ming | – | 757 | 181 | 938 |
| Total | 1,049 | 7,388 | 2,150 | 10,587 |

| Name | Emoluments | Remuneration | Other benefits | Total |
|---|---|---|---|---|
| **Directors and supervisors retired/ resigned in 2016** | | | | |
| Mr. Ma, Qiang | – | – | – | – |
| Ms. Zhang, Yuxia | – | – | – | – |
| Mr. Choi, Yiu Kwan | 201 | – | – | 201 |
| Mr. Lu, Jiahui | – | – | – | – |
| Mr. Teng, Tieji | – | – | – | – |
| Mr. Dong, Wenhua | – | – | – | – |
| Mr. Li, Jin | – | – | – | – |
| Mr. Gao, Zhongyuan | – | – | – | – |
| Mr. Yan, Hong | – | – | – | – |
| Mr. Shuai, Shi | – | 743 | 181 | 924 |
| Total | 201 | 743 | 181 | 1,125 |

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

### (a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

| *(in thousands of RMB)* | Year ended 31 December 2015 | | | |
|---|---|---|---|---|
| Name | Emoluments | Remuneration | Other benefits | Total |
| **Executive directors** | | | | |
| Mr. Niu, Ximing | – | 448 | 78 | 526 |
| Mr. Peng, Chun | – | 448 | 78 | 526 |
| Ms. Yu, Yali | – | 403 | 74 | 477 |
| Mr. Hou, Weidong | – | 403 | 74 | 477 |
| Mr. Qian, Wenhui (1) | – | 67 | 11 | 78 |
| **Non-executive directors** | | | | |
| Mr. Hu, Huating | – | 672 | 172 | 844 |
| Mr. Wang, Taiyin | – | 672 | 172 | 844 |
| Mr. Liu, Changshun | – | 672 | 172 | 844 |
| Mr. Peter, Wong Tung Shun | – | – | – | – |
| Mr. Ma, Qiang | – | – | – | – |
| Ms. Zhang, Yuxia | – | – | – | – |
| Mr. Peter Hugh Nolan | 250 | – | – | 250 |
| Mr. Chen, Zhiwu | 250 | – | – | 250 |
| Mr. Choi, Yiu Kwan | 250 | – | – | 250 |
| Mr. Yu, Yongshun | – | – | – | – |
| Ms. Li, Jian | 250 | – | – | 250 |
| Mr. Liu, Li | 250 | – | – | 250 |
| Ms. Anita Fung Yuen Mei (1) | – | – | – | – |
| Mr. Lei, Jun (1) | – | – | – | – |
| **Supervisors** | | | | |
| Mr. Song, Shuguang | – | 448 | 86 | 534 |
| Mr. Lu, Jiahui | – | – | – | – |
| Ms. Tang, Xinyu | – | – | – | – |
| Mr. Teng, Tieqi | – | – | – | – |
| Mr. Gu, Huizhong | – | – | – | – |
| Mr. Dong, Wenhua | – | – | – | – |
| Mr. Li, Jin | – | – | – | – |
| Mr. Gao, Zhongyuan | – | – | – | – |
| Mr. Yan, Hong | – | – | – | – |
| Ms. Chen, Qing | – | 705 | 134 | 839 |
| Mr. Shuai, Shi | – | 695 | 134 | 829 |
| Mr. Du, Yarong | – | 700 | 134 | 834 |
| Mr. Fan, Jun | – | 709 | 134 | 843 |
| Total | 1,250 | 7,042 | 1,453 | 9,745 |

(1) The total compensation package for directors and supervisors for the year ended 31 December 2016 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2016 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2015 was disclosed in the Supplemental Announcement for the 2015 Annual Report issued on 28 October 2016.

(2) During 2016 and 2015, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(3) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

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

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

### (b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Salary | **14** | 8 |
| Discretionary bonuses | **13** | 13 |
| Employer's contribution to pension scheme and other benefits | **1** | 1 |
| Total | **28** | 22 |

Emoluments of the above five highest paid individuals in the Group are within the following bands:

| | Number of employees As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| HKD2,500,001 – 3,000,000 | **–** | – |
| HKD3,000,001 – 3,500,000 | **–** | – |
| HKD3,500,001 – 4,000,000 | **–** | – |
| HKD4,000,001 – 4,500,000 | **–** | 2 |
| HKD4,500,001 – 5,000,000 | **1** | 2 |
| HKD5,000,001 – 5,500,000 | **3** | – |
| HKD5,500,001 – 6,000,000 | **–** | – |
| HKD6,000,001 – 6,500,000 | **–** | – |
| HKD8,000,001 – 8,500,000 | **1** | – |
| HKD10,000,001 – 10,500,000 | **–** | 1 |
| | **5** | 5 |

During 2016 and 2015, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

### (c) Share-based compensation

On 18 November 2005, the Board of Directors resolved to grant certain cash settled Stock Appreciation Rights ("SARs") to several senior executives of the Bank under a long-term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HKD2.50, 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 31 December 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 HKD6.13, 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. As at 31 December 2016, the plan expired and all the 2.724 million shares of the initial grant of SARs expired since they had not been exercised during the validity period.

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

### (c) Share-based compensation *(Continued)*

Changes in fair value of valid SARs amounting to RMB1.46 million for the year ended 31 December 2016 (the year ended 31 December 2015: RMB3.72 million) were recognised in other operating expense but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **Number of shares** | Number of shares |
| | **(In millions)** | (In millions) |
| Outstanding at the beginning of the year | **3** | 11 |
| Expired in the year | **(3)** | (8) |
| Outstanding at the end of the year | **–** | 3 |

## 13 INCOME TAX

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Current tax | | |
| – PRC enterprise income tax | **13,718** | 18,907 |
| – Hong Kong profits tax | **770** | 783 |
| – Overseas taxations | **326** | 349 |
| | **14,814** | 20,039 |
| Deferred income tax (Note 24) | **3,645** | (858) |
| | **18,459** | 19,181 |

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.

## 13 INCOME TAX *(Continued)*

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit before tax | **86,110** | 86,012 |
| Tax calculated at a tax rate of 25% | **21,528** | 21,503 |
| Effect of different tax rates in other countries (or regions) | **23** | 56 |
| Tax effect of expenses not deductible for tax purposes (1) | **4,344** | 1,615 |
| Tax effect arising from income not subject to tax (2) | **(7,489)** | (3,993) |
| Income tax adjustment for prior years | **53** | – |
| Income tax expense | **18,459** | 19,181 |

(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 year.

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Net profit attributable to shareholders of the Bank | **67,210** | 66,528 |
| Less: Net profits for the current year attributable to other equity holders of the parent company | **(884)** | – |
| Net profits for the current year attributable to ordinary shareholders of the parent company | **66,326** | 66,528 |
| Weighted average number of ordinary shares in issue (expressed in millions) | **74,263** | 74,263 |
| Basic and diluted earnings per share (expressed in RMB Yuan per share) | **0.89** | 0.90 |

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 33 Preference Shares. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared during the year of RMB884 million should be 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 year ended 31 December 2016 and 2015, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

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

## 15 CASH AND BALANCES WITH CENTRAL BANKS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Cash | 17,612 | 17,647 |
| Mandatory reserve deposits | 782,821 | 749,068 |
| Excess reserve deposits | 181,487 | 146,735 |
| Balances with central banks other than reserve deposits | 9,515 | 6,778 |
| | 991,435 | 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 31 December 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 |

## 16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Due from banks and other financial institutions | | |
| – Banks operating in Mainland China | 132,556 | 141,810 |
| – Banks operating outside Mainland China | 47,397 | 36,277 |
| Financial assets held under resale agreements | | |
| – Securities | 58,043 | 4,606 |
| – Bills | 10,000 | 71,686 |
| Placement with and loans to banks | | |
| – Banks operating in Mainland China | 117,207 | 60,385 |
| – Banks operating outside Mainland China | 83,436 | 80,536 |
| Placement with and loans to other financial institutions | 267,148 | 215,891 |
| | 715,787 | 611,191 |

As at 31 December 2016, the Group's placement with certain wealth management products and debt securities held under resale agreements sponsored and not consolidated by the Group amounted to RMB90.1 billion(31 December 2015: RMB50 billion). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those arrangements approximated the carrying amount of the placements. The average exposure during 2016 was RMB20,790 million and the weighted-average outstanding period were 1.38 days (The average exposure during 2015 was RMB27,427 million and the weighted-average outstanding period were 6.44 days). As at the approval date of these consolidated financial statements, the placements and amounts held under resale agreements have matured and the amounts have been fully repaid.

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

## 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Derivative financial instruments (Note 18) | **37,223** | 34,310 |
| Financial assets held for trading | | |
| Government bonds | | |
| – Listed in Hong Kong | **2,422** | 2,510 |
| – Listed outside Hong Kong | **2,864** | 1,001 |
| – Unlisted | **5,028** | 14,877 |
| Other debt securities | | |
| – Listed in Hong Kong | **4,185** | 4,348 |
| – Listed outside Hong Kong | **18,520** | 10,611 |
| – Unlisted – corporate entities | **48,806** | 49,408 |
| – Unlisted – public sector | **377** | 1,833 |
| – Unlisted – banking sector | **16,876** | 14,430 |
| Equity securities | | |
| – Listed in Hong Kong | **1** | 1 |
| – Listed outside Hong Kong | **33** | 85 |
| Fund investments | | |
| – Listed in Hong Kong | **47** | – |
| – Listed outside Hong Kong | **181** | – |
| – Unlisted | **17,828** | 9,354 |
| Precious metal contracts | **62,053** | 30,541 |
| | **216,444** | 173,309 |

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

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Financial assets – financial assets at fair value through profit or loss | | |
| – Governments and central banks | **10,314** | 18,388 |
| – Public sector entities | **474** | 1,924 |
| – Banks and other financial institutions | **50,142** | 34,298 |
| – Corporate entities | **56,238** | 53,848 |
| | **117,168** | 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.

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

## 18 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

| As at 31 December 2016 | Contractual/notional amount | Fair values Assets | Fair values Liabilities |
|---|---|---|---|
| Foreign exchange contracts | 2,102,171 | 34,546 | (32,447) |
| Interest rate contracts and others | 704,429 | 2,677 | (2,152) |
| Total amount of derivative instruments recognised | 2,806,600 | 37,223 | (34,599) |

| As at 31 December 2015 | Contractual/notional amount | Fair values Assets | Fair values Liabilities |
|---|---|---|---|
| Foreign exchange contracts | 1,609,192 | 32,825 | (31,318) |
| Interest rate contracts and others | 504,847 | 1,485 | (1,846) |
| Total amount of derivative instruments recognised | 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 year end. These instruments, comprising foreign exchange and interest rate derivatives, allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

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

## 18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

Notional amount of derivative financial instruments by original currency:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| RMB | **1,305,983** | 938,269 |
| USD | **1,187,380** | 955,992 |
| HKD | **130,261** | 103,905 |
| Others | **182,976** | 115,873 |
| Total | **2,806,600** | 2,114,039 |

### Hedge accounting

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

| **As at 31 December 2016** | **Contractual/notional amount** | **Fair values Assets** | **Fair values Liabilities** |
|---|---|---|---|
| Derivative financial instruments designated as hedging instruments in cash flow hedges | **21,103** | **150** | **(786)** |
| Derivative financial instruments designated as hedging instruments in fair value hedges | **57,004** | **786** | **(215)** |
| Total | **78,107** | **936** | **(1,001)** |

| 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) |

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

## 18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

### Hedge accounting *(Continued)*

#### *(a) Fair value hedge*

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Part of the purchased interest rate swap contract is designated as hedging instruments. The interest rate swap contract is identical with the corresponding hedged items in terms of interest rate, term and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. After testing, the Group's management considers the hedging relationship for the current year is highly effective. The hedged items include available-for-sale financial assets, loans and advances to customers and placement with banks.

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

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Net gains/(losses) on hedging instruments | 727 | 151 |
| Net gains/(losses) on hedged items attributable to the hedge risk | (780) | (172) |
| Net gains/(losses) from fair value hedges | (53) | (21) |

#### *(b) Cash flow hedge*

The Group uses foreign exchange contract 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 include placement with banks, loans to customers and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the year ended 31 December 2016, the Group's net loss from the cash flow hedge of RMB37 million (for the year ended 31 December 2015: a net loss of RMB86 million) were recognised in other comprehensive income and the gain and loss arising from ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2016. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Loans and advances to customers | 4,102,959 | 3,722,006 |
| Less: Allowance for collectively assessed impairment losses | (63,756) | (64,004) |
| Less: Allowance for individually assessed impairment losses | (30,157) | (23,434) |
| | 4,009,046 | 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 advance

| | Year ended 31 December 2016 | | Year ended 31 December 2015 | |
|---|---|---|---|---|
| | Collectively assessed | Individually assessed | Collectively assessed | Individually assessed |
| **Balance at the beginning of the year** | 64,004 | 23,434 | 58,908 | 18,040 |
| Net impairment allowances for loans charged to profit or loss (Note 9) | 9,439 | 19,041 | 12,420 | 14,740 |
| – Impairment allowances for loans | 9,439 | 20,830 | 12,420 | 16,573 |
| – Reversal of impairment allowances for loans | – | (1,789) | – | (1,833) |
| Recoveries of loans written-off in previous years | – | 808 | – | 500 |
| Unwind of discount on allowances during the year | – | (1,959) | – | (1,971) |
| Loans written off during the year as uncollectible | – | (21,225) | – | (15,268) |
| Other transfer (out)/in | (9,902) | 9,902 | (7,374) | 7,374 |
| Acquisition of subsidiaries | 44 | 76 | – | – |
| Exchange differences | 171 | 80 | 50 | 19 |
| **Balance at the end of the year** | 63,756 | 30,157 | 64,004 | 23,434 |

| | Year ended 31 December 2016 | | Year ended 31 December 2015 | |
|---|---|---|---|---|
| | Corporate | Individual | Corporate | Individual |
| **Balance at the beginning of the year** | 70,540 | 16,898 | 62,863 | 14,085 |
| Net impairment allowances for loans charged to profit or loss | 23,857 | 4,623 | 21,211 | 5,949 |
| – Impairment allowances for loans | 25,487 | 4,782 | 22,740 | 6,253 |
| – Reversal of impairment allowances for loans | (1,630) | (159) | (1,529) | (304) |
| Recoveries of loans written-off in previous years | 344 | 464 | 245 | 255 |
| Unwind of discount on allowances during the year | (1,756) | (203) | (1,657) | (314) |
| Loans written off during the year as uncollectible | (18,258) | (2,967) | (12,178) | (3,090) |
| Acquisition of subsidiaries | 116 | 4 | – | – |
| Exchange differences | 201 | 50 | 56 | 13 |
| **Balance at the end of the year** | 75,044 | 18,869 | 70,540 | 16,898 |

### 19.3 Analysis of loans and advances to customers by collective and individual assessments

| | Loan and advances not impaired | Identified impaired loans and advances | | | | Identified impaired |
|---|---|---|---|---|---|---|
| | 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 | | Gross loans and advances as a % of total gross loans and advances |
| **As at 31 December 2016** | | | | | | |
| Gross loans and advances | 4,040,559 | 7,151 | 55,249 | 62,400 | 4,102,959 | 1.52 |
| Allowance for impairment losses | (57,211) | (6,545) | (30,157) | (36,702) | (93,913) | |
| Net loans and advances to customers | 3,983,348 | 606 | 25,092 | 25,698 | 4,009,046 | |
| 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Loans and receivables – at amortised cost | | |
| – Unlisted | 387,823 | 326,470 |
| Less: Impairment allowance | (2,803) | (2,791) |
| Loans and receivables (net) | 385,020 | 323,679 |
| Available-for-sale debt securities – at fair value | | |
| – Listed in Hong Kong | 46,971 | 26,959 |
| – Listed outside Hong Kong | 81,496 | 77,544 |
| – Unlisted | 205,582 | 154,819 |
| Debt securities | 334,049 | 259,322 |
| Available-for-sale equity securities – at fair value | | |
| – Listed in Hong Kong | 666 | 87 |
| – Listed outside Hong Kong | 2,934 | 1,418 |
| – Unlisted | 3,204 | 1,911 |
| Equity securities | 6,804 | 3,416 |
| Available-for-sale fund investments and others – at fair value | | |
| – Listed in Hong Kong | – | – |
| – Listed outside Hong Kong | 233 | 64 |
| – Unlisted | 1,669 | 1,937 |
| Fund investments and others | 1,902 | 2,001 |
| Total available-for-sale financial assets | 342,755 | 264,739 |
| Held-to-maturity debt securities – at amortised cost | | |
| – Listed in Hong Kong | 1,312 | 1,741 |
| – Listed outside Hong Kong | 132,431 | 151,419 |
| – Unlisted | 1,274,056 | 780,862 |
| Less: Impairment allowance | (350) | (339) |
| Held-to-maturity investments (net) | 1,407,449 | 933,683 |

The movements in allowance for impairment losses of financial investments are summarised 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 | (90) | (622) | (9) | (721) |
| Reversal of impairment allowances | 77 | 1 | – | 78 |
| Transfers in | – | (1) | – | (1) |
| Disposals | 4 | 57 | – | 61 |
| Written-off | – | 656 | – | 656 |
| Recovery after written-off | – | – | – | – |
| Exchange differences | (3) | (34) | (2) | (39) |
| **As at 31 December 2016** | (2,803) | (1,175) | (350) | (4,328) |

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

## 20 FINANCIAL INVESTMENTS *(Continued)*

| | Loans and receivables | Available-for-sale | Held-to-maturity | Total |
|---|---|---|---|---|
| **Allowance for impairment losses** | | | | |
| As at 1 January 2015 | (2,006) | (1,115) | – | (3,121) |
| Provision for impairment | (800) | (39) | (339) | (1,178) |
| Reversal of impairment allowances | 27 | – | – | 27 |
| Transfers in | – | (61) | – | (61) |
| Disposals | – | – | – | – |
| Written-off | – | 15 | – | 15 |
| Exchange differences | (12) | (32) | – | (44) |
| **As at 31 December 2015** | (2,791) | (1,232) | (339) | (4,362) |

Financial investments analysed by issuer are as follows:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| **Loans and receivables** | | |
| – Governments and central banks | **80,572** | 39,522 |
| – Banks and other financial institutions | **64,755** | 28,646 |
| – Corporate entities | **242,496** | 258,302 |
| Less: Impairment allowance | **(2,803)** | (2,791) |
| Loans and receivables (net) | **385,020** | 323,679 |
| **Available-for-sale financial assets** | | |
| – Governments and central banks | **37,735** | 36,179 |
| – Public sector entities | **4,472** | 3,810 |
| – Banks and other financial institutions | **231,360** | 160,375 |
| – Corporate entities | **69,188** | 64,375 |
| Total | **342,755** | 264,739 |
| **Held-to-maturity investments** | | |
| – Governments and central banks | **1,003,962** | 568,248 |
| – Public sector entities | **28,505** | 16,205 |
| – Banks and other financial institutions | **306,591** | 272,865 |
| – Corporate entities | **68,741** | 76,704 |
| Less: Impairment allowance | **(350)** | (339) |
| Held-to-maturity investments (net) | **1,407,449** | 933,683 |

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

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Available-for-sale financial investment (at fair value) – unlisted | **47,534** | 26,036 |

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

## 20 FINANCIAL INVESTMENTS *(Continued)*

The maturity profile of certificate of deposits in the inter-bank market held by the remaining period as at year end to the contractual maturity dates are summarised as follows:

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Within 3 months | 2,430 | 6,213 |
| 3 months to 12 months | 10,316 | 5,748 |
| 1 year to 5 years | 34,788 | 14,075 |
| | 47,534 | 26,036 |

## 21 PRINCIPAL SUBSIDIARIES

### 21.1 Details of the principal subsidiaries

| Name of subsidiaries | Place of incorporation and operation | Date of incorporation | Issued and fully paid up share capital | Proportion of ownership interest and voting power held by the Group | Principal activities |
|---|---|---|---|---|---|
| Bank of Communications Financial Leasing Co., Ltd. (1) | Mainland China | 20 Dec. 2007 | RMB7,000,000,000 | 100 | Financial leasing |
| Bank of Communications International Trust Co., Ltd. (1) | Mainland China | 18 Oct. 2007 | RMB3,765,000,000 | 85 | Trust investment |
| Bank of Communications Schroder Fund Management Co., Ltd. (1) | Mainland China | 4 Aug. 2005 | RMB200,000,000 | 65 | Fund management |
| BoCommLife Insurance Company Limited (1) | Mainland China | 27 Jan. 2010 | RMB2,100,000,000 | 62.50 | Life Insurance |
| BOCOM International Holdings Company Limited (formerly known as BOCOM Securities Company Limited) | Hong Kong | 2 May 2007 | HKD2,000,000,000 | 100 | Securities dealing and brokerage |
| China BOCOM Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited) | Hong Kong | 1 Nov. 2000 | HKD400,000,000 | 100 | General insurance and reinsurance |
| Dayi BoCom Xingmin Rural Bank Ltd. (1) | Mainland China | 26 Sep. 2008 | RMB60,000,000 | 61 | Commercial banking |
| Zhejiang Anji BoCOM Rural Bank Ltd.(1) | Mainland China | 9 April 2010 | RMB180,000,000 | 51 | Commercial banking |
| Xinjiang Shihezi BoCOM Rural Bank Company Ltd. (1) | Mainland China | 5 May 2011 | RMB150,000,000 | 51 | Commercial banking |
| Qingdao Laoshan BoCOM Rural Bank Company Ltd. (1) | Mainland China | 21 Sep. 2012 | RMB150,000,000 | 51 | Commercial banking |
| Bank of Communications (UK) Limited | UK | 29 July 2011 | USD100,000,000 | 100 | Commercial banking |
| Bank of Communications (Luxemburg) Limited | Luxembourg | 7 May 2015 | EUR100,000,000 | 100 | Commercial banking |
| Bocom Brazil Holding Company Ltda | Brazil | 11 Mar. 2016 | BRL399,569,405 | 100 | Investment |
| BANCO BBM S.A. | Brazil | 29 Jun 1967 | BRL329,446,906 | 80 | Commercial banking |

(1) These subsidiaries incorporated in PRC are all limited liability companies.
As at 31 December 2016, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

(2) For details of the debt securities issued by subsidiaries please refer to Note 30.

### 21.2 Changes of principal subsidiaries

On 30 November 2016, the Group acquired 80% of the equity interests of BBM Bank through its subsidiary Bocom Brazil Holding Company Ltda (Note 42).

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

## 21 PRINCIPAL SUBSIDIARIES *(Continued)*

### 21.3 Auditors of subsidiaries

For the year ended 31 December 2016, subsidiary and associates that were not audited by PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP or other member firms were immaterial to the Group in terms of total assets or profit before tax.

## 22 INVESTMENT IN ASSOCIATES

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Investment cost | **362** | 350 |
| Net profit adjusted by the equity method | **307** | 211 |
| Changes in other equity | **45** | 16 |
| Investment in associates | **714** | 577 |

The Group's investments in associates mainly represent the investment in Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established on 30 December 2011. The registered capital of the entity is RMB3,018 million, and the principal activities of the entity are commercial banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 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 information of Bank of Tibet Co., Ltd.:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Assets | **48,503** | 36,666 |
| Liabilities | **42,746** | 31,734 |
| Net assets | **5,757** | 4,932 |

| | **Year ended 31 December** | |
|---|---|---|
| | **2016** | 2015 |
| Revenue | **799** | 724 |
| Profit from continuing operations | **825** | 683 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **825** | 683 |
| Dividends received from the associate | **–** | – |

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

## 23 PROPERTY AND EQUIPMENT

| | Land and buildings | Construction in progress | Equipment | Transportation equipment | Property improvement | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January 2016 | 49,275 | 12,067 | 24,151 | 32,850 | 6,299 | 124,642 |
| Additions | 254 | 1,353 | 2,199 | 30,741 | 276 | 34,823 |
| Transfer out to investment property | (1,509) | – | – | – | (21) | (1,530) |
| Disposals | (310) | (9) | (1,191) | (1,964) | (49) | (3,523) |
| Construction in progress | | | | | | |
| Transfer in | 5,674 | (6,291) | – | – | 617 | – |
| Other transfers in/(out) | 7 | – | 15 | – | – | 22 |
| **As at 31 December 2016** | 53,391 | 7,120 | 25,174 | 61,627 | 7,122 | 154,434 |
| **Accumulated depreciation** | | | | | | |
| As at 1 January 2016 | (11,984) | – | (17,153) | (2,190) | (2,904) | (34,231) |
| Charge for the year | (1,673) | – | (2,998) | (1,922) | (680) | (7,273) |
| Current year transfers in | (2) | – | (14) | – | – | (16) |
| Transfer out to investment property | 314 | – | – | – | 9 | 323 |
| Disposals | 57 | – | 1,099 | 40 | 13 | 1,209 |
| **As at 31 December 2016** | (13,288) | – | (19,066) | (4,072) | (3,562) | (39,988) |
| **Allowance for impairment losses** | | | | | | |
| As at 1 January 2016 | – | (16) | – | (2) | – | (18) |
| Provision for impairment | – | – | – | (3) | – | (3) |
| Decrease | – | – | – | – | – | – |
| **As at 31 December 2016** | – | (16) | – | (5) | – | (21) |
| **Net book value** | | | | | | |
| **As at 31 December 2016** | 40,103 | 7,104 | 6,108 | 57,550 | 3,560 | 114,425 |

| | 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) |
| Other 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) |
| Decrease | – | – | – | – | – | – |
| 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 |

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

## 23 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2016, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB57,483 million (31 December 2015: RMB30,582 million).

As at 31 December 2016, the property and equipment with re-registration procedure not completed amounted to RMB211 million (31 December 2015: RMB213 million). However, this registration process does not affect the rights of the Bank to these assets.

## 24 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 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 | 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 investment property | Other temporary differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | 9,697 | 1,051 | 531 | 5,110 | 116 | 111 | (555) | (273) | (77) | 854 | 16,565 |
| Recognised in profit or loss | (1,820) | 31 | (255) | (1,944) | (7) | (4) | – | (391) | 13 | 732 | (3,645) |
| Recognised in other comprehensive income | – | – | – | – | – | – | (73) | 20 | (445) | – | (498) |
| **Balance at 31 December 2016** | 7,877 | 1,082 | 276 | 3,166 | 109 | 107 | (628) | (644) | (509) | 1,586 | 12,422 |

| | Impairment allowances for loans | 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 investment property | Other temporary differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 8,387 | 756 | 205 | 4,987 | 70 | 118 | (195) | (130) | (45) | 1,892 | 16,045 |
| Recognised in profit or loss | 1,310 | 295 | 326 | 123 | 46 | (7) | – | (165) | (32) | (1,038) | 858 |
| Recognised 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)

## 24 DEFERRED INCOME TAX *(Continued)*

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

| | As at 31 December 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** | | | | |
| Change in fair value of available-for-sale financial assets | (2,329) | (636) | (2,580) | (659) |
| Change in fair value of investment property | (2,255) | (509) | (321) | (77) |
| Changes in fair value of derivative instruments | (37,223) | (9,294) | (34,310) | (8,607) |
| Other temporary differences | (694) | (172) | (844) | (212) |
| | (42,501) | (10,611) | (38,055) | (9,555) |
| **Deferred income tax assets** | | | | |
| Impairment allowance for loans | 28,601 | 7,877 | 38,789 | 9,697 |
| Impairment allowance for financial investments | 4,328 | 1,082 | 4,205 | 1,051 |
| Impairment allowance for other assets | 3,892 | 276 | 2,124 | 531 |
| Impairment allowance for written-off assets | 12,668 | 3,166 | 20,441 | 5,110 |
| Retirement supplementary pension payable | 427 | 107 | 443 | 111 |
| Outstanding litigations and unsettled obligation | 448 | 109 | 463 | 116 |
| Change in fair value of available-for-sale financial assets | 58 | 8 | 411 | 104 |
| Changes in fair value of derivative instruments | 34,599 | 8,650 | 33,164 | 8,334 |
| Other temporary differences | 7,016 | 1,758 | 4,176 | 1,066 |
| | 92,037 | 23,033 | 104,216 | 26,120 |
| Net deferred income tax assets | 49,536 | 12,422 | 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Deferred income tax assets | 12,567 | 16,684 |
| Deferred income tax liabilities | (145) | (119) |

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

## 25 OTHER ASSETS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Interest receivable | 47,803 | 41,533 |
| Settlement accounts | 6,495 | 3,611 |
| Other receivables and prepayments | 13,273 | 9,011 |
| Less: Impairment allowance (d) | (673) | (632) |
| Leasehold improvement | 818 | 855 |
| Intangible assets (a) | 1,172 | 1,159 |
| Land use rights and others | 1,016 | 900 |
| Foreclosed assets | 892 | 787 |
| Rental deposits | 127 | 167 |
| Goodwill (e) | 471 | 351 |
| Investment properties (b) | 8,762 | 5,634 |
| Finance lease receivables (c) | 117,676 | 113,778 |
| Less: Impairment allowance (d) | (3,219) | (2,241) |
| Precious metal | 1,268 | 2,333 |
| Others | 11,643 | 9,065 |
| | 207,524 | 186,311 |

### (a) Intangible assets

| | Software |
|---|---|
| **Cost** | |
| As at 1 January 2016 | 2,133 |
| Additions | 299 |
| Transfer in | 7 |
| Disposals | (59) |
| **As at 31 December 2016** | 2,380 |
| **Accumulated amortisation** | |
| As at 1 January 2016 | (974) |
| Amortisation expense | (229) |
| Transfers in | (5) |
| Disposals | – |
| **As at 31 December 2016** | (1,208) |
| **Net book value** | 1,172 |

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

## 25 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 amortisation** | |
| As at 1 January 2015 | (1,089) |
| Amortisation expense | (268) |
| Disposals | 383 |
| As at 31 December 2015 | (974) |
| Net book value | 1,159 |

### (b) Investment properties

| **The Group** | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|
| Balance at the beginning of the year | **5,634** | 7,276 |
| Additions/(reduction) of the year | **2,988** | (1,795) |
| Gains on property revaluation | **41** | 140 |
| Exchange differences | **99** | 13 |
| Balance at the end of the year | **8,762** | 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 similar properties.

As at 31 December of 2016, fair value hierarchies of the investment properties of the Group are as follows:

| | **Level 1** | **Level 2** | **Level 3** | **Fair value as at 31 December 2016** |
|---|---|---|---|---|
| Commercial property units located in Hong Kong | – | – | 1,066 | 1,066 |
| Commercial property units located outside Hong Kong | – | – | 7,696 | 7,696 |

The valuation of these investment properties located in Hong Kong as at 31 December 2016 were performed by RHL Appraisal Limited, an independent qualified professional valuer 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, capitalisation rate and unit price.

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

## 25 OTHER ASSETS *(Continued)*

### (c) Finance lease receivables

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Minimum finance lease receivables | | |
| Within 1 year (inclusive) | 36,778 | 34,459 |
| 1 year to 2 years (inclusive) | 29,301 | 28,815 |
| 2 year to 3 years (inclusive) | 20,786 | 22,381 |
| Over 3 years | 45,935 | 42,316 |
| | 132,800 | 127,971 |
| Gross investment in finance leases | 132,800 | 127,971 |
| Unearned finance income | (15,124) | (14,193) |
| Net investment in finance leases | 117,676 | 113,778 |
| The net investment in finance leases is analysed as follows: | | |
| Within 1 year (inclusive) | 32,451 | 30,237 |
| 1 year to 2 years (inclusive) | 26,092 | 25,682 |
| 2 year to 3 years (inclusive) | 18,438 | 20,162 |
| Over 3 years | 40,695 | 37,697 |
| | 117,676 | 113,778 |
| The allowance for uncollectible finance lease receivable | (3,219) | (2,241) |
| Net finance lease receivables | 114,457 | 111,537 |

### (d) Impairment allowance

| | As at 1 January 2016 | Amounts accrued | Reversal | Write-off | Transfer (in)/out | Exchange differences | As at 31 December 2016 |
|---|---|---|---|---|---|---|---|
| Other receivables | (573) | (177) | 92 | 41 | (7) | (5) | (629) |
| Finance lease receivables | (2,241) | (973) | – | – | – | (5) | (3,219) |
| Others | (59) | (6) | – | 26 | – | (5) | (44) |
| Total | (2,873) | (1,156) | 92 | 67 | (7) | (15) | (3,892) |

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

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

## 25 OTHER ASSETS *(Continued)*

### (e) Goodwill

| | As at 1 January 2016 | Addition during the year | Decrease during the year | As at 31 December 2016 | Impairment allowance |
|---|---|---|---|---|---|
| Bank of Communications International Trust Co., Ltd. | 200 | – | – | 200 | – |
| BoCommLife Insurance Company Limited | 122 | – | – | 122 | – |
| Others | 29 | 149 | (29) | 149 | – |
| Total | 351 | 149 | (29) | 471 | – |

| | As at 1 January 2015 | Addition during the year | Decrease during the year | As at 31 December 2015 | Impairment allowance |
|---|---|---|---|---|---|
| Bank of Communications International Trust Co., Ltd. | 200 | – | – | 200 | – |
| BoCommLife Insurance Company Limited | 122 | – | – | 122 | – |
| Others | – | 29 | – | 29 | – |
| Total | 322 | 29 | – | 351 | – |

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the share prices of similar types of those listed financial institutions.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

### (f) Loans to employees

As at 31 December 2016 and 31 December 2015, the Group does not offer any loans to employees for the purpose of enabling the selected employees to acquire the shares of the Bank and its subsidiaries.

## 26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Loans from central banks | 443,597 | 135,320 |
| Deposits from other banks | | |
| – Banks operating in Mainland China | 375,400 | 346,359 |
| – Banks operating outside Mainland China | 12,066 | 10,963 |
| Deposits from other financial institutions | | |
| – Other financial institutions operating in Mainland China | 844,836 | 847,577 |
| – Other financial institutions operating outside Mainland China | 21,685 | 9,311 |
| Loans from banks | | |
| – Banks operating in Mainland China | 170,002 | 133,399 |
| – Banks operating outside Mainland China | 184,265 | 108,445 |
| Financial instruments sold under repurchase agreements | 179,209 | 49,865 |
| Total | 2,231,060 | 1,641,239 |

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

## 27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Derivative financial instruments (Note 18) | 34,599 | 33,164 |
| Short position of securities held for trading | 1,206 | 1,801 |
| Certificates of deposits issued | 15,135 | 11,885 |
| Financial liabilities related to precious metal contracts | 33,350 | 15,611 |
| Others | 9 | – |
| Total | 84,299 | 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Difference between carrying amount and maturity amount | | |
| Fair values | 15,135 | 11,885 |
| Amount payable at maturity | 15,142 | 11,855 |
| Difference | (7) | 30 |

For the year ended 31 December 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.

## 28 DUE TO CUSTOMERS

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Corporate demand deposits | 1,725,948 | 1,433,773 |
| Corporate time deposits | 1,480,293 | 1,596,635 |
| Individual demand deposits | 722,225 | 594,704 |
| Individual time deposits | 795,335 | 855,903 |
| Other deposits | 4,788 | 3,799 |
| | 4,728,589 | 4,484,814 |
| Including: | | |
| Pledged deposits held as collateral | 389,771 | 395,379 |

## 29 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits issued by the Bank's domestic branches, branches in Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney and BBM Bank were measured at amortised cost.

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

## 30 DEBT SECURITIES ISSUED

| | | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|---|
| Carried at amortised cost: | | | |
| Subordinated bonds | 30.1 | **55,450** | 55,448 |
| Tier 2 capital bonds | 30.2 | **39,839** | 39,215 |
| Bonds | | | |
| The Bank | 30.3 | **74,212** | 46,700 |
| Subsidiaries | 30.3 | **39,379** | 16,103 |
| Sub-total | | **208,880** | 157,466 |
| Carried at fair value: | | | |
| Bonds | 30.3 | **20,635** | 12,640 |
| Total | | **229,515** | 170,106 |

Notes: These debt securities are designated as fair value through profit and loss upon initiation as the Hongkong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising 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. During the years ended 31 December 2016 and 31 December 2015, there were no significant changes due to the Group's changes in credit risks.

### 30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

| | Currency | Issue place | Coupon rate % | Par value (CCY) | Issue date | Maturity | Note | Issue amount | Balance at the end of the year | Balance at the beginning of the year |
|---|---|---|---|---|---|---|---|---|---|---|
| 07 BoComm 01 | RMB | Mainland China | 4.13 | 16,000 | 2007/03/06 | 15 Years | (a) | 16,000 | 16,000 | 16,000 |
| 09 BoComm 02 | RMB | Mainland China | 4.00 | 13,500 | 2009/07/01 | 15 Years | (b) | 13,500 | 13,500 | 13,500 |
| 11 BoComm 01 | RMB | Mainland China | 5.75 | 26,000 | 2011/10/21 | 15 Years | (c) | 26,000 | 25,950 | 25,948 |
| Total | | | | | | | | 55,500 | 55,450 | 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)

# 30 DEBT SECURITIES ISSUED *(Continued)*

## 30.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

| | Currency | Issue place | Coupon rate % | Par value (CCY) | Issue date | Maturity | Note | Issue amount | Balance at the end of the year | Balance at the beginning of the year |
|---|---|---|---|---|---|---|---|---|---|---|
| 14 BoComm 01 | RMB | Mainland China | 5.80 | 28,000 | 2014/08/18 | 10 Years | (a) | 28,000 | 27,959 | 27,974 |
| 14 BoComm USD | USD | Hong Kong | 4.50 | 1,200 | 2014/10/03 | 10 Years | (b) | 8,324 | 8,259 | 7,727 |
| 14 BoComm Euro | EUR | Hong Kong | 3.625 | 500 | 2014/10/03 | 12 Years | (c) | 3,653 | 3,621 | 3,514 |
| Total | | | | | | | | 39,977 | 39,839 | 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.

(b) The Group has an option to redeem these bonds as a whole on 3 October 2021. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year Euro plus 300 basis points.

These secondary capital bonds have the write-down feature of a secondary capital instrument, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. The subordinated debts are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for offsetting daily operating loss of the Group.

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

## 30 DEBT SECURITIES ISSUED *(Continued)*

### 30.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

| | Currency | Issue place | Coupon rate % | Par value (CCY) | Issue date | Maturity | Issue amount | Balance at the end of the year | Balance at the beginning of the year |
|---|---|---|---|---|---|---|---|---|---|
| **The Bank** | | | | | | | | | |
| 14 HK 2 Years Bills | RMB | Hong Kong | 3.30 | 1,500 | 2013/03/21 | 2 years | 1,500 | – | 1,500 |
| 13 BoComm 01 | RMB | Mainland China | 4.37 | 10,000 | 2013/07/26 | 5 years | 10,000 | 10,000 | 10,000 |
| 15 Bocomm | RMB | China | 3.45 | 30,000 | 2015/12/17 | 5 years | 30,000 | 30,000 | 30,000 |
| 16 BoComm Green Finance 01 | RMB | China | 2.94 | 10,000 | 2016/11/18 | 3 years | 10,000 | 10,000 | – |
| 16 BoComm Green Finance 02 | RMB | China | 3.25 | 20,000 | 2016/11/18 | 5 years | 20,000 | 20,000 | – |
| 13 Taiwan Bond A | RMB | Taiwan | 3.40 | 800 | 2013/12/10 | 3 years | 800 | – | 800 |
| 13 Taiwan Bond B | RMB | Taiwan | 3.70 | 400 | 2013/12/10 | 5 years | 400 | 400 | 400 |
| 14 Formosa Bond A | RMB | Taiwan | 3.45 | 1,000 | 2014/06/23 | 3 years | 1,000 | 1,000 | 1,000 |
| 14 Formosa Bond B | RMB | Taiwan | 3.85 | 500 | 2014/06/23 | 5 years | 500 | 500 | 500 |
| 14 Formosa Bond C | RMB | Taiwan | 4.15 | 500 | 2014/06/23 | 7 years | 500 | 500 | 500 |
| P14JHTP1A | RMB | Taiwan | 3.30 | 200 | 2014/12/04 | 2 years | 200 | – | 200 |
| P14JHTP1B | RMB | Taiwan | 3.75 | 900 | 2014/12/04 | 5 years | 900 | 906 | 900 |
| P14JHTP1C | RMB | Taiwan | 3.90 | 700 | 2014/12/04 | 7 years | 700 | 705 | 700 |
| P14JHTP1D | RMB | Taiwan | 4.00 | 200 | 2014/12/04 | 10 years | 200 | 201 | 200 |
| Sub-total | | | | | | | 76,700 | 74,212 | 46,700 |
| **Subsidiaries** | | | | | | | | | |
| 13 Azure Orbit | USD | Hong Kong | 3.75 | 500 | 2013/03/06 | 10 years | 3,464 | 3,464 | 3,238 |
| 14 Azure Orbit | USD | Hong Kong | 3.38 | 500 | 2014/04/25 | 5 years | 3,464 | 3,464 | 3,246 |
| 5 Year MTN | USD | Hong Kong | 3.13 | 385 | 2015/08/18 | 5 years | 2,667 | 2,667 | 2,500 |
| 3 Year MTN | EUR | Luxembourg | 3M Euribor + 1.15 | 100 | 2015/08/18 | 3 years | 731 | 731 | 700 |
| 3 Year USD bond | USD | Hong Kong | 2.23 | 400 | 2016/03/15 | 3 years | 2,771 | 2,772 | – |
| 5 Year USD bond | USD | Hong Kong | 2.75 | 600 | 2016/03/15 | 5 years | 4,157 | 4,157 | – |
| 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 | – | 219 |
| 15 Leasing | RMB | Mainland China | 3.80 | 4,000 | 2015/10/16 | 3 years | 4,000 | 3,200 | 3,200 |
| 16 Leasing 01 | RMB | Mainland China | 3.17 | 4,000 | 2016/07/21 | 3 years | 4,000 | 3,900 | – |
| 16 Leasing 02 | RMB | Mainland China | 3.05 | 1,500 | 2016/09/07 | 3 years | 1,500 | 1,200 | – |
| 16 Leasing 03 | RMB | Mainland China | 3.25 | 500 | 2016/09/07 | 5 years | 500 | 450 | – |
| Azure Nova | USD | Hong Kong | 2.28 | 500 | 2016/10/25 | 3 years | 3,465 | 3,465 | – |
| Azure Nova | USD | Hong Kong | 2.71 | 1,000 | 2016/10/25 | 5 years | 6,908 | 6,909 | – |
| Sub-total | | | | | | | 42,291 | 39,379 | 16,103 |
| Total | | | | | | | 118,991 | 113,591 | 62,803 |

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

# 30 DEBT SECURITIES ISSUED *(Continued)*

## 30.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

| | Currency | Issue place | Coupon rate % | Par value (CCY) | Issue date | Maturity | Issue amount | Balance | Fair value at the end of the year | Fair value at the beginning of the year |
|---|---|---|---|---|---|---|---|---|---|---|
| 14 Hong Kong medium-term notes | USD | Hong Kong | 2.125 | 700 | 2014/01/15 | 3 Years | 4,856 | 4,856 | 4,856 | 4,570 |
| 14 Hong Kong bond | HKD | Hong Kong | 4.00 | 500 | 2014/02/14 | 7 Years | 447 | 444 | 451 | 434 |
| 14 Hong Kong bond | HKD | Hong Kong | 3.20 | 350 | 2014/04/02 | 5 Years | 313 | 313 | 316 | 300 |
| 14 CHF bond | CHF | Hong Kong | 0.875 | 300 | 2014/06/26 | 3 Years | 2,040 | 2,036 | 2,050 | 2,002 |
| 14 SGD bond | SGD | Hong Kong | 2.10 | 100 | 2014/07/24 | 3 Years | 480 | 480 | 481 | 456 |
| 15 Hong Kong medium-term notes | USD | Hong Kong | 2.50 | 750 | 2015/01/16 | 3 Years | 5,203 | 5,196 | 5,206 | 4,878 |
| 16 Hong Kong medium-term notes | USD | Hong Kong | 2.25 | 500 | 2015/01/25 | 3 Years | 3,469 | 3,467 | 3,450 | – |
| 16 Hong Kong medium-term notes | USD | Hong Kong | 1.69 | 550 | 2015/08/16 | 5 Years | 3,815 | 3,815 | 3,825 | – |
| Total | | | | | | | 20,623 | 20,607 | 20,635 | 12,640 |

# 31 OTHER LIABILITIES

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Interest payable | **79,635** | 74,409 |
| Settlement accounts | **22,741** | 26,056 |
| Staff compensation payable | **7,814** | 7,271 |
| VAT and other taxes payable | **4,529** | 4,180 |
| Insurance contracts reserve | **12,512** | 6,656 |
| Deposits received for finance lease | **8,934** | 8,652 |
| Provision for outstanding litigation (a) | **348** | 369 |
| Provision for unsettled obligation (a) | **100** | 94 |
| Dividends payable | **71** | 63 |
| Others | **36,353** | 32,912 |
| Total | **173,037** | 160,662 |

## 31 OTHER LIABILITIES *(Continued)*

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

| | As at 1 January 2016 | Amounts Transferred in during the year | Amounts accrued during the year | Amounts reversed during the year | Exchange differences | As at 31 December 2016 |
|---|---|---|---|---|---|---|
| Provision for outstanding litigation | 369 | 19 | 81 | (121) | – | 348 |
| Provision for unsettled obligation | 94 | – | – | – | 6 | 100 |
| | 463 | 19 | 81 | (121) | 6 | 448 |

| | As at 1 January 2015 | Amounts accrued during the year | Amounts reversed during the year | Amounts paid during the year | Exchange differences | As at 31 December 2015 |
|---|---|---|---|---|---|---|
| Provision for outstanding litigation | 191 | 203 | (24) | (1) | – | 369 |
| Provision for unsettled obligation | 88 | – | – | – | 6 | 94 |
| | 279 | 203 | (24) | (1) | 6 | 463 |

## 32 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 31 December 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 31 December 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.

## 32 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

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

| | As at 1 January 2016 | Additions | Reductions | As at 31 December 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 |

## 33 PREFERENCE SHARES

### 33.1 Preference shares outstanding at the end of the year

| | Issue date | Accounting classification | Dividend rate | Issue price | Amount in shares | In original currency (in millions) | In RMB (in millions) | Maturity | Conversion condition | Conversion |
|---|---|---|---|---|---|---|---|---|---|---|
| **Offshore preference share** | | | | | | | | | | |
| Preference shares in USD | 2015-07-29 | Equity | 5.00% | USD20/share | 122,500,000 | 2,450 | 14,982 | No maturity date | Mandatory | No conversion during the year |
| **Domestic preference shares** | | | | | | | | | | |
| Preference shares in RMB | 2016-09-02 | Equity | 3.90% | RMB100/share | 450,000,000 | 45,000 | 45,000 | No maturity date | Mandatory | No conversion during the year |
| | | | | | Total | | 59,982 | | | |
| | | | | | Less: Issuance fees | | (106) | | | |
| | | | | | Book value | | 59,876 | | | |

## 33 PREFERENCE SHARES *(Continued)*

### 33.2 Main clauses

***Offshore preference share***

(a) *Dividend*

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

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

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshare preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) *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. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

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.

(c) *Mandatory conversion trigger events*

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

## 33 PREFERENCE SHARES *(Continued)*

### 33.2 Main clauses *(Continued)*

***Offshore preference share*** *(Continued)*

*(d)* *Order of distribution and liquidation method*

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent repayment rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the offshore 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.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

*(e)* *Redemption*

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

***Domestic preference shares***

*(a)* *Dividend*

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

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date)plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for offshare preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

## 33 PREFERENCE SHARES *(Continued)*

### 33.2 Main clauses *(Continued)*

***Domestic preference shares*** *(Continued)*

(b) *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. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

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

(c) *Mandatory conversion trigger events*

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) *Order of distribution and liquidation method*

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic 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.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) *Redemption*

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

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

## 33 PREFERENCE SHARES *(Continued)*

### 33.3 Movement of preference shares issued

| | Balance at 1 January 2016 | Movement Additions | Movement Reductions | Balance at 31 December 2016 |
|---|---|---|---|---|
| **Offshore preference share** | | | | |
| Amount (shares) | 122,500,000 | – | – | **122,500,000** |
| In RMB (millions) | 14,924 | – | – | **14,924** |
| **Domestic preference shares** | | | | |
| Amount (shares) | – | 450,000,000 | – | **450,000,000** |
| In RMB (millions) | – | 44,952 | – | **44,952** |

### 33.4 Interests attribute to holders of preference shares

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Total equity attribute to equity holders of the parent company | **629,142** | 534,885 |
| Equity attribute to ordinary equity holders of the parent company | **569,266** | 519,961 |
| Equity attribute to preference shares holders of the parent company | **59,876** | 14,924 |
| of which: net profit | **884** | – |
| total comprehensive income | **–** | – |
| dividends paid during the year | **884** | – |
| unpaid cumulative dividends | **–** | – |
| Total equity attribute to non-controlling interests | **3,265** | 3,207 |
| Equity attribute to non-controlling interests of ordinary shares | **3,265** | 3,207 |
| Equity attribute to non-controlling interests of preference shares | **–** | – |

## 34 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank and its domestic subsidiaries are required to appropriate 10% of its net profit for the year (Note 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 recognised 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.

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

## 34 RESERVES AND RETAINED EARNINGS *(Continued)*

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.

On 27 June 2016, the shareholders at the 2015 Annual General Meeting approved the following profit appropriation of 2015:

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Statutory reserve | 6,360 | 6,392 |
| Statutory general reserve | 11,597 | 2,960 |
| Discretionary reserve | – | 34,522 |
| | 17,957 | 43,874 |

During the year ended 31 December 2016, the Group and the Bank transferred RMB12,079 billion (2015: RMB4,104 million) and RMB11,597 billion (2015: RMB2,960 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB11,597 billion (2015: RMB2,960 million) related to the appropriation proposed for the Bank for the year ended 31 December 2015 which was approved in the 2015 Annual General Meeting held on 27 June 2016.

### Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets are set out below:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| At the beginning of the year | 2,162 | 599 |
| Changes in fair value recorded in equity | 836 | 3,001 |
| Changes in fair value reclassified from equity to profit or loss | (734) | (1,078) |
| Income tax relating to components of other comprehensive income | (73) | (360) |
| At the end of the year | 2,191 | 2,162 |

### Retained earnings

The movements of retained earnings are set out below:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| At the beginning of the year | 73,098 | 71,825 |
| Profit for the year | 67,210 | 66,528 |
| Appropriation to statutory reserve | (6,552) | (6,578) |
| Appropriation to statutory general reserve | (12,079) | (4,104) |
| Appropriation to discretionary reserve | – | (34,522) |
| Dividends paid | | |
| Dividends payable to ordinary shareholders | (20,051) | (20,051) |
| Dividends payable to preference shareholders | (884) | – |
| Others | (44) | – |
| At the end of the year | 100,698 | 73,098 |

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

## 35 DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Dividends to ordinary shareholders of the Bank | **20,051** | 20,051 |
| Dividends to preference shareholders 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 the prior year, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the General Meeting. These funds form part of the shareholders' equity.

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

Pursuant to the proposal raised at the Board meeting on 29 March 2016 which was approval by the 2015 Annual General Meeting on 27 June 2016, the Bank resolved that a cash dividend of RMB0.27 (before tax) for each ordinary share, totalling RMB20,051 million, calculated based 74,263 million shares outstanding as at 31 December 2015, will be distributed to ordinary shareholders. The actual payment day of the A share dividends was on 13 July 2016. The actual payment day of the H share dividends was on 29 July 2016.

Pursuant to the approval by the Board meeting on 28 April 2016, the Bank paid 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.

On 28 March 2017, the Board of Directors of the Bank proposed to appropriate RMB16,116 million to the statutory general reserve. A cash dividend of RMB0.2715 (before tax) for each share, totalling RMB20,162 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2016 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

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

## 36 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### Financial guarantees and credit related commitments

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

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Letters of guarantee | 279,694 | 333,725 |
| Letters of credit commitments | 126,885 | 150,085 |
| Acceptances bills | 231,566 | 294,834 |
| Credit card commitments | 528,199 | 438,608 |
| Loan commitments | | |
| – Under 1 year | 21,590 | 32,700 |
| – 1 year and over | 64,535 | 58,547 |
| | 1,252,469 | 1,308,499 |

### Capital expenditure commitments

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Contracted but not provided for | 9,371 | 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 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Within 1 year (inclusive) | 3,962 | 3,021 |
| Beyond 1 year but no more than 2 years (inclusive) | 3,005 | 2,485 |
| Beyond 2 years but no more than 3 years (inclusive) | 2,286 | 1,885 |
| Beyond 3 years but no more than 5 years (inclusive) | 2,548 | 2,282 |
| More than 5 years | 1,792 | 1,683 |
| | 13,593 | 11,356 |

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

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Within 1 year (inclusive) | 6,295 | 3,442 |
| Beyond 1 year but no more than 2 years (inclusive) | 6,291 | 2,958 |
| Beyond 2 years but no more than 3 years (inclusive) | 6,287 | 2,955 |
| Beyond 3 years but no more than 5 years (inclusive) | 11,958 | 5,905 |
| More than 5 years | 36,525 | 17,698 |
| | 67,356 | 32,958 |

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

## 36 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

### Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2016, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB70,725 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 31 December 2016, there was no unfulfilled insurance 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 31. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Outstanding claims | **1,669** | 1,397 |
| Provision for outstanding litigation (Note 31) | **348** | 369 |

## 37 COLLATERALS

### (1) Assets pledged

Assets pledged are mainly collaterals under repurchase arrangement and loans from banks and other financial institutions.

| | **Pledged assets** | | **Associated liabilities** | |
|---|---|---|---|---|
| | **As at 31 December 2016** | As at 31 December 2015 | **As at 31 December 2016** | As at 31 December 2015 |
| Investment securities | **732,928** | 200,908 | **609,683** | 179,481 |
| Bills | **4,331** | 372 | **4,331** | 372 |
| Total | **737,259** | 201,280 | **614,014** | 179,853 |

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 43 transfers of financial assets.

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

## 37 COLLATERALS *(Continued)*

### (2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2016, the fair value of such collaterals amounted to RMB25,934 million (31 December 2015: RMB1,873 million). All pledges are conducted under standard and normal business terms. As at 31 December 2016 and 31 December 2015, the Group did not sell or re-pledge any collaterals received.

## 38 OTHER COMPREHENSIVE INCOME FOR THE YEAR

| | Year Ended 31 December 2016 | | |
|---|---|---|---|
| | Before tax amount | Tax benefit (expense) | Net of tax amount |
| Other comprehensive income | | | |
| Financial investments – available-for-sale | 102 | (73) | 29 |
| Changes in fair value recorded in equity | 836 | (256) | 580 |
| Changes in fair value reclassified from equity to profit or loss | (734) | 183 | (551) |
| Cash flow hedge reserve | (70) | 20 | (50) |
| Changes in fair value recorded in equity | (37) | 9 | (28) |
| Changes in fair value reclassified from equity to profit or loss | (33) | 11 | (22) |
| Translation difference on foreign operations | 1,577 | – | 1,577 |
| Actuarial gains on pension benefits | (13) | – | (13) |
| Others[1] | 1,781 | (445) | 1,336 |
| Other comprehensive income for the year | 3,377 | (498) | 2,879 |

| | Year Ended 31 December 2015 | | |
|---|---|---|---|
| | Before tax amount | Tax benefit (expense) | Net of tax amount |
| Other comprehensive income | | | |
| Financial investments – available-for-sale | 1,923 | (360) | 1,563 |
| Changes in fair value recorded in equity | 3,001 | (630) | 2,371 |
| Changes in fair value reclassified from equity to profit or loss | (1,078) | 270 | (808) |
| Cash flow hedge reserve | (86) | 22 | (64) |
| Changes in fair value recorded in equity | (86) | 22 | (64) |
| Changes in fair value reclassified from equity to profit or loss | – | – | – |
| Translation difference on foreign operations | 1,116 | – | 1,116 |
| Actuarial gains on pension benefits | 6 | – | 6 |
| Other comprehensive income for the year | 2,959 | (338) | 2,621 |

(1) In the current year, the Group and the Bank's changes in fair value recorded in investment properties transferred from fixed assets at the conversion date were RMB1,336 million (after-tax).

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

## 39 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

### Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Cash and balances with central banks (Note 15) | **199,099** | 164,382 |
| Due from banks and other financial institutions (Note 16) | **117,297** | 166,053 |
| | **316,396** | 330,435 |

## 40 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are primarily wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those wealth management products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2016, the wealth management products managed and consolidated by the Group amounted to RMB761,239 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.

## 41 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 31 December 2016, those structured entities sponsored by the Group mainly include funds, trusts, asset management products and wealth management products with principals not guaranteed by the Group. The Group earned commission income by providing management services to the investors of these structured entities, which were not material to the Group. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognized as investments at fair value through profit and loss, loans and receivables and available-for-sale investments in the financial statements, depending on the classification of the financial assets.

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

## 41 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

At the end of 31 December 2016, the carrying values of these structured entities sponsored or invested in by the Group recognized in the consolidated statement of financial position (the Group's maximum exposure to loss) is RMB2,009,829 million.

The following table summarizes the size of the structured entities sponsored by the Group at the end of 31 December 2016 and at the end of 31 December 2015:

| | Size | | |
|---|---|---|---|
| | 31 December 2016 | 31 December 2015 | Type of income |
| Funds | 86,760 | 83,730 | Commission income |
| Trusts and asset management products | 700,839 | 615,571 | Commission income |
| Wealth management products | 918,279 | 787,746 | Commission income |
| Total | 1,705,878 | 1,487,047 | |

During the year ended 31 December 2016, the Group's Commission Income from provision of service to the investors of the structured entities managed by the Group is RMB3,968 million (During the year ended 31 December 2015: RMB3,869 million), and Net Interest Income which related to placements transactions by the Group with WMP Vehicles is RMB470 million (2015: RMB488 million).

The following table summarizes the carrying value of the structured entities invested in by the Group at the end of 31 December 2016 and at the end of 31 December 2015:

| The Group | As at 31 December 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 | 18,056 | 1,479 | – | 19,535 | Investment income |
| Trusts and asset management products | – | 423 | 239,693 | 240,116 | Interest income |
| Wealth management products | – | – | 44,300 | 44,300 | Interest income |
| Total | 18,056 | 1,902 | 283,993 | 303,951 | |

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

| The Group | 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 | 9,354 | 1,793 | – | 11,147 | Investment income |
| Trusts and asset management products | – | 208 | 255,511 | 255,719 | Interest income |
| Total | 9,354 | 2,001 | 255,511 | 266,866 | |

## 42 BUSINESS COMBINATIONS

### 42.1 Acquisition of BBM Bank

#### *(1) General information*

On 19 May 2015, the Bank signed a share purchase agreement and other commitment letters (the "Share Purchase Agreement") with the controlling family shareholders of BBM Bank. Under the Share Purchase Agreement, the Group would acquire 119,626,920 of ordinary shares and 30,739,854 of preference shares of BBM Bank, representing approximately 80% of all the outstanding shares issued by BBM Bank. According to the terms and conditions specified in the Share Purchase Agreement, the consideration for the acquisition comprises of closing date purchase price amount, top-up amount and additional purchase price payment which will be paid separately. The closing date purchase price amount is determinated based on identifiable net assets as at 30 June 2016 (reference date). The top-up amount and additional purchase price may result from adjustments in the purchase price made can be adjusted after acquisition date based on factors such as change of net assets of BBM Bank between the reference date and acquisition date.

All prerequisites specified in the Share Purchase Agreement were met or exempted in accordance with terms thereof and the transaction was approved by CBRC, the central bank of Brazil and other related Chinese and overseas regulators. As a result, the transaction under the Purchase Agreement was completed on 30 November 2016 (acquisition date), and BBM Bank became a subsidiary of the Bank. As of 31 December 2016, the Group has paid the closing date purchase price amount of BRL 396 million (RMB795 million).

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

## 42 BUSINESS COMBINATIONS *(Continued)*

### 42.1 Acquisition of BBM Bank *(Continued)*

#### (1) General information *(Continued)*

After this transaction is completed, the Bank, BBM Bank and its remaining family shareholders entered into a shareholder agreement (the "Shareholder Agreement") on 30 November 2016. In accordance with terms and conditions of the Shareholder Agreement, the remaining family shareholders would be entitled to a put option with respect to approximately 18% of the shares of BBM Bank they hold, while the Group is entitled to a call option to purchase the remaining shares from such shareholders. The fair value of options as at 31 December 2016 were immaterial to these financial statements.

The acquisition of BBM Bank is the Bank's first overseas acquisition and the first step into Latin America. Goodwill mainly represents the Group's synergistic effect arising from the acquisition.

#### (2) Goodwill

| | RMB Million |
|---|---|
| Cash Consideration | 1,060 |
| Of which: Consideration paid | 795 |
| Consideration payable | 265 |
| Less: Fair value of the identifiable net assets obtained | (911) |
| Goodwill | 149 |

#### (3) Identifiable assets and liabilities purchased by the acquiree on the purchase date

| As at 30 November 2016 | BBM Bank Carrying value |
|---|---|
| **ASSETS** | |
| Financial assets at fair value through profit or loss | 1,462 |
| Loans and advances to customers | 2,695 |
| Financial investments – available-for-sale | 1,205 |
| Other assets | 2,675 |
| **Total assets** | 8,037 |
| **LIABILITIES** | |
| Placements from banks and non-bank financial institutions | 1,397 |
| Due to customers | 1,555 |
| Certificates of deposits issued | 1,568 |
| Other liabilities | 2,378 |
| **Total liabilities** | 6,898 |
| **Net assets** | 1,139 |
| **Non-controlling interest** | (228) |
| Net assets obtained at 80% | 911 |

The Group is still in the process of assessing the fair value of identifiable net assets at the acquisition date. The management is of the view that the difference between the net book value and fair value of identifiable net assets on acquisition date was immaterial and used the net book value to assess the goodwill provisionally. The management will adjust the goodwill within one year.

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

## 42 BUSINESS COMBINATIONS *(Continued)*

### 42.1 BBM Bank *(Continued)*

**(4) *BBM Bank's financial performance and cash flows from the purchase date to the year-end are presented as follows:***

| | Period from 1 December 2016 to 31 December 2016 |
|---|---|
| Revenue | 39 |
| Net profit | 4 |
| Net cash flows | 13 |

Had BBM Bank been consolidated from 1 January 2016, the impact on the consolidated statement of profit or loss would be immaterial.

**(5) *Net cash outflow for acquisition of BBM Bank is analysed below:***

| | 30 November 2016 |
|---|---|
| Cash and cash equivalents held by BBM Bank | 353 |
| Cash paid to acquire BBM Bank | (795) |
| Net cash outflow from acquisition of BBM Bank | (442) |

## 43 TRANSFERS OF FINANCIAL ASSETS

### 43.1 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 derecognised 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 recognises a financial liability for cash received.

As at 31 December 2016 and 2015, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (see Note 26).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

| | Pledged assets | | Associated liabilities | |
|---|---|---|---|---|
| | As at 31 December 2016 | As at 31 December 2015 | As at 31 December 2016 | As at 31 December 2015 |
| Investment securities | 745 | 1,501 | 738 | 1,484 |

## 43 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

### 43.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition 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 derecognised them. As at 31 December 2016, the carrying value of debt securities lent to counterparties was RMB3,610 million (31 December 2015: RMB8,400 million).

### 43.3 Asset securitisation

The Group enters into securitisation 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 recognised on the consolidated financial statement to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2016, loans with an original value of RMB12,893 million and carrying amount of RMB9,580 million (31 December 2015: RMB5,022 million which was repaid in advance on 20 September 2016) have been securitised by the Group and the Bank under arrangements in which the Group and the Bank retain a continuing involvement in such assets in the form of subordinated tranches. As at 31 December 2016, assets continuously recognised by the Group and the Bank amounted to RMB406 million (31 December 2015: RMB252 million).

### 43.4 Package disposal of impaired loans

The Group disposes impaired loans through transfer to third parties in the normal course of business. In 2016, the Group transferred impaired loans with a total gross carrying amount of RMB28,101 million and collected cash totalling RMB17,991 million from the transfer. The difference between the gross carrying amount and the cash collected had already been written off. The Group de-recognized the impaired loans from the Group's financial statements at the time of disposal.

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

# 44 RELATED PARTY TRANSACTIONS

## (a) Transactions with the MOF

As at 31 December 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 financial investments issued by the MOF and the deposits from the MOF.

Details of transaction volumes and outstanding balances are summarised below:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Treasury bond and special government bond | **365,378** | 299,525 |
| Interests receivable | **5,243** | 4,792 |
| Due to customers | **–** | 22,000 |
| Interests payable | **–** | 142 |

| | **Year ended 31 December** | |
|---|---|---|
| | **2016** | 2015 |
| Interest income | **11,357** | 9,763 |
| Interest expense | **896** | 1,617 |

The interest rates of the transactions between the Group and MOF are summarised below:

| | **Year ended 31 December** | |
|---|---|---|
| | **2016 %** | 2015 % |
| Treasury bond and special government bond | **2.10-6.15** | 2.38-6.15 |
| Due to customers | **2.55-3.40** | 2.95-5.25 |

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

## 44 RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Transactions with National Council for Social Security Fund

As at 31 December 2016, National Council for Social Security Fund holds 10,920 million (31 December 2015: 10,311 million) shares in the Group which represents 14.70% (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 summarised below:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Due to customers | **58,000** | 64,500 |
| Interests payable | **964** | 1,083 |

| | **Year ended 31 December** | |
|---|---|---|
| | **2016** | 2015 |
| Interest expense | **2,100** | 3,219 |

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

| | **Year ended 31 December** | |
|---|---|---|
| | **2016 %** | 2015 % |
| Due to customers | **3.85-6.10** | 3.85-6.10 |

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

## 44 RELATED PARTY TRANSACTIONS *(Continued)*

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

As at 31 December 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 summarised below:

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| On-balance sheet items | | |
| Due from banks and other financial institutions | 2,348 | 1,976 |
| Loans to banks and other financial institutions | 2,770 | – |
| Financial investments | 2,067 | 512 |
| Derivative financial assets | 2,554 | 185 |
| Interests receivable | 53 | 7 |
| Deposits from banks and other financial institutions | 3,128 | 982 |
| Loans from banks and other financial institutions | 11,394 | 6,725 |
| Financial instruments sold under repurchase agreements | 1,960 | 1,999 |
| Derivative financial liabilities | 1,091 | 140 |
| Interests payable | 27 | 2 |
| Off-balance sheet items | | |
| Notional principal of derivative financial instruments | 160,413 | 204,188 |

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| Net gains arising from trading activities | (433) | (117) |
| Interest income | 84 | 39 |
| Interest expense | 151 | 359 |

The interest rates of the transactions between the Group and HSBC are summarised below:

| | Year ended 31 December | |
|---|---|---|
| | 2016 % | 2015 % |
| Due from banks and other financial institutions | 0.01-0.72 | 0.01-0.125 |
| Loans to banks and other financial institutions | 1.00-1.80 | – |
| Financial investments | 1.33-3.50 | 2.38-5.50 |
| Deposits from banks and other financial institutions | 0.01-5.75 | 0.01-5.75 |
| Loans from banks and other financial institutions | 0.10-2.85 | 0.10-4.90 |
| Financial instruments sold under repurchase agreements | 2.28-2.69 | 2.28-3.58 |
| Financial assets held under resale agreements | 2.02-2.35 | – |

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

## 44 RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

### (e) Transactions with subsidiaries

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

Details of transaction volumes and outstanding balances are summarised below:

| Bank | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Due from banks and other financial institutions | 195 | 1,725 |
| Loans to banks and other financial institutions | 27,125 | 36,209 |
| Financial investments | 2,050 | 1,682 |
| Loans and advances to customers | 18,083 | 8,657 |
| Interests receivable | 428 | 431 |
| Other assets | – | 134 |
| Deposits from banks and other financial institutions | 6,329 | 4,356 |
| Loans from banks and other financial institutions | – | 825 |
| Due to customers | 2,409 | 809 |
| Debt securities issued | 51 | 52 |
| Interests payable | 18 | 7 |
| Other liabilities | 25 | 18 |

| | Year ended 31 December | |
|---|---|---|
| Bank | 2016 | 2015 |
| Interest income | 1,464 | 1,010 |
| Interest expense | 51 | 67 |
| Fee and commission income | 556 | 254 |
| Fee and commission expense | 49 | 38 |
| Other operating income | 87 | 86 |
| Other operating expense | 142 | 69 |

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

## 44 RELATED PARTY TRANSACTIONS *(Continued)*

### (e) Transactions with subsidiaries *(Continued)*

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

| | Year ended 31 December | |
|---|---|---|
| **Bank** | **2016** | 2015 |
| Due from banks and other financial institutions | **0.72-3.72** | 0.05-5.50 |
| Loans to banks and other financial institutions | **0.09-3.87** | 0.18-4.00 |
| Financial investments | **3.80-6.10** | 3.80-6.10 |
| Loans and advances to customers | **0.80-3.67** | 0.72-3.62 |
| Deposits from banks and other financial institutions | **0.01-5.50** | 0.01-5.50 |
| Loans from banks and other financial institutions | **0.85-3.00** | 0.15-0.50 |
| Due to customers | **0.01-1.80** | 0.01-1.36 |
| Debt securities issued | **5.75** | 5.75 |

### (f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Due to customers | **34** | 10 |
| Loans and advances to customers | **1** | – |

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

### (g) Transactions with associate

As at 31 December 2016, The Group holds 10.60% (31 December 2015: 10.60%) 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 summarised below:

| | **As at 31 December 2016** | As at 31 December 2015 |
|---|---|---|
| Deposits from banks and other financial institutions | **2,064** | 2,330 |
| Interests payable | **4** | 2 |

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

## 44 RELATED PARTY TRANSACTIONS *(Continued)*

### (g) Transactions with associate *(Continued)*

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Interest expense | **21** | 53 |

The interest rates of the transactions between the Group and Bank of Tibet Co., Ltd. are summarised below:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **%** | % |
| Deposits from banks and other financial institutions | **0.72-3.45** | 1.35-3.80 |

## 45 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, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome and Brazil.

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

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

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

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

## 45 SEGMENTAL ANALYSIS *(Continued)*

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

### Operating segment information

| | For the year ended 31 December 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Northern China | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas | Head Office | Eliminations | Group Total |
| External interest income | 26,252 | 9,384 | 67,965 | 36,828 | 20,225 | 15,052 | 114,138 | – | 289,844 |
| External interest expense | (29,115) | (8,641) | (50,637) | (28,625) | (12,611) | (9,292) | (16,052) | – | (154,973) |
| Inter-segment net interest income/(expense) | 19,040 | 5,007 | 21,391 | 16,160 | 5,594 | 153 | (67,345) | – | – |
| Net interest income | 16,177 | 5,750 | 38,719 | 24,363 | 13,208 | 5,913 | 30,741 | – | 134,871 |
| Fee and commission income | 4,336 | 1,708 | 14,009 | 7,788 | 3,151 | 2,531 | 6,361 | – | 39,884 |
| Fee and commission expense | (201) | (61) | (1,765) | (403) | (182) | (327) | (150) | – | (3,089) |
| Net fee and commission income | 4,135 | 1,647 | 12,244 | 7,385 | 2,969 | 2,204 | 6,211 | – | 36,795 |
| Net gains/(losses) arising from trading activities | 369 | 91 | 793 | 404 | 86 | 138 | 668 | – | 2,549 |
| Net gains/(losses) arising from financial investments | – | – | 667 | 56 | – | 321 | 35 | – | 1,079 |
| Insurance business income | – | – | 9,552 | – | – | 44 | – | – | 9,596 |
| Share of profits of associates | – | – | – | – | – | 9 | 87 | – | 96 |
| Other operating income | 838 | 165 | 4,774 | 715 | 495 | 1,936 | 153 | – | 9,076 |
| Total operating revenue | 21,519 | 7,653 | 66,749 | 32,923 | 16,758 | 10,565 | 37,895 | – | 194,062 |
| Impairment losses on loans and advances to customers | (2,918) | (675) | (13,527) | (4,159) | (2,949) | (449) | (3,803) | – | (28,480) |
| Insurance business expense | – | – | (8,975) | – | – | (18) | – | – | (8,993) |
| Other operating expense | (7,666) | (3,498) | (21,366) | (11,223) | (5,704) | (4,013) | (17,009) | – | (70,479) |
| Profit before tax | 10,935 | 3,480 | 22,881 | 17,541 | 8,105 | 6,085 | 17,083 | – | 86,110 |
| Income tax | | | | | | | | | (18,459) |
| Net profit for the year | | | | | | | | | 67,651 |
| Depreciation and amortisation | (831) | (446) | (3,196) | (1,100) | (668) | (678) | (1,020) | – | (7,939) |
| Capital expenditure | (545) | (325) | (24,420) | (915) | (572) | (7,730) | (1,098) | – | (35,605) |

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

## 45 SEGMENTAL ANALYSIS *(Continued)*

### Operating segment information *(Continued)*

| | For the year ended 31 December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Northern China | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas | Head Office | Eliminations | Group Total |
| External interest income | 32,648 | 10,954 | 80,011 | 43,019 | 23,320 | 15,697 | 99,477 | – | 305,126 |
| External interest expense | (32,211) | (8,492) | (55,732) | (29,339) | (12,687) | (10,015) | (12,478) | – | (160,954) |
| Inter-segment net interest income/(expense) | 17,184 | 3,625 | 19,578 | 11,362 | 3,123 | 2,671 | (57,543) | – | – |
| **Net interest income** | 17,621 | 6,087 | 43,857 | 25,042 | 13,756 | 8,353 | 29,456 | – | 144,172 |
| Fee and commission income | 4,403 | 1,495 | 13,016 | 7,373 | 3,110 | 2,490 | 6,344 | – | 38,231 |
| Fee and commission expense | (287) | (100) | (1,169) | (489) | (295) | (374) | (490) | – | (3,204) |
| **Net fee and commission income** | 4,116 | 1,395 | 11,847 | 6,884 | 2,815 | 2,116 | 5,854 | – | 35,027 |
| Net gains/(losses) arising from trading activities | 415 | 57 | 818 | 526 | 64 | (1,769) | 2,531 | – | 2,642 |
| Net gains/(losses) arising from financial investments | 3 | 29 | 1,136 | 340 | – | (4) | 63 | – | 1,567 |
| Insurance business income | – | – | 4,011 | – | – | 40 | – | – | 4,051 |
| Share of profits of associates | – | – | – | – | – | 4 | 72 | – | 76 |
| Other operating income | 704 | 277 | 2,741 | 933 | 545 | 1,277 | 546 | – | 7,023 |
| **Total operating revenue** | 22,859 | 7,845 | 64,410 | 33,725 | 17,180 | 10,017 | 38,522 | – | 194,558 |
| Impairment losses on loans and advances to customers | (2,268) | (106) | (14,222) | (3,950) | (2,385) | (344) | (3,885) | – | (27,160) |
| Insurance business expense | – | – | (4,467) | – | – | (15) | – | – | (4,482) |
| Other operating expense | (8,796) | (4,042) | (22,453) | (12,689) | (6,681) | (3,609) | (18,634) | – | (76,904) |
| **Profit before tax** | 11,795 | 3,697 | 23,268 | 17,086 | 8,114 | 6,049 | 16,003 | – | 86,012 |
| Income tax | | | | | | | | | (19,181) |
| **Net profit for the year** | | | | | | | | | 66,831 |
| Depreciation and amortisation | (801) | (445) | (2,332) | (1,027) | (650) | (694) | (1,251) | – | (7,200) |
| Capital expenditure | (895) | (572) | (17,671) | (1,456) | (640) | (3,634) | (1,899) | – | (26,767) |

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

## 45 SEGMENTAL ANALYSIS *(Continued)*

### Operating segment information *(Continued)*

| | As at 31 December 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Northern China | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas | Head Office | Eliminations | Group Total |
| **Segment assets** | 1,194,097 | 362,425 | 2,570,737 | 1,396,181 | 704,971 | 849,999 | 3,662,649 | (2,350,460) | 8,390,599 |
| Including: | | | | | | | | | |
| Investment in associates | – | – | 4 | 9 | – | 92 | 609 | – | 714 |
| Unallocated assets | | | | | | | | | 12,567 |
| Total assets | | | | | | | | | 8,403,166 |
| Segment liabilities | (1,183,712) | (358,149) | (2,502,201) | (1,375,817) | (697,787) | (833,067) | (3,170,341) | 2,350,460 | (7,770,614) |
| Unallocated liabilities | | | | | | | | | (145) |
| Total liabilities | | | | | | | | | (7,770,759) |

| | As at 31 December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Northern China | North Eastern China | Eastern China | Central and Southern China | Western China | Overseas | Head Office | Eliminations | Group Total |
| **Segment assets** | 1,135,026 | 341,769 | 2,336,453 | 1,240,038 | 633,404 | 659,606 | 3,059,290 | (2,266,908) | 7,138,678 |
| Including: | | | | | | | | | |
| Investment in associates | – | – | – | 1 | – | 53 | 523 | – | 577 |
| Unallocated assets | | | | | | | | | 16,684 |
| Total assets | | | | | | | | | 7,155,362 |
| Segment liabilities | (1,129,382) | (338,407) | (2,283,083) | (1,225,180) | (625,688) | (637,153) | (2,645,166) | 2,266,908 | (6,617,151) |
| Unallocated liabilities | | | | | | | | | (119) |
| Total liabilities | | | | | | | | | (6,617,270) |

### Business Information

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

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

## 45 SEGMENTAL ANALYSIS *(Continued)*

### Business Information *(Continued)*

The group business information is summarised as follows:

| | For the year ended 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Corporate Banking Business | Personal Banking Business | Treasury Business | Other Business | Total |
| External net interest income | 51,191 | 27,998 | 54,443 | 1,239 | 134,871 |
| Inter-segment net interest income/(expense) | 20,487 | 13,125 | (33,612) | – | – |
| Net interest income | 71,678 | 41,123 | 20,831 | 1,239 | 134,871 |
| Net fee and commission income | 15,954 | 17,882 | 1,046 | 1,913 | 36,795 |
| Net gains arising from trading activities | 1,977 | 17 | 107 | 448 | 2,549 |
| Net gains arising from financial investments | – | – | 1,079 | – | 1,079 |
| Share of profits of associates | – | – | – | 96 | 96 |
| Insurance business income | – | – | – | 9,596 | 9,596 |
| Other operating income | 5,876 | 2,051 | 196 | 953 | 9,076 |
| **Total operating revenue** | 95,485 | 61,073 | 23,259 | 14,245 | 194,062 |
| Impairment losses on loans and advances to customers | (23,857) | (4,623) | – | – | (28,480) |
| Insurance business expense | – | – | – | (8,993) | (8,993) |
| Other operating expense | | | | | |
| – Depreciation and amortisation | (2,388) | (5,009) | (174) | (368) | (7,939) |
| – Others | (25,246) | (32,306) | (2,683) | (2,305) | (62,540) |
| **Profit before tax** | 43,994 | 19,135 | 20,402 | 2,579 | 86,110 |
| Income tax | | | | | (18,459) |
| **Net profit for the year** | | | | | 67,651 |
| Depreciation and amortisation | (2,388) | (5,009) | (174) | (368) | (7,939) |
| Capital expenditure | (10,712) | (22,462) | (782) | (1,649) | (35,605) |

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

## 45 SEGMENTAL ANALYSIS *(Continued)*

### Business Information *(Continued)*

| | For the year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Corporate Banking Business | Personal Banking Business | Treasury Business | Other Business | Total |
| External net interest income | 79,118 | 19,291 | 44,706 | 1,057 | 144,172 |
| Inter-segment net interest income/(expense) | (907) | 18,643 | (17,736) | – | – |
| Net interest income | 78,211 | 37,934 | 26,970 | 1,057 | 144,172 |
| Net fee and commission income | 15,887 | 15,790 | 1,033 | 2,317 | 35,027 |
| Net gains/(losses) arising from trading activities | 2,353 | (2) | (665) | 956 | 2,642 |
| Net gains arising from financial investments | – | – | 1,567 | – | 1,567 |
| Share of profits of associates | – | – | – | 76 | 76 |
| Insurance business income | – | – | – | 4,051 | 4,051 |
| Other operating income | 3,483 | 2,687 | 28 | 825 | 7,023 |
| **Total operating revenue** | 99,934 | 56,409 | 28,933 | 9,282 | 194,558 |
| Impairment losses on loans and advances to customers | (21,211) | (5,949) | – | – | (27,160) |
| Insurance business expense | – | – | – | (4,482) | (4,482) |
| Other operating expense | | | | | |
| – Depreciation and amortisation | (2,167) | (4,542) | (158) | (333) | (7,200) |
| – Others | (30,645) | (33,259) | (3,010) | (2,790) | (69,704) |
| **Profit before tax** | 45,911 | 12,659 | 25,765 | 1,677 | 86,012 |
| Income tax | | | | | (19,181) |
| **Net profit for the year** | | | | | 66,831 |
| Depreciation and amortisation | (2,167) | (4,542) | (158) | (333) | (7,200) |
| Capital expenditure | (8,052) | (16,887) | (588) | (1,240) | (26,767) |

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

## 45 SEGMENTAL ANALYSIS *(Continued)*

### Business Information *(Continued)*

| | As at 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Corporate Banking Business | Personal Banking Business | Treasury Business | Other Business | Total |
| **Segment assets** | **3,013,048** | **1,250,572** | **4,079,056** | **47,923** | **8,390,599** |
| Including: Investment in associates | | | | **714** | **714** |
| Unallocated assets | | | | | **12,567** |
| **Total assets** | | | | | **8,403,166** |
| **Segment liabilities** | **(3,330,263)** | **(1,544,633)** | **(2,882,687)** | **(13,031)** | **(7,770,614)** |
| Unallocated liabilities | | | | | **(145)** |
| **Total liabilities** | | | | | **(7,770,759)** |

| | 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 relies on.

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

# 46 FINANCIAL STATEMENT OF THE BANK

## (a) Statement of Financial Position of the Bank

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and balances with central banks | **990,656** | 919,643 |
| Due from banks and other financial institutions | **732,335** | 639,334 |
| Financial assets at fair value through profit or loss | **213,292** | 172,381 |
| Loans and advances to customers | **4,010,249** | 3,628,265 |
| Financial investments – loans and receivables | **1,408,124** | 319,762 |
| Financial investments – available-for-sale | **377,815** | 255,968 |
| Financial investments – held-to-maturity | **323,024** | 932,422 |
| Investment in subsidiaries | **54,087** | 15,820 |
| Investment in associates | **610** | 523 |
| Property and equipment | **16,687** | 56,707 |
| Deferred income tax assets | **11,722** | 16,290 |
| Other assets | **71,895** | 57,356 |
| **Total assets** | **8,210,496** | 7,014,471 |
| **Liabilities** | | |
| Due to banks and other financial institutions | **2,136,520** | 1,561,084 |
| Financial liabilities at fair value through profit or loss | **84,266** | 62,451 |
| Due to customers | **4,723,700** | 4,479,852 |
| Certificates of deposits issued | **317,013** | 89,265 |
| Current tax liabilities | **4,558** | 7,869 |
| Deferred income tax liabilities | **190,186** | 13 |
| Debt securities issued | **84** | 154,055 |
| Other liabilities | **138,349** | 135,140 |
| **Total liabilities** | **7,594,676** | 6,489,729 |
| **Equity** | | |
| Share capital | **74,263** | 74,263 |
| Preference shares | **59,876** | 14,924 |
| Capital surplus | **113,433** | 113,433 |
| Other reserves | **276,326** | 254,905 |
| Retained earnings | **91,922** | 67,217 |
| **Total equity** | **615,820** | 524,742 |
| **Total equity and liabilities** | **8,210,496** | 7,014,471 |

The statement of financial position of the Bank was approved and authorised for issue by the Board of Directors on 28 March 2017 and signed on its behalf by:

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

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

## 46 FINANCIAL STATEMENT OF THE BANK *(Continued)*

### (b) Statement of Changes in Equity of the Bank

| | | | | Other reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital Note 32 | Preference shares Note 33 | Capital surplus Note 32 | Statutory reserve Note 34 | Discretionary reserve Note 34 | Statutory general reserve Note 34 | Revaluation reserve for available-for-sale financial assets Note 34 | Cash flow hedge reserve | Translation reserve on foreign operations | Actuarial changes reserve | Others Note 38 | Retained earnings Note 34 | Total |
| **Balance at 1 January 2016** | **74,263** | **14,924** | **113,433** | **43,258** | **139,764** | **72,299** | **1,188** | **(28)** | **(1,593)** | **17** | **-** | **67,217** | **524,742** |
| Net profit for the year | - | - | - | - | - | - | - | - | - | - | - | 63,597 | 63,597 |
| Other comprehensive income | - | - | - | - | - | - | 578 | (91) | 1,654 | (13) | 1,336 | - | 3,464 |
| **Total comprehensive income** | - | - | - | - | - | - | 578 | (91) | 1,654 | (13) | 1,336 | 63,597 | 67,061 |
| Issuance of preference shares | - | 44,952 | - | - | - | - | - | - | - | - | - | - | 44,952 |
| Dividends paid to ordinary shares | - | - | - | - | - | - | - | - | - | - | - | (20,051) | (20,051) |
| Dividends paid to preference shares | - | - | - | - | - | - | - | - | - | - | - | (884) | (884) |
| Transfer to reserves | - | - | - | 6,360 | - | 11,597 | - | - | - | - | - | (17,957) | - |
| **Balance at 31 December 2016** | **74,263** | **59,876** | **113,433** | **49,618** | **139,764** | **83,896** | **1,766** | **(119)** | **61** | **4** | **1,336** | **91,922** | **615,820** |
| **Balance at 1 January 2015** | 74,263 | – | 113,525 | 36,903 | 105,242 | 69,339 | (28) | – | (2,739) | 11 | – | 67,533 | 464,049 |
| Net profit for the year | – | – | – | – | – | – | – | – | – | – | – | 63,574 | 63,574 |
| Other comprehensive income | – | – | – | – | – | – | 1,216 | (28) | 1,146 | 6 | – | – | 2,340 |
| **Total comprehensive income** | – | – | – | – | – | – | 1,216 | (28) | 1,146 | 6 | – | 63,574 | 65,914 |
| Issuance of preference shares | – | 14,924 | – | – | – | – | – | – | – | – | – | – | 14,924 |
| Dividends paid to ordinary shares | – | – | – | – | – | – | – | – | – | – | – | (20,051) | (20,051) |
| Transfer to reserves | – | – | – | 6,357 | 34,522 | 2,960 | – | – | – | – | – | (43,839) | – |
| Capital increase in an associate | – | – | (97) | – | – | – | – | – | – | – | – | – | (97) |
| Others | – | – | 5 | (2) | – | – | – | – | – | – | – | – | 3 |
| **Balance at 31 December 2015** | 74,263 | 14,924 | 113,433 | 43,258 | 139,764 | 72,299 | 1,188 | (28) | (1,593) | 17 | – | 67,217 | 524,742 |

## 47 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

On 21 February 2017, the Bank's Hong Kong Branch issued 3 years medium term note with total face value of USD850 million at a floating rate of 0.775%+3M Libor. These note will be matured on 21 February 2020 with interest payable quarterly.

On 6 March 2007, the Bank's head office issued SND with total face value of RMB16,000 million at a coupon rate of 4.13%. Theses bonds will be matured on 8 March 2022 with interest payable annually. The group has exercised the right of redemption on 8 March 2017.

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

## 1 LIQUIDITY RATIOS

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

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Liquidity ratios (%) | 51.22 | 43.12 |

## 2 CURRENCY CONCENTRATIONS

| | US dollar | HK dollar | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Spot assets | 832,286 | 183,015 | 115,733 | 1,131,034 |
| Spot liabilities | (884,678) | (201,391) | (101,553) | (1,187,622) |
| Forward purchases | 906,003 | 88,248 | 109,757 | 1,104,008 |
| Forward sales | (865,088) | (36,457) | (106,810) | (1,008,355) |
| Net option position | (49) | (727) | 259 | (517) |
| Net long/(short) position | (11,526) | 32,688 | 17,386 | 38,548 |
| Net structural position | 71,264 | 2,078 | 3,131 | 76,473 |

| | US dollar | HK dollar | Others | Total |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| Spot assets | 551,695 | 154,994 | 113,027 | 819,716 |
| Spot liabilities | (558,437) | (204,570) | (102,347) | (865,354) |
| Forward purchases | 667,758 | 76,195 | 54,495 | 798,448 |
| Forward sales | (609,416) | (12,209) | (94,610) | (716,235) |
| Net option position | 994 | – | 2 | 996 |
| Net long/(short) position | 52,594 | 14,410 | (29,433) | 37,571 |
| Net structural position | 43,690 | 2,043 | 2,632 | 48,365 |

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

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

## 3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

| **As at 31 December 2016** | **Bank** | **Official sector** | **Non-bank private sector** | **Others** | **Total** |
|---|---|---|---|---|---|
| Asia Pacific | **247,198** | **63,689** | **518,396** | **–** | **829,283** |
| *Of which attributed to Hong Kong* | **50,462** | **37,487** | **206,271** | **–** | **294,220** |
| North and South America | **33,573** | **8,973** | **63,945** | **–** | **106,491** |
| Africa | **–** | **299** | **19,185** | **–** | **19,484** |
| Europe | **21,433** | **536** | **23,011** | **–** | **44,980** |
| | **302,204** | **73,497** | **624,537** | **–** | **1,000,238** |

| As at 31 December 2015 | Bank | Official sector | Non-bank private sector | Others | Total |
|---|---|---|---|---|---|
| Asia Pacific | 232,390 | 53,255 | 279,675 | – | 565,320 |
| *Of which attributed to Hong Kong* | 33,134 | 5,070 | 146,633 | – | 184,837 |
| North and South America | 37,161 | 6,887 | 18,583 | – | 62,631 |
| Africa | – | 302 | 164 | – | 466 |
| Europe | 29,773 | 428 | 4,935 | – | 35,136 |
| | 299,324 | 60,872 | 303,357 | – | 663,553 |

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

# 4 OVERDUE AND RESTRUCTURED ASSETS

## 4.1 Gross amount of overdue loans

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Loans and advances to customers which have been overdue for: | | |
| – Within 3 months | 21,401 | 21,910 |
| – Between 3 and 6 months | 13,020 | 17,394 |
| – Between 6 and 12 months | 21,999 | 31,927 |
| – Over 12 months | 51,763 | 42,102 |
| | 108,183 | 113,333 |
| Percentage (%): | | |
| – Within 3 months | 0.52 | 0.59 |
| – Between 3 and 6 months | 0.32 | 0.47 |
| – Between 6 and 12 months | 0.54 | 0.86 |
| – Over 12 months | 1.26 | 1.12 |
| | 2.64 | 3.04 |

## 4.2 Overdue and restructured loans

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Total restructured loans and advances to customers | 15,464 | 32,907 |
| *Including: Restructured loans and advances to customers overdue above 3 months* | 10,616 | 2,694 |
| Percentage of restructured loans and advances to customers overdue above 3 months in total loans (%) | 0.26 | 0.07 |

***Debt restructuring***

During 2016, the Group restructured some loans, through swapping debts to convertible bonds or equity shares, or modifying the existing terms of debts. The fair value of convertible bonds and equity shares acquired from debt restructuring amounted to RMB4,189 million and RMB597 million respectively. Unobservable inputs are used in determining the fair value which may have significant impact on the valuation.

These debt restructuring did not result in significant loss to the Group.

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

## 5 SEGMENTAL INFORMATION OF LOANS

### 5.1 Impaired loans by geographical area

| | As at 31 December 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 | 8,340 | (4,494) | 7,478 | (2,870) |
| – North Eastern China | 2,601 | (1,266) | 2,450 | (1,155) |
| – Eastern China | 32,696 | (14,151) | 32,795 | (13,406) |
| – Central and Southern China | 9,574 | (5,306) | 8,426 | (3,687) |
| – Western China | 7,860 | (3,915) | 4,481 | (1,841) |
| | 61,071 | (29,132) | 55,630 | (22,959) |
| Hong Kong, Macau, Taipei and overseas regions | 1,329 | (1,025) | 576 | (475) |
| | 62,400 | (30,157) | 56,206 | (23,434) |

### 5.2 Overdue loans and advances to customers by geographical area

| | As at 31 December 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 | 13,119 | (4,230) | (1,284) | 14,882 | (2,922) | (1,735) |
| – North Eastern China | 5,510 | (1,258) | (648) | 5,615 | (1,113) | (776) |
| – Eastern China | 57,384 | (14,440) | (11,994) | 64,724 | (13,238) | (12,735) |
| – Central and Southern China | 15,124 | (5,313) | (1,280) | 15,133 | (3,727) | (1,624) |
| – Western China | 15,385 | (3,905) | (1,631) | 12,177 | (1,854) | (1,700) |
| | 106,522 | (29,146) | (16,837) | 112,531 | (22,854) | (18,570) |
| Hong Kong, Macau, Taipei and overseas regions | 1,661 | (1,025) | (70) | 802 | (475) | (41) |
| | 108,183 | (30,171) | (16,907) | 113,333 | (23,329) | (18,611) |
| Fair value of collaterals | 56,769 | Not applicable | Not applicable | 52,437 | Not applicable | Not applicable |

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

# 6 LOANS AND ADVANCES TO CUSTOMERS

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

| | As at 31 December 2016 | | | As at 31 December 2015 | | |
|---|---|---|---|---|---|---|
| Hong Kong | | % | Amount covered by collaterals | | % | Amount covered by collaterals |
| Corporate loans | | | | | | |
| Manufacturing | | | | | | |
| – Electronics | 55 | 0.03 | 29 | 1,088 | 0.57 | 62 |
| – Textile and clothing | 3,638 | 1.77 | 29 | 3,751 | 1.97 | 6 |
| – Other manufacturing | 19,676 | 9.59 | 288 | 19,459 | 10.20 | 307 |
| Electricity, gas and water production and supply | 2,327 | 1.13 | 2 | 2,180 | 1.14 | 2 |
| Construction | 7,166 | 3.49 | 1,401 | 6,993 | 3.67 | 2,326 |
| Transportation, storage and postal service | 2,542 | 1.24 | 1,394 | 4,024 | 2.11 | 3,193 |
| Telecommunication, IT service and software | 539 | 0.26 | – | 26 | 0.01 | – |
| Wholesale and retail | 57,616 | 28.09 | 2,144 | 65,840 | 34.53 | 3,045 |
| Accommodation and catering | 1,056 | 0.51 | 37 | 119 | 0.06 | – |
| Financial institutions | 32,083 | 15.64 | 10,992 | 20,674 | 10.84 | 5,853 |
| Real estate | 4,734 | 2.31 | 8,380 | 9,086 | 4.76 | 3,252 |
| Education, science, culture and public health | – | – | – | 5 | – | 4 |
| Others | 47,282 | 23.07 | 2,397 | 32,525 | 17.07 | 5,945 |
| Total corporate loans | 178,714 | 87.13 | 27,093 | 165,770 | 86.93 | 23,995 |
| Individual loans | | | | | | |
| Mortgage | 11,649 | 5.68 | 11,646 | 10,730 | 5.63 | 10,726 |
| Credit cards | 173 | 0.08 | – | 118 | 0.06 | – |
| Others | 14,590 | 7.11 | 11,547 | 14,075 | 7.38 | 10,824 |
| Total individual loans | 26,412 | 12.87 | 23,193 | 24,923 | 13.07 | 21,550 |
| Gross amount of loans and advances before impairment allowance | 205,126 | 100.00 | 50,286 | 190,693 | 100.00 | 45,545 |
| Outside Hong Kong | 3,897,833 | | | 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 and pledged loans to the total loans of the Group is 49% as at 31 December 2016 (31 December 2015: 50%).

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

## 6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

### 6.2 Allowance on loans and advances by loan usage

| | As at 31 December 2016 | | As at 31 December 2015 | |
|---|---|---|---|---|
| | Impaired loans | Allowances for individually assessed impaired loans | Impaired loans | Allowances for individually assessed impaired loans |
| Corporates | 48,097 | (23,975) | 44,284 | (18,852) |
| Individuals | 14,303 | (6,182) | 11,922 | (4,582) |
| | 62,400 | (30,157) | 56,206 | (23,434) |
| Fair value of collateral | 25,493 | 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 years are disclosed below:

| | For the year ended 31 December 2016 | | | For the year ended 31 December 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 |
| Corporates | 23,857 | (18,258) | 344 | 21,211 | (12,178) | 245 |
| Individuals | 4,623 | (2,967) | 464 | 5,949 | (3,090) | 255 |
| | 28,480 | (21,225) | 808 | 27,160 | (15,268) | 500 |

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