交通銀行
BANK OF COMMUNICATIONS

SINCE 1908 YOUR WEALTH MANAGEMENT BANK

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

2017 INTERIM REPORT

Stock Code: 03328

IMPORTANT REMINDERS

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

2017 Interim Report and 2017 Interim Results Announcement were passed at the tenth Meeting of the Eighth Board of Directors of the Bank on 24 August 2017. Mr. Niu Ximing, the Chairman, Mr. Hou Weidong, Executive Director, Mr. Chen Zhiwu, Independent Non-executive Director and Mr. Jason Yeung Chi Wai, Independent Non-executive Director do not attend the meeting in person due to physical condition or personal work reason and entrust Mr. Peng Chun, Vice Chairman, Ms. Yu Yali, Executive Director, Mr. Yu Yongshun, Independent Non-executive Director, and Ms. Li Jian, Independent Non-executive Director, respectively, to attend and vote for him/her with a trust deed.

The Bank did not distribute any interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2017.

None of the Bank's funds are occupied by controlling shareholders and other related parties for non-operating purpose. Neither does any guarantee provided to external parties violate any existing regulations nor any internal decision-making procedures.

Prospective statements involved in the report, such as future plans and development strategies, do not constitute any substantive commitment of the Bank to investors. Investors should remain risk alert to investment decisions made.

Contents

Definitions

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

"Model Code"	Refers to	Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Hong Kong Listing rules
"Company Law"	Refers to	the Company Law of the People's Republic of China
"Articles of Associations"	Refers to	the Articles of Association of Bank of Communications Co., Ltd. as approved by CBRC
"Securities Law"	Refers to	the Securities Law of the People's Republic of China
"Banco BBM (BoCom BBM)"	Refers to	Banco BBM S.A.
"Reporting Period"	Refers to	the period from 1 January 2017 to 30 June 2017
"Group"	Refers to	the Bank and its subsidiaries
"Bank"	Refers to	Bank of Communications Co., Ltd.
"Ministry of Finance"	Refers to	Ministry of Finance of the People's Republic of China
"North Eastern China"	Refers to	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"Director(s)"	Refers to	the director(s) of the Bank
"Board of Directors"	Refers to	the board of director(s) of the Bank
"Overseas"	Refers to	Includes Hong Kong Branch, New York Branch, 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"	Refers to	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Eastern China"	Refers to	Includes Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Central and Southern China"	Refers to	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"HSBC"	Refers to	The Hong Kong and Shanghai Banking Corporation Limited
"Basis point"	Refers to	One in ten thousand
"Supervisor(s)"	Refers to	the supervisor(s) of the Bank
"Board of Supervisors"	Refers to	the Board of Supervisors of the Bank

"BoCom Insurance"	Refers to	China BoCom Insurance Co., Ltd.
"BoCom International"	Refers to	BoCom International Holdings Company Limited
"BoCom International Trust"	Refers to	Bank of Communications International Trust Co., Ltd.
"BoComm Life Insurance"	Refers to	BoComm Life Insurance Company Limited
"BoCom Fund"	Refers to	Bank of Communications Schroder Fund Management Co., Ltd.
"BoCom Leasing"	Refers to	Bank of Communications Financial Leasing Co., Ltd.
"SSE"	Refers to	the Shanghai Stock Exchange
"SSF"	Refers to	The National Council for Social Security Fund
"SFO"	Refers to	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Western China"	Refers to	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region
"HKEx"	Refers to	the Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	Refers to	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"CBRC"	Refers to	China Banking Regulatory Commission
"CSRC"	Refers to	China Securities Regulatory Commission
"Head Office"	Refers to	the Group's Head Office in Shanghai

Company Profile

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)
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Postal code	200120

ADDRESS AND OFFICIAL WEBSITE

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

INFORMATION DISCLOSURE AND PLACES WHERE THE ANNUAL REPORT IS AVAILABLE

Newspapers for information disclosure (A share)	China Securities Journal, Shanghai Securities News, Securities Times
Designated website for information disclosure (A share)	Website of the SSE at www.sse.com.cn
Designated website for information disclosure (H share)	Website of the HKEx at www.hkexnews.hk
Places where the interim 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	BANKCOMM	03328
Domestic Preference Shares	SSE	BOCOM PREF1	360021
Overseas Preference Share	HKEx	BOCOM 15USDPREF	4605

AUDITORS

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

AUTHORISED REPRESENTATIVE

Yu Yali
Du Jianglong

LEGAL ADVISER

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

SHARE REGISTRAR AND TRANSFER OFFICE

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

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

OTHER INFORMATION

Unified social credit identifier: 9131000010000595XD

Financial Highlights

As at 30 June 2017, key financial data and financial indicators prepared by the Group under International Financial Reporting Standards (the "IFRSs") are as follows:

(in millions of RMB unless otherwise stated)

Major financial data	January to June 2017	January to June 2016	Increase/ (decrease) (%)
Net interest income	62,708	68,148	(7.98)
Profit before tax	47,355	48,497	(2.35)
Net profit (attributable to shareholders of the parent company)	38,975	37,661	3.49
Earnings per share (attributable to shareholders of the Bank, in RMB yuan)	0.49	0.50	(2.00)
	30 June 2017	31 December 2016	Increase/ (decrease) (%)
Total assets	8,930,838	8,403,166	6.28
Including: Loans and advances to customers	4,370,147	4,102,959	6.51
Total liabilities	8,282,430	7,770,759	6.58
Including: Due to customers	4,938,694	4,728,589	4.44
Shareholders' equity (attributable to shareholders of the Bank)	643,250	629,142	2.24
Net assets per share (attributable to shareholders of the Bank, in RMB yuan)[1]	7.86	7.67	2.48
Net Capital[2]	759,091	723,961	4.85
Including: Net Core Tier-1 capital[2]	581,708	568,131	2.39
Other Tier-1 capital[2]	59,963	59,920	0.07
Tier-2 capital[2]	117,420	95,910	22.43
Risk weighted assets[2]	5,477,993	5,163,250	6.10

Major financial indicator (%)	January to June 2017	January to June 2016	Changes (Percentage point)
Cost-to-income ratio[3]	26.96	24.85	2.11
Annualized return on average assets	0.91	1.00	(0.09)
Annualized return on average shareholders' equity[4]	13.06	14.08	(1.02)
	30 June 2017	31 December 2016	Changes (Percentage point)
Impaired loans ratio	1.51	1.52	(0.01)
Provision coverage of impaired loans	151.02	150.50	0.52
Capital adequacy ratio[2]	13.86	14.02	(0.16)
Tier-1 Capital adequacy ratio[2]	11.71	12.16	(0.45)
Core Tier-1 Capital adequacy ratio[2]	10.62	11.00	(0.38)

Notes:

1. Refers to shareholder's 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 Reporting Period.
2. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* issued by the CBRC.
3. Refers to business and administrative expenses against the revenue net of cost of sales from other operations under the China Accounting Standards, which is consistent with financial reporting data as prepared under the China Accounting Standards.
4. With the effect of preference share eliminated

Business Profile

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 institutional, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses, etc. Personal banking 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 Bank involved in fund, trust, financial leasing, insurance and overseas securities businesses through its subsidiaries, including BoCom Fund, BoCom International Trust, BoCom Leasing, BoComm Life Insurance, BoCom Insurance and BoCom International.

The Group continued to promote the "BoCom Strategy" in order to enhance our capabilities of cross-border, cross-industry and cross-market services. The Group remains to be in the leading position of implementing internationalization development strategy and implementing a diversified integrated comprehensive business operational model.The brand image "BoCom, your best wealth management bank" became more and more prominent. The Group has always adhered to the principle of steady operation during its operation and development The Group has continuously improved the comprehensive risk management system of "full coverage, whole process, accountability and risk management culture". During the Reporting Period, the Group's main operating model, principal businesses and key performance drivers had no significant change. There was no significant change in the Group's core business competitiveness either.

I. BUSINESS REVIEW

In the first half of 2017, the Group proactively managed to navigate through multiple challenges on increasing market volatility and intensified competition. The Group adhered to the "BoCom Strategy" to serve the real economy by persisting in reforms and innovation as well as prioritizing risk management and controls. The Group achieved a stable growth of operating results. As at the end of the Reporting Period, the Group's total assets increased by 6.28% from the beginning of the year to RMB8,930.838 billion. During the Reporting Period, the net profit (attributable to shareholders of the Bank) increased by 3.49% on a year-on-year basis to RMB38.975 billion.

Constantly optimizing asset structure with focus on serving the real economy. The Group actively followed up national development strategies and expanded social public financing scale. As at the end of the Reporting Period, its balance of loans to customers (before impairment allowances, the same below unless otherwise specified) increased by RMB267.188 billion or 6.51% from the beginning of the year to RMB4,370.147 billion. The Group improved the liquidity of its credit assets by re-financing RMB360.2 billion of the recalled corporate credit and quasi-credit proceeds to the preferable customers. The Group continually optimized the credit structure to support structural reform on the supply side and 5 major tasks of "de-capacity, de-stocking, de-leverage, cost reduction and weakness strengthening". As at the end of the Reporting Period, the balance of loans to infrastructure and city construction and service areas including transportation, conservancy and environment, public facility management and service increased by 10.66% from the beginning of the year, while the balance of loans to industries with serious overcapacity decreased by RMB5.13 billion from the beginning of the year. The Group provided more credit support for livelihood security and consumption upgrade areas, and the balance of credit card overdraft and the balance of personal housing mortgage loans increased by 12.91% and 8.56% from the beginning of the year, respectively. The Group proactively fulfilled social responsibilities and vigorously developed inclusive finance by setting up the inclusive finance division. The balance of loans to SMEs from domestic branches increased by 8.17% from the beginning of the year, higher than the average growth rate of loans.

Accelerating the advance of "BoCom Strategy" to manifest features of wealth management. With the advancing of Group internationalization and business integration strategies, the Group continued to enhance its capabilities of cross-border, cross-industry and cross-market services, which accounted for an increasing share of profit to the overall Group's result. During the Reporting Period, the net profits of overseas banking entities increased by 10.97% on a year-on-year basis, accounting for 7.63% of the Group's net profit, representing an increase of 0.52 percentage point on a year-on-year basis. The net profits attributable to shareholders of the Bank from the controlling subsidiaries increased by 9.64% on a year-on-year basis, accounting for 5.37% of the Group's net profit, representing an increase of 0.30 percentage point on a year-on-year basis. With increasingly improved wealth management system, the "OTO Fortune" for high-end and mid-end customers reflected increasing market reputation with respect to personal business, the number of OTO Fortune standard customers increased by 8.97% from the beginning of the year and personal assets under management (AUM) amounted to RMB2.8 trillion; with respect to corporate business, "Win to Fortune" showed significant achievements in brand construction and the number of corporate customers of e-channel "Win to Fortune" cash management reached nearly 20,000; with respect to interbank business, "BoCom Tong Ye" interbank wealth management business realized rapid development and the number of interbank wealth management customers increased by 13.42% from the beginning of the year.

Continuously deepening reforms to achieve stable business growth. According to the *BoCom's Plan to Strengthen Reform*, the Group carried forward specific reform programs of "20+20+20" in a planned and orderly manner. The Group actively explored corporate governance mechanism with Chinese characteristics and implemented reform of internal operation mechanism, to drive transformation and innovation of operation mode. Specifically, the new pattern of transformation development driven by "two engines" of "divisional structure operation + branch operation" has been initially formed. During the Reporting Period, 6 profit making centers had a year-on-year increase of profits before allowances and tax of 13.77%, and the "Head Office-to-Headquarters" levels of professional services and operating skills were significantly improved. In respect of improving shareholding structure and optimizing corporate governance mechanism, the Group selected subsidiaries as pilot. During the Reporting Period, BoCom International was listed on the main board of the HKEx, becoming the first Chinese bank-owned brokerage firm listed in Hong Kong, which provided a major boost to transformation development strategy of BoCom International itself as well as to the bank's overall comprehensive and deepening reform. The positive effect of the reform helped the Group to stably enhance its business strength. During the Reporting Period, the net profit (attributable to shareholders of the Bank) increased by 3.49% on a year-on-year basis to RMB38.975 billion, representing a growth rate significantly higher than that of previous two years. Net fee and commission income increased by 1.42% on a year-on-year basis to RMB21.261 billion, accounting for 20.46% of the Group's net profits, representing an increase of 0.23 percentage point on a year-on-year basis.

Strengthening risk management and control in all aspects and gradually improving asset quality. The Group further improved the comprehensive risk management system with "full coverage, whole process, accountability and risk culture" as the core principles. The Group maintained prudent risk management by deepening reform on organizational risk management system and structure, enhancing risk controls in key areas, strengthening risk identification, monitoring and early warning, as well as putting more efforts to disposal of risks. The objective is to continue to improve our ability of early identification, early warning and early disposal of risks. At the end of the Reporting Period, the Group's impaired loans ratio declined to some extent and both overdue loans and loans overdue by more than 90 days were reduced. The impaired loans ratio decreased by 0.01 percentage point from the beginning of the year to 1.51%. The balance of overdue loan decreased by RMB6.026 billion or by 0.30 percentage point from the beginning of the year. Loans overdue by more than 90 days decreased by RMB3.859 billion or by 0.22 percentage point from the beginning of the year. The provision coverage ratio of impaired loans increased by 0.52 percentage point from the beginning of the year to 151.02%.

Advancing business transformation and innovation and effectively improving brand image. Upholding the transformation development path featured by low capital consumption and low cost expansion, the Group made great efforts to expand light-capital businesses such as asset management, transaction and credit cards. As at the end of the Reporting Period, the risk-weighted assets increased by 6.10% from the beginning of the year, 0.18 percentage point lower as compared with capital growth. With a grasp of development trend of financial technology and Internet finance, the Group pushed forward innovation of key products including mobile banking and interbank platform by virtue of project-based reform. Through officially launching "mobile-based credit card", the Group initiated the "quick approval, quick utilization and quick loan" mode in the industry. During the Reporting Period, the number of mobile-based credit cards for which application materials have been submitted accumulated to 1.42 million, while the number of mobile credit cards issued was 1.03 million. In 2017, the Group was honored in *FORTUNE*'s "Top 500 Global Companies" for nine consecutive years and ranked No. 171 in terms of revenue. It ranked No. 11 among the global top 1,000 banks in terms of Tier-1 Capital rated by *The Banker, the highest from previous records*, and ranked Top 20 among global banks for four consecutive years.

(I) Corporate banking business

- **During the Reporting Period, the Group's profit before tax from corporate banking business and net fee and commission income amounted to RMB20.551 billion and RMB9.347 billion, respectively.**
- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 4.02% from the beginning of the year to RMB3,335.198 billion, while corporate loan balance increased by 5.49% from the beginning of the year to RMB3,076.97 billion.**
- **As at the end of the Reporting Period, the Group's corporate impaired loan balance and impaired loans ratio were RMB50.588 billion and 1.64%, respectively.**

The Group reinforced linkage of cross-border, cross-industry and cross-market capital elements to meet the comprehensive financing demands of customers with product portfolio including credit, bond, fund, leasing, trust, asset management, insurance and debt and equity financing. With focus on increasing its capability of providing one-stop corporate financial services and with comprehensive coverage of "commercial + investment banking businesses, on + off balance sheet businesses, equity + debt businesses, domestic + overseas services, and online + offline services", the Group strived to establish a good brand in terms of cash management, supply chain finance, investment banking and cross-border transactional finance.

1. ***Corporate and institutional businesses***

The Group constantly served the real economy by giving full play to the advantages of international and integrated operation. Through accelerating the establishment of tiered, categorized and hierarchical customer management system and promoting the vertical management of account marketing, the Group improved the integrated operation capacity of Head Office and branches. With focus on customer demands, the Group actively conducted structured comprehensive financing business, ramped up innovation and launched innovative products such as court case loan management. The Group introduced competence-based model for corporate relationship managers in order to enhance the level of business and service to corporate customers. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 4.5% from the beginning of the year.

2. *Small and micro enterprise businesses*

Inclusive finance division was set up to advance coordinated development of inclusive finance for all businesses by building sound governance mechanism and organization structure and enhancing overall planning of inclusive finance business. The Group improved multi-tiered marketing service system and focused on key customers including those in industrial chain, those without loans, those involved in bank-government collaboration and those on quality third-party platforms. The Group strengthened project-based life cycle management and further optimized structure of SME customers. The Group continued to carry forward innovation of products to SMEs by introducing composite service programs including "Mortgage +" and loans for diversified operations, etc. The Group strengthened mobile-end channel construction and constantly promoted online and offline competitive products such as POS loans, Quick Mortgage Loan and You Dai Tong. As at the end of the Reporting Period, the balance of loans of domestic branches to small and micro enterprise busineses that met the qualification standards required by four National ministries and commissions increased by 8.17% from the beginning of the year to RMB739.87 billion.

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

The Group closely follow up on internet-based industry transformation trends in line with large clients' business transformation. The Group took the initiatives to develop online financial products covering payment and settlement and trade finance, and deepened cooperation with key customers in construction, medical care, petroleum and chemical sectors. The Group reinforced business linkage with finance companies to jointly serve those upstream and downstream enterprises of member companies of the group with which those finance companies are associated. As at the end of the Reporting Period, there were more than 2,500 qualified industrial chain networks and more than 30,000 qualified industrial chain companies developed by the domestic branches.

4. *Cash management businesses*

With respect to the trend of integration of industrial and financial capitals for large-scale enterprise groups, the Group innovatively launched treasury management system services for finance companies. Following the trend of "Internet +", the Group introduced e-commerce platform service program to further enhance business cooperation between cash management and industrial value chain finance. The Group continued to enrich product line of cash management by strengthening innovation of scenario-based settlement products and services on the basis of successful launching of "bidding Tong" – a financial service platform for bidding. The Group successfully launched "accounts manager service" – a one-stop account management service and enhanced receipts and payments management function of sub-accounts. As at the end of the Reporting Period, the number of corporate group customers of e-channel "Win to Fortune" cash management amounted to nearly 20,000 and the number of related cash management accounts amounted to more than 280,000.

5. *International settlement and trade finance*

The Group made great efforts to expand international settlement and cross-border trade finance business in order to provide financial support and guarantee for enterprises to "Go Global". During the Reporting Period, the amount of international settlement processed by domestic branches reached RMB2,306.634 billion, and the amount of international trade financing reached RMB52.892 billion. The Bank fully supported the "Belt and Road Initiatives" strategy and "Go Global" of enterprises through external guarantees and other financing and settlement products. During the Reporting Period, the amount of external guarantees provided by domestic branches reached RMB75.709 billion.

6. *Investment banking businesses*

The Group has been qualified as an alternative lead underwriters of credit bonds of Central Huijin, and has been selected as the lead underwriter of first round bonds. The Group increased reserves for projects including poverty alleviation debts, start-ups and innovation debts and green debts, and actively promoted pilot run of connectivity of Bond Connect and USD bonds. With great support to the demand for cross-border bond issuance of enterprises, the foreign bonds issued amounted to approximately HKD300 billion, representing a substantial increase as compared to the same period last year. The Group leveraged the advantage of internalization and integration to provide one-stop financial services for enterprises planning initial public offering (IPO) in Hong Kong. The Bank was awarded "2017 Junding Award for Best Overall Bank and Investment Bank in China" by the *Securities Times* and "2017 International Pioneer Investment Bank" by the *International Finance News*. Fee income from investment banking reached RMB2.813 billion during the Reporting Period, accounting for 12.21% 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 was 108, and the issuance amount of such instruments reached RMB79.728 billion.

7. ***Asset custody businesses***

The Bank actively drove comprehensive and diversified development of custody business and enhanced precision marketing and service to custody customers with the objective to optimize customer service experience. The Bank also continued to strengthen risk management key links to ensure the safety of assets held in custody. The Group made great efforts in building a talented team specialized in custody to improve the cohesiveness and competitiveness of the team. As at the end of the Reporting Period, assets held in custody of the Bank increased by 9.02% from the beginning of the year to RMB7,642.101 billion.

(II) Personal Banking Businesses

- **During the Reporting Period, from personal banking business sector, the Group's profit before tax increased by 8.63% on a year-on-year basis to RMB14.509 billion, while net fee and commission income increased by 8.06% on a year-on-year basis to RMB10.199 billion. The total number of individual customers in domestic branches increased by 4.99% from the beginning of the year.**

- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 5.44% from the beginning of the year to RMB1,600.136 billion, while the balance of personal loans of the Group increased by 9.02% from the beginning of the year to RMB1,293.177 billion.**

- **As at the end of the Reporting Period, the balance of personal impaired loans was RMB15.365 billion and the personal impaired loans ratio was 1.19%.**

Adhering to the "customer-centered" operation principle, the Group reinforced innovation of products and business model to meet diversified financial demands of customers, and fully promoted the transformation and development of the personal banking business by taking wealth management, consumer finance, credit card and Internet finance as its development engine.

1. Personal deposit business

With innovative development mode of personal deposit business, the Bank adopted relationship manager outbound call system to achieve scientific management of sales and service behavior of relationship managers in outlets across the Bank. The bank conducted precision marketing with focus on high and mid-end customers, new on board customers and new capital. The bank continued to promote business development of personal savings and deposits through optimizing the process of account opening approval procedures and facilitating cross-sell businesses in the customer waiting areas in the outlets. During the Reporting Period, relationship managers in outlets communicated with 3 million individual customers via outbound call system, wealth management products of De Li Bao series sales exceeded RMB150 billion, and deposit products sales exceeded RMB300 billion.

2. Personal loans

In response to market changes and customer demands, the Group implemented a differentiated housing credit policy, actively supporting residents' reasonable demands for self-occupied houses. The Group widely promoted innovation on personal financial asset business and upgraded our overall customer experience. The Group innovatively launched products such as secured mortgage loans, fund custody for second-hand property transactions, and loans categorized as housing mortgage under the mode of performance guarantee insurance, to meet customers' reasonable demands for consumer financing. By promoting service tools at mobile terminals, the Group made customers' application easier and improved the interactive experience. As at the end of the Reporting Period, the balance of personal housing mortgage loans of the Group increased by 8.56% from the beginning of the year to RMB836.185 billion.

3. Wealth management business

Being customers centered, the Group introduced a smart investment advisory system and customized personalized asset allocation schemes to meet different customers' demands for differentiated wealth management. The Group held a private banking forum named "10 years' persistence and resulting achievements" in Hangzhou at which a series of marketing activities for "10th Anniversary of Private Banking" were held. Our market influence was therefore increased. The Group took its internationalization and integration advantages to continuously strengthen our ability to provide private banking customers with global asset allocation. As at the end of the Reporting Period, personal assets under management (AUM) by the Group amounted to RMB2,841.654 billion, representing an increase of 4.97% from the beginning of the year. The number of customers of BoCom Fortune, OTO Fortune and private banking increased by 2.58%, 8.97% and 6.31% respectively from the beginning of the year.

4. *Bank card businesses*

Credit card businesses

BoCom was the first to launch the innovative "mobile-based credit card" characterized by quick and efficient service, thus attracting wide attention from social media. It succeeded in releasing co-branded cards with IQIYI, Youku, Zuzuche, etc. The Group carried out marketing activities such as Cross-year Weekly Swipe and Catering Super Red Friday, to increase online and offline spending amounts. The combination of innovative launching on "quick loan" service with comprehensive risk pricing implementation and trial runs for new consumer loan financing products have resulted in significant growth for consumer loans. The Group optimized the APP "Go Pay" to meet customers' needs for credit cards in the era of mobile Internet and customers' experience in card using was enhanced. The number of users linking credit cards to "Go Pay" increased by 59% from the beginning of the year and the customers' activeness index increased by 5 percentage points on a year-on-year basis. The Group introduced the latest and the most popular Internet product, "Video Customer Service" which became a pioneered new mode of customer service in the industry.

As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 5.67 million from the beginning of the year to 56.10 million. In the first half of the year, the accumulated consumer expenditure amounted to RMB1,019.539 billion, representing an increase of 15.18% on a year-on-year basis. Credit card overdraft balance amounted to RMB347.61 billion, representing an increase of 12.91% from the beginning of the year. The ratio of impaired credit card overdraft was 1.98%, representing an increase of 0.03 percentage point from the beginning of the year.

Being the first to launch the mobile-based credit card, BoCom achieved breakthrough in innovation of Internet FinTech.

As the Internet era is coming, Internet FinTech has become a crucial measure for traditional banks to realize strategic transformation and to change the competition landscape. On 17 April 2017, the Bank formally launched the mobile-based credit card, thereby initiating the "quick approval, quick utilization and quick loan" mode in the banking sector, which attracted wide attention and received good feedback in the sector.

Credit card users are provided with quick approval service. It takes only 2 steps to use the card, namely card verification and "Go Pay" APP login on mobile phone. Additionally, all services involving credit cards such as account check and repayment are available on "Go Pay". At the time of card activation, users can link their cards to all kinds of mobile payment modes such as ApplePay and Cloud Quick Pass and enable the QR code payment, thereby realizing consumption by mobile phone in all sorts of shops on and off line. During the Reporting Period,, the number of mobile credit cards for which application materials have been submitted accumulated to 1.42 million and the number of mobile credit cards issued was 1.03 million, of which 730,000 were issued on the date of application, accounting for 51% of total cards issued. Additionally, 280,000 cards were used on the date of issue, accounting for 38% of cards issued on the date of application. Before the customers received physical cards, their accumulated transaction via virtual cards amounted to RMB450 million, of which RMB80 million was consumed on the date of card issue.

The launch of the mobile-based credit card is the Bank's bold breakthrough in the field of Internet FinTech. The objective is to embed deeply on the application of FinTech in traditional banking fields, which represents another innovation on the journey to become the best service bank. The Bank will play an active role in enriching the ecological cycle of mobile-based credit card by continuously deepening innovation in the mobile credit card platform, constantly improving efficiency and experience in customers' card application and activation, building the external cooperation platform based on the mobile credit card, and forming the cross-side Internet effect of Internet platforms.

Debit card business

Based on NFC technology, the Group promoted mobile payment products such as Apple Pay, Huawei Pay, Mi Pay, Samsung Pay, Meizu Pay, Smartisan Pay and HCE, in an all-around way, and such products covered all popular brand mobile phones and could provide customers with safer and more convenient mobile payment experience. Besides, QR code payment system was laid out based on C2C and C2B scenarios as an important supplementary to mobile payment service. The Group ensured long-distance transactions of individual RMB accounts carried out via all kinds of channels were all free of commission. The Group continuously strengthened controls on shops with irregular card-free use payment transactions. This has not only strengthened payment safety but also improved payment convenience and satisfaction of customers.

With accelerated issue and activation of debit cards, the consumption amount remained steady. As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 126.52 million, representing a net increase of 6.35 million from the beginning of the year. The accumulated consumption was RMB436.022 billion in the first half of the year, representing a year-on-year increase of 0.81%.

(III) Interbank and Financial Market Businesses

- **At the end of the Reporting Period, the Group's securities investment increased by 5.89% from the beginning of the year to RMB2,385.108 billion. The return rate of securities investment was 3.57%, which remained stable. During the Reporting Period, profit before tax in terms of financial market treasury business was RMB10.72 billion.**

In response to the complex domestic and overseas economic environment, the Group continued to actively strengthen interbank customer base, expanded interbank cooperation channels, explored the potential of monetary market, asset management, precious metals, commodities and other businesses. The Group strictly controlled various risks so as to drive the stable development of interbank and market businesses.

1. *Institutional financial services*

The Group widely pushed the cooperation with financial factor markets and established an interbank strategic customer division in order to directly run nation-wide main financial markets. During the Reporting Period, the Group was qualified to be the market dealer for Bond Connect and qualified as a global custodian in overseas and a settlement bank in Hong Kong. The Group was also appointed to be a custodian for margin deposits of domestic and overseas customers in Shanghai International Energy Exchange. With respect to the interbank collaboration, the Group entered into interbank platform cooperation agreements with 337 customers, and the reserve deposits for interbank platform and average balance of the custody funds both increased by 26.94% on a year-on-year basis. With the web-based interbank platform going online, the whole process of interbank term deposit business can be processed in an electronic way, including initiation, review, accounting, interest adjustment and deposit receipts. In terms of capital market services, the Group made efforts to increase the quality and efficiency of securities capital settlement service. The Group entered into cooperation agreements on third-party custody with 100 securities companies in total reaching 100% coverage ratio in terms of business cooperation and laying a solid foundation for serving securities customers of the Bank. The Group proactively provided matching services for PB business of securities companies. As at the end of the Reporting Period, the balance of margin deposits of securities companies amounted to RMB81.389 billion, which kept a leading position in the market. With respect to the interbank wealth management, the Group cooperated with 1,234 customers in total in the interbank wealth business, and was awarded "2017 Junding Award for Open Wealth Management Products of Banks in China" by the *Securities Times* for wealth management products of "Jin Tai Yang" series.

2. *Money market transactions*

During the Reporting Period, the total volume of Renminbi money market transactions by domestic branches was RMB9.61 trillion, among which RMB7.15 trillion was lent to the financial institutions and RMB2.46 trillion was borrowed from the financial institutions. The total volume of foreign currency money market transaction was USD125.538 billion.

3. *Investment trading account businesses*

The Group was one of the pioneer banks qualified to be the market dealer to support the quotation of treasury bonds. The Group managed to complete the first transaction across mutual bond markets in Mainland China and Hong Kong (Bond Connect). During the Reporting Period, the transaction volume of domestic operations in respect of Renminbi-denominated bonds reached RMB1.03 trillion. The Group was successfully qualified by China Foreign Exchange Trading System to provide related services on C-Trade trading bridge services. During the Reporting Period, the volume of interbank foreign currency transactions reached USD621.796 billion. The Group widely expanded new businesses and actively explored customers' demands for bond offering, thus further promoting Renminbi-denominated bond offering business. The Group made good new progress in customer-driven trading businesses such as customer driven interest swap and currency swap trading businesses. Aiming at building a global investment bank base, the Group continued to promote the development of its sub-centers focused financial market businesses, including Hong Kong and London sub-centers.

BoCom played an active role in Bond Connect, completing the first transaction in the market

On 16 May 2017, the People's Bank of China and Hong Kong Monetary Authority jointly issued an announcement, agreeing to collaborate in establishing mutual bond market access between Hong Kong and Mainland China (Bond Connect). "Bond Connect", including "Northbound Trading" and "Southbound Trading", is an arrangement that will enable Mainland and overseas investors to trade bonds in the Mainland and Hong Kong bond markets through connection between the Mainland and Hong Kong's Financial Infrastructure Institutions. Northbound Trading refers to that overseas investors from Hong Kong and other countries and regions (overseas investors) invest in the China Interbank Bond Market through mutual access between the Hong Kong and Mainland Financial Infrastructure Institutions in respect of trading, custody, settlement etc. Southbound Trading will be explored in due course. "Bond Connect" is another milestone in opening-up of China's capital market and also an important measure taken by the central government to support Hong Kong's development and financial collaboration between Mainland China and Hong Kong.

On 3 July 2017, the mutual bond market access between Mainland China and Hong Kong was officially launched, and BoCom managed to complete the first transaction upon access granted. So far the Bank has been qualified as a full participating bank in Bond Connect and one of the pioneer banks to be the mark dealer for "Bond Connect" business. Bank of Communications Hong Kong Branch, BoCom Trust, BoCom International are global custodians of Bond Connect, of which Hong Kong Branch is one of the 14 settlement banks in Hong Kong, undertaking currency exchange and settlement for overseas investors in Bond Connect.

The Bank has been stably advancing "BoCom Strategy", and has gradually shaped its landscape of Asia-Pacific region with focus supported by Europe and America regions. The Bank will fully take the advantage of overseas branches to actively promote "Bond Connect" to overseas institutions and to establish transaction relationship with overseas institutions and to encourage more overseas investors to participate in "Bond Connect" as well as to increase international influence of "Bond Connect".

4. *Banking book investments*

The Group analyzed macro-economic situation and monetary policy in order to optimize diversity and duration of its investment portfolio and to maintain stable portfolio returns. At the end of the Reporting Period, the Group's securities investment increased by 5.89% from the beginning of the year to RMB2,385.108 billion. The return rate of securities investment was 3.57% and remained stable.

5. *Precious metal business*

During the Reporting Period, the Group was awarded by Shanghai Gold Exchange "Excellent Financial Member", "Excellent Quoter in Interbank Inquiry Market", "Outstanding Contributor to Auction Market" and "Outstanding Contributor to Pricing Market of Shanghai Gold", etc. for the year of 2016 and became one of the three Chinese banks entitled to undertake central clearing transactions for price setting of London Bullion. During the Reporting Period, the domestic branches achieved RMB92.097 billion in terms of volume for precious metal brokerage transactions, and the sales of real precious metals products businesses amounted to RMB936 million. The Bank ranked Top 3 in terms of quotation for interbank gold inquiry business at Shanghai Gold Exchange, maintaining its position as an active bank.

6. *Asset management business*

The Group accelerated its pace on the innovation of wealth management products and constantly launched various new products in order to meet increasingly diversified investment needs of investors and to accelerate transformation of net worth products. Net worth products with characterized themes such as "New Stock Enhancement for Private Banking" and "Diversified Strategy for Private Banking" were launched so that investors could have more returns. The Group released "Xian Jin Tian Li No. 1", the first net worth product of open quasi-money fund, which quickly exceeded RMB15 billion in scale within nearly two months launch and maintained fast growth momentum so far. As at the end of the Reporting Period, on-and-off balance sheet wealth management denominated in Renminbi increased by 10.28% from the beginning of the year to nearly RMB1.60 trillion.

(IV) "Three-in-One" Network Construction

- **During the Reporting Period, the annualized profit of the Group per person increased year-on-year by 3.13% to RMB854,600. As at the end of the Reporting Period, the deposit per outlet (excluding inclusive outlets) increased by 5.63% from the beginning of the year to RMB1.82 billion.**

- **As at the end of the Reporting Period, the total number of domestic banking branch outlets decreased by 5 from the beginning of the year to 3,280, of which 25 were newly opened and 30 low-yield ones were closed down.**

- **As at the end of the Reporting Period, the ratio of self-service bank to traditional branch outlet amounted to 1.30:1. The utilization rate of e-channels increased by 2.36 percentage points from the beginning of the year to 93.78%.**

- **As at the end of the Reporting Period, the number of relationship managers in domestic branches reached 23,349, accounting for 30.23% of total number of employees of the Bank.**

The Group continuously deepened "Three-in-One" network construction with emphasis on physical outlets, e-banking and relationship managers. The Group focused on "model innovation, cost reduction, efficiency enhancement and multiple channels" to create new model of comprehensive channels on intelligent services. The aim is to provide more convenient and better products and services to customers.

1. Physical outlets

The Bank deepened the transformation development of low level outlets. The bank slowed down the establishment of new traditional outlets, promoted the construction of lightweight outlets and enhanced the management and control of outlet business area, thereby reducing the staff of existing outlets. As at the end of the Reporting Period, the number of comprehensive outlets increased by 3 from the beginning of the year to 577. The Bank continued to improve inclusive financial system. As at the end of the Reporting Period, the inclusive outlets were increased by 27 from the beginning of the year to 632.

The Bank centrally managed the new outlets opening and old outlets closing. As at the end of the Reporting Period, the total number of domestic outlets decreased by 5 from the beginning of the year to 3,280, of which 25 were newly opened and 30 were closed down due to low yields. The Bank's network covered 239 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities up by 0.90 percentage point from the beginning of the year to 71.56%. In particular, the coverage ratio in West China was 63.06%.

2. E-banking

The Bank put emphasis on the construction of multiple channels platform and continued to improve comprehensive and collaborative management of electronic channel. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches reached 3.16 billion with transaction amounts of RMB113.57 trillion. The utilization rate of e-channels increased by 2.36 percentage points from the beginning of the year to 93.78%.

Self-service banking. The Bank continued to improve the efficiency of self-service banking. As at the end of the Reporting Period, the number of self-service machines in domestic branches was 28,900 and the number of self-service banks was 3,427. The ratio of self-service banks to traditional branches was 1.30:1. The transaction number of self-service banking was 238 million with transaction amounts over RMB1 trillion, representing a year-on-year increase of 2.59%.

Online banking. The Bank constantly optimized functions and interface of online banking. As at the end of the Reporting Period, the number of corporate e-banking customers increased by 6.74% from the beginning of the year, and the number of corporate e-banking transactions increased year-on-year by 23.60% to 508 million. The number of personal e-banking customers increased by 5.25% from the beginning of the year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased year-on-year by 68.25% to 2.268 billion.

Mobile banking. Mobile banking business developed rapidly. As at the end of the Reporting Period, the Bank's total number of registered mobile banking customers exceeded 55,145,700, representing an increase of 9.94% from the beginning of the year. During the Reporting Period, the transaction number of the mobile banking increased year-on-year by 11.54% to 145 million and the transaction amounts were RMB3.86 trillion, representing a year-on-year increase of 19.88%. The Bank improved over 320 mobile banking functions, including newly added functions such as gesture login, funds diagnosis, annuity insurance, foreign currency wealth management, certificates of deposit as the collateral of pledged loans online and online reservation for bank card, thus resulting in great enhancement in the customer experience and operational stability of mobile banking.

3. Relationship manager

The Bank continued to strengthen 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 for relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic operations reached 23,349, accounting for 30.23% of total number of employees of the Bank, among which, the number of the corporate relationship managers reached 10,558, and the number of retail relationship managers reached 12,791.

4. Customer satisfaction

Focusing on the target of "building a bank providing the best service in financial industry", the Bank continued to improve its service procedures, service efficiency and customer experience. By becoming one of the "Top 100 Model units for Civilized and Standardized Services in China's Banking Sector" and building star outlets, the Bank enhanced the customer service level and efficiency and established good brand image. Meanwhile, the Bank strengthened customer right protection and carried out promotion and education activities regarding financial literacy and customer rights protection in the community, campus and enterprise.

(V) Internationalization and Integrated Operation

1. Internationalization strategy

- **During the Reporting Period, net profits of the Group's overseas banking institutions increased by 10.97% on a year-on-year basis to RMB2.973 billion, accounting for 7.63% of the Group's net profits, representing an increase by 0.52 percentage point on a year-on-year basis.**

- **As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 16.25% from the beginning of the year to RMB994.999 billion, accounting for 11.14% of the Group's total assets, representing an increase of 0.95 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 were RMB1.445 billion, and the impaired loan ratio was 0.32%.**

The Group deepened and facilitated the implementation of internationalization strategy by fully taking synergetic advantage out of domestic and overseas linkage. Meanwhile, the Group firmly seized the development opportunity under the “Belt and Road Initiatives” through actively providing services to customers to meet the business needs of countries and regions alongside the “Belt and Road”. Following the “Go Global” of Chinese enterprise, the Group continued to improve the landscape of overseas banking institutions and to enhance the capabilities of cross-border, cross-industry and cross-market services.

Overseas service network

A steady progress was made towards building an expanded overseas service network. 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 total 65 overseas operating outlets (excluding the representative office). The Bank established agency relationship with 1,591 banks in 142 countries and regions, set up 239 cross-border Renminbi inter-bank accounts for 127 overseas agent banks in 36 countries and regions, and opened 79 foreign currency settlement accounts in 24 currencies with 62 banking institutions in 29 countries and regions.

Domestic and overseas linkage businesses

Building on the principles of “Head Office + branch, domestic branch + overseas branch and branch + subsidiary”, the Group was looking to derive the maximum synergies out of domestic and overseas linkage businesses. The Group actively adhered to the national strategy including “Belt and Road Initiatives” and Renminbi internationalization, and enhanced investments in products, channels, marketing and services, to assist “Go Global” enterprises in improving the cross-broader and cross-market competitiveness. During the Reporting Period, the total transaction amount of the linkage business reached to USD29.657 billion, and the accumulated revenue reached RMB2.146 billion.

Cross-border Renminbi transactions

The Bank seized the opportunity of Renminbi internationalization and enhanced the synergistic effect and innovations of domestic and overseas banking institutions. The aim is to increase the size of cross-border Renminbi settlements. In the first quarter of 2017, 96.57% of cross-border Renminbi transactions were settled through the cross-border interbank payment system (“CIPS”), and business mobility ratio recorded a new high. The Bank’s cross-border Renminbi transactions ranked the first among 28 direct participating banks published by CIPS operation institutions. During the Reporting Period, the transaction amount of the cross-border Renminbi settlements by domestic and overseas banking institutions increased by 33.41% on a year-on-year basis to RMB1,186.596 billion.

Offshore services

The Bank launched innovative products including "offshore global payroll service", "Baihui Tong", and "LiAn Tong" in order to acquire overseas low cost capital through multiple channels. With strengthening business structure adjustment, the Bank improved offshore customer structure and continuously enhanced and optimized offshore business. As at the end of the Reporting Period, the total amount of offshore assets reached USD18.19 billion and loan balance reached USD12.594 billion and deposit balance reached USD11.261 billion.

2. *Integrated operation*

- During the Reporting Period, net profits attributable to the Bank from the controlling subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and BBM) amounted to RMB2.093 billion, representing a year-on-year increase of 9.64%, the proportion of which to the overall net profits of the Group increased by 0.30 percentage point to 5.37% on a year-on-year basis.

- As at the end of the Reporting Period, the total assets of the controlling subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and BBM) increased by 14.09% from the beginning of the year to RMB290.881 billion, the proportion of which to the total assets of the Group increased by 0.23 percentage point to 3.26% from the beginning of the year.

The Group leveraged comprehensive operating advantages to improve its capability of providing customers with comprehensive service needs. By seizing the market opportunity, the subsidiaries of the Group focused on respective business advantage so as to enhance its market competitiveness and to integrate into overall Group wealth management system. This has resulted in the implementation of comprehensive and integrated strategy of the Group.

– BoCom Leasing continued to maintain its leading development trend and became one of the leading companies in the industry in terms of major operation and management data. Under the fast development of operating lease businesses, BoCom Leasing continued to optimize business structure. During the Reporting Period, the net income of the operating lease accounted for 40%. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB190.316 billion, representing an increase of 14.61% from the beginning of the year.

– BoCom International Trust took full advantage of trust system to actively promote the development of key businesses and innovative businesses including merger and acquisition fund, shantytown transformation fund and asset securitization. BoCom International Trust was rated Level A company in 2016 trust industry rating. As at the end of the Reporting Period, its assets under management increased by 11.71% from the beginning of the year to RMB792.851 billion.

– BoCom Fund saw outstanding performance of several publicly offered mutual funds. Among such funds, BoCom Advanced Manufacturing was awarded "Golden Bull Prize for Five-year Mixed Open-end Fund" and BoCom Advantage was awarded "Golden Bull Prize for Three-year Mixed Open-end Fund". During the Reporting Period, BoCom Wenjian Fund, BoCom Strategy Fund and BoCom New Growth Fund were ranked the top 1/4 among funds of the same kind. In such funds, BoCom Wenjian Fund ranked No. 5 among 519 funds of the same kind by virtue of return of investments of 26.05%. As at the end of the Reporting Period, its assets under management amounted to RMB495.571 billion (including domestic subsidiaries and Hong Kong subsidiaries).

– BoComm Life Insurance speeded up the development of its businesses transformation, and improved its investment capabilities. During the Reporting Period, the realized original premium income increased by 23.50% on a year-on-year basis to RMB10.885 billion. Under the rapid development of quality businesses, its bancassurance businesses with premium growth increased by 107.36% on a year-on-year basis, with renewal rate of 98.33% for 13 months in a row, reaching a high record level in the industry.

– BoCom International was listed on the main board of the HKEx on 19 May 2017 and became the first brokerage firm listed in Hong Kong owned by Chinese banks. This represented an advanced level in the industry among Mainland large-sized enterprises listed in Hong Kong.

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

After two years of BoCom's Plan to Strengthen Reform by running pilots for its subsidiaries, the first brokerage firm owned by Chinese bank was listed in Hong Kong

Since the *BoCom's Plan to Strengthen Reform was approved* by the State Council in June 2015, the Bank strengthened reform of three key areas, i.e. refining corporate governance mechanism as a large commercial bank, reinforcing operational improvements and promoting transformation, and innovating operating model, in order to implement reform programs steadily. In respect of improving equity structure and optimizing corporate governance mechanism, the Bank selected subsidiaries as pilots, and took the lead to achieve the spin-off listing of BoCom International, a subsidiary company of the Group, in Hong Kong.

Being the first to join the international capital market platform to improve brand value and market influence. BoCom International serves as an integrated platform for securities and related financial service offerings of the Bank in Hong Kong, and is one of the earliest licensed securities firms funded by Chinese investment in Hong Kong. BoCom International issued approximately 734 million new shares in this IPO, and the financing scale reached HKD1.968 billion. BoCom International was listed on the main board of the HKEx on 19 May 2017, becoming the first brokerage firm owned by Chinese banks listed in Hong Kong. With the close and wide attention attracted from the market, the Bank's brand value and market influence were further enhanced.

Becoming an independent listing company through spin-off to optimize operation management and corporate governance mechanism. By means of spin-off listing, BoCom International established a more standard corporate governance mechanism and management mechanism to further improve the transparency of operating management, thus providing comprehensive, professional and integrated financial products and services for customers. As the controlling shareholder, the Bank will perform obligations as a major shareholder in compliance with laws and regulations to ensure the independent operation of BoCom International, and to provide strong support for BoCom International to expand its domestic and overseas businesses.

A good demonstration effect of pilot program to continuously promote the deepening reform of BoCom. Successful listing of BoCom International in Hong Kong after two years' implementation of BoCom's Plan to Strengthen Reform not only has significant effects on the transformation development of BoCom International and the equity value guarantee and appreciation of BoCom Group, but also has good demonstration effect on deepening reform and capital operation of other subsidiaries of the Bank, thereby further promoting the comprehensive and deepening reform of the Bank.

II. FINANCIAL STATEMENTS ANALYSIS

(I) Analysis on key income statement items

1. *Profit before tax*

During the Reporting Period, the Group's profit before tax decreased by RMB1.142 billion, equivalent to a 2.35% decrease on a year-on-year basis, reaching RMB47.355 billion. Profit before tax was mainly derived from net interest income and net fee and commission income.

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

(in millions of RMB)

	For the six months ended 30 June	
	2017	2016
Net interest income	62,708	68,148
Net fee and commission income	21,261	20,964
Impairment losses on loans and advances to customers	(14,646)	(14,807)
Profit before tax	47,355	48,497

2. *Net interest income*

During the Reporting Period, the Group's net interest income decreased by RMB5.44 billion on a year-on-year basis to RMB62.708 billion, accounting for 60.33% of the Group's net operating income and was a major component of the Group's income.

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

(in millions of RMB unless otherwise stated)

	For the six months ended 30 June 2017			For the six months ended 30 June 2016		
	Average balance	Interest income/ (expense)[5]	Annualized average rate of return (cost) (%)	Average balance	Interest income/ (expense)	Annualized average rate of return (cost) (%)
Assets						
Cash and balances with central banks	957,404	6,685	1.40	934,971	6,969	1.49
Due from banks and other financial institutions	735,912	9,559	2.60	550,912	7,224	2.62
Loans and advances to customers and receivables	4,316,050	97,350	4.51	3,972,290	96,895	4.88
Include: Corporate loans and receivables	2,972,984	62,645	4.21	2,803,016	65,089	4.64
Individual loans	1,207,046	32,184	5.33	1,004,577	29,099	5.79
Discounted bills	136,020	2,521	3.71	164,697	2,707	3.29
Securities investment	2,283,142	40,787	3.57	1,746,290	33,273	3.81
Interest-bearing assets	7,995,137[3]	150,184[3]	3.76	6,919,372[3]	140,225[3]	4.05
Non-interest-bearing assets	426,098			325,501		
Total assets	8,421,235[3]			7,244,873[3]		
Liabilities and Shareholders' Equity						
Due to customers	4,805,978	43,849	1.82	4,626,153	44,989	1.94
Include: Corporate deposits	3,250,046	28,168	1.73	3,141,520	28,887	1.84
Individual deposits	1,555,932	15,681	2.02	1,484,633	16,102	2.17
Due to banks and other financial institutions [6]	2,390,391	37,323	3.12	1,822,177	25,843	2.84
Debt securities issued and others	642,298	10,501	3.27	321,852	5,381	3.34
Interest-bearing liabilities	7,541,296[3]	87,476[3]	2.32	6,485,091[3]	72,077[3]	2.22
Shareholders' equity and non-interest-bearing liabilities	879,939			759,782		
Total Liabilities and Shareholders' Equity	8,421,235[3]			7,244,873[3]		
Net interest income		62,708			68,148	
Net interest spread[1]			1.44[3]			1.83[3]
Net interest margin[2]			1.57[3]			1.97[3]
Net interest spread[1]			1.59[4]			1.95[4]
Net interest margin[2]			1.72[4]			2.08[4]

Notes:

1. This represents the difference between the annualized average rate of return on total average interest-bearing assets and the annualized average cost of total average interest-bearing liabilities.
2. This ratio represents the net interest income to total average interest-bearing assets.
3. This excludes the impact of wealth management products.
4. This excludes the impact of wealth management products and takes into account the tax exemption of 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 (VAT) Transformation Pilot Program*, VAT payable was deducted from the Group's interest income in the current period and in May and June of the prior year.
6. This includes borrowings from central banks.

During the Reporting Period, the Group's net interest income decreased by 7.98% on a year-on-year basis. The net interest spread and net interest margin decreased by 39 and 40 basis points on a year-on-year basis to 1.44% and 1.57%, respectively. The net interest spread and net interest margin would have decreased by 33 basis points on a year-on-year basis respectively, in which, the net interest spread and net interest margin in the second quarter both would have increased by 1 basis point as compared to those in the first quarter had the amount that was derived before implementing the replacement of business tax with VAT been used for calculation.

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 period indicated.

(in millions of RMB)

	Comparison between January to June 2017 and January to June 2016 Increase/(decrease) due to		
	Amount	Interest rate[Note]	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	167	(451)	(284)
Due from banks and other financial institutions	2,424	(89)	2,335
Loans and advances to customers and receivables	8,388	(7,933)	455
Securities investment	10,227	(2,713)	7,514
Changes in interest income	21,206	(11,186)	10,020
Interest-bearing liabilities			
Due to customers	1,744	(2,884)	(1,140)
Due to banks and other financial institutions	8,069	3,411	11,480
Debt securities issued and others	5,351	(231)	5,120
Changes in interest expense	15,164	296	15,460
Changes in net interest income	6,042	(11,482)	(5,440)

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 and in May and June of the prior year.

During the Reporting Period, the Group's net interest income decreased by RMB5.44 billion on a year-on-year basis, of which the increase of RMB6.042 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB11.482 billion was due to changes in the average rate of return and average cost ratio.

(1) Interest income

During the Reporting Period, the Group's gross interest income increased by RMB10.02 billion or 6.94% on a year-on-year basis to RMB154.381 billion.

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

Interest income from loans and advances to customers and receivables was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB455 million or 0.47% on a year-on-year basis to RMB97.35 billion, which was largely due to the year-on-year increase in the average balance of loans and advances to customers and receivables by 8.65%.

B. Interest income from securities investment

During the Reporting Period, interest income from securities investment increased by RMB7.514 billion or 22.58% on a year-on-year basis to RMB40.787 billion, which was largely due to the year-on-year increase in the average balance of securities investment by 30.74%.

C. Interest income from balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from balances with central banks decreased by RMB284 million on a year-on-year basis to RMB6.685 billion, which was largely due to the year-on-year decrease in annualized average rate of return of balances with central banks by 9 basis points.

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

The interest income from balances due from banks and other financial institutions increased by RMB2.335 billion or 32.32% on a year-on-year basis to RMB9.559 billion, which was largely due to the year-on-year increase in the average balances due from banks and other financial institutions by 33.58%.

(2) Interest expenses

During the Reporting Period, the Group's interest expense increased by RMB15.46 billion or 20.29% on a year-on-year basis to RMB91.673 billion.

A. *Interest expenses on customer deposits*

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expenses on customer deposits decreased by RMB1.14 billion or 2.53% on a year-on-year basis to RMB43.849 billion, accounting for 47.83% of total interest expenses. The decrease in interest expenses on customer deposits was mainly due to a year-on-year decrease in the annualized average rate of cost of customer deposits by 12 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 (including borrowings from central banks) increased by RMB11.48 billion or 44.42% on a year-on-year basis to RMB37.323 billion. This was largely due to the year-on-year increase in the annualized average rate of cost of balances due to banks and other financial institutions (including borrowings from central banks) by 28 basis points, and the year-on-year increase in the average balances due to banks and other financial institutions by 31.18%.

C. *Interest expenses on bonds issuance and other interest-bearing liabilities*

During the Reporting Period, interest expenses on bonds issuance and other interest-bearing liabilities increased by RMB5.12 billion or 95.15% on a year-on-year basis to RMB10.501 billion. This was mainly due to a year-on-year increase in average balance of bond issuance and other interest bearing liabilities by 99.56%.

3. Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously improved the quality and efficiency of intermediary business and vigorously facilitated the transformation of its profit-making model and moved towards a business model with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB297 million or 1.42% on a year-on-year basis to RMB21.261 billion, while the net fee and commission income increased by RMB1.029 billion or 4.83% on a year-on-year basis if using the amount that would be derived before implementing the replacement of business tax with VAT. The Bank card business was the main driver of the Group's intermediary businesses.

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

(in millions of RMB)

	For the six months ended 30 June	
	2017	2016
Settlement services	1,058	980
Bank cards	7,763	5,630
Investment banking	2,813	3,392
Guarantees and commitments	1,531	1,689
Management services	7,236	6,783
Agency services	2,183	3,395
Others	461	369
Total fee and commission income	23,045	22,238
Less: Fee and commission expenses	(1,784)	(1,274)
Net fee and commission income	21,261	20,964

Fee income from bank card services increased by RMB2.133 billion or 37.89% on a year-on-year basis to RMB7.763 billion. This was mainly due to the increase in card issuance and development of card consumption business.

Fee income from investment banking decreased by RMB579 million or 17.07% on a year-on-year basis to RMB2.813 billion. This was mainly due to the decrease in consultant services.

Fee income from guarantee and commitment services decreased by RMB158 million or 9.35% on a year-on-year basis to RMB1.531 billion. This was mainly due to the slight reduction in the volume of bank acceptance bills.

Fee income from management services increased by RMB453 million or 6.68% on a year-on-year basis to RMB7.236 billion. This was mainly driven by the increase in the fee income from assets custody services.

Fee income from agency services decreased by RMB1.212 billion or 35.70% on a year-on-year basis to RMB2.183 billion. This was mainly driven by the significant decrease in the fee income from insurance agency services.

4. *Operating costs*

During the Reporting Period, the Group's operating costs increased by RMB1.845 billion or 7.33% on a year-on-year basis to RMB27.02 billion. The cost-to-income ratio was 26.96%, representing a year-on-year increase of 2.11 percentage points. Had the amount that would be derived before implementing the replacement of business tax with VAT been used, the cost-to-income ratio would have represented a year-on-year increase of 1.29 percentage points.

5. *Impairment losses on loans and advances to customers*

During the Reporting Period, the Group's impairment losses on loans and advances to customers decreased by RMB161 million or 1.09% on a year-on-year basis to RMB14.646 billion. The decrease comprised of ① collective assessment increased by RMB161 million on a year-on-year basis to RMB6.268 billion; and ② individual assessment decreased by RMB322 million on a year-on-year basis to RMB8.378 billion. During the Reporting Period, credit cost ratio decreased by 0.07 percentage point on a year-on-year basis to 0.67%.

6. *Income tax*

During the Reporting Period, the Group's income tax expenses decreased by RMB2.441 billion or 23.08% on a year-on-year basis to RMB8.133 billion, mainly due to increase in taxfree income such as interest income from government bonds held by the Group.

(II) Analysis on Key Balance Sheet Items

1. *Assets*

As at the end of the Reporting Period, the Group's total assets were RMB8,930.838 billion, representing an increase of RMB527.672 billion, equivalent to an increase of 6.28% from the beginning of the year.

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

(in millions of RMB unless otherwise stated)

	30 June 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	4,270,542	47.82	4,009,046	47.71
Securities investment	2,385,108	26.71	2,252,392	26.80
Cash and balances with central banks	963,575	10.79	991,435	11.80
Due from banks and other financial institutions	854,775	9.57	715,787	8.52
Total assets	8,930,838		8,403,166	

(1) Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonable control 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 RMB4,370.147 billion, representing an increase of RMB267.188 billion or 6.51% from the beginning of the year, among which Renminbi loans from domestic branches increased by RMB199.731 billion or 5.56% from the beginning of the year.

Loans concentration by industry

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

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

(in millions of RMB unless otherwise stated)

	30 June 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	108,286	2.48	107,787	2.63
Manufacturing				
– Petroleum and chemical	111,909	2.56	106,514	2.60
– Electronics	83,559	1.91	59,942	1.46
– Steel	38,064	0.87	36,841	0.90
– Machinery	104,751	2.40	118,200	2.88
– Textile and clothing	32,544	0.74	33,714	0.82
– Other manufacturing	227,320	5.21	224,455	5.47
Electricity, gas and water production and supply	157,248	3.60	147,141	3.59
Construction	100,973	2.31	99,487	2.42
Transportation, storage and postal services	518,845	11.88	495,427	12.07
Telecommunication, IT services and software	24,542	0.56	20,594	0.51
Wholesale and retail	323,526	7.40	319,579	7.79
Accommodation and catering	35,570	0.81	34,489	0.84
Finance	111,407	2.55	94,464	2.30
Real estate	189,729	4.34	204,111	4.97
Services	331,002	7.57	300,929	7.33
Water conservancy, environmental and other public facilities	240,172	5.50	188,622	4.60
Education, science, culture and public health	83,482	1.91	80,597	1.96
Others	118,005	2.70	117,290	2.86
Discounted bills	136,036	3.11	126,589	3.09
Total corporate loans	3,076,970	70.41	2,916,772	71.09
Mortgage	836,185	19.14	770,280	18.78
Credit cards	347,610	7.95	307,857	7.50
Others	109,382	2.50	108,050	2.63
Total individual loans	1,293,177	29.59	1,186,187	28.91
Gross amount of loans and advances to customers before impairment allowances	4,370,147	100.00	4,102,959	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB160.198 billion, or 5.49% from the beginning of the year to RMB3,076.97 billion. The four most concentrated industries were manufacturing, transportation, storage and postal services, services and wholesale and retail business, which altogether accounted for 57.57% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB106.99 billion or 9.02% from the beginning of the year to RMB1,293.177 billion. The proportion of individual loans as a percentage to total loans and advances to customers increased by 0.68 percentage point from the beginning of the year to 29.59%.

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 2.75% of the Group's net capital, and the total loans of top 10 customers accounted for 13.34% of the Group's net capital, which were in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

	30 June 2017		
	Type of industry	Loan balances	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal services	20,870	0.49
Customer B	Transportation, storage and postal services	15,438	0.35
Customer C	Transportation, storage and postal services	12,295	0.28
Customer D	Transportation, storage and postal services	9,996	0.23
Customer E	Transportation, storage and postal services	8,080	0.18
Customer F	Transportation, storage and postal services	7,804	0.18
Customer G	Manufacturing – other manufacturing	7,500	0.17
Customer H	Wholesale and retail	6,740	0.15
Customer I	Mining	6,340	0.15
Customer J	Transportation, storage and postal services	6,191	0.14
Total of Top Ten Customers		101,254	2.32

Loan concentration by geographical locations

The Group's credit customers were mainly located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, the proportions of loans and advances to customers in these three regions accounted for 30.95%, 17.18% and 7.80%, respectively, the loan balances increased by 4.08%, 2.36% and 7.03%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.51%, representing a decrease of 0.01 percentage point from the beginning of the year. The provision coverage ratio of impaired loans increased by 0.52 percentage point from the beginning of the year to 151.02%, and the provision ratio of impaired loans decreased by 0.01 percentage point from the beginning of the year to 2.28%.

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

(in millions of RMB unless otherwise stated)

	30 June 2017	31 December 2016
Impaired loans	65,953	62,400
Loans overdue by more than 90 days	82,923	86,782
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.51	1.52

(2) Securities investment

As at the end of the Reporting Period, the Group's net balance of securities investment increased by RMB132.716 billion or 5.89% from the beginning of the year to RMB2,385.108 billion. Return on securities investment reached 3.57%.

Breakdown of the Group's securities investment

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

– By intention of holding:

(in millions of RMB unless otherwise stated)

	30 June 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	130,882	5.49	117,168	5.20
Securities investment – loans and receivables	410,429	17.21	385,020	17.09
Securities investment – available-for-sale	393,938	16.52	342,755	15.22
Securities investment – held-to-maturity	1,449,859	60.78	1,407,449	62.49
Total	2,385,108	100.00	2,252,392	100.00

– By issuers:

(in millions of RMB unless otherwise stated)

	30 June 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Governments and central banks	1,213,989	50.89	1,132,581	50.28
Public sector entities	38,590	1.62	33,451	1.49
Banks and other financial institutions	701,601	29.42	652,835	28.98
Corporate entities	430,928	18.07	433,525	19.25
Total	2,385,108	100.00	2,252,392	100.00

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond names	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2015 banks and non-bank financial institutions bond	5,910	4.95	19/01/2018	–
2017 banks and non-bank financial institutions bond	5,500	4.20	17/04/2020	–
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	–
2017 banks and non-bank financial institutions bond	4,000	4.00	09/03/2020	–
2017 banks and non-bank financial institutions bond	4,000	4.20	28/04/2020	–
2016 policy bank bond	3,850	2.79	27/07/2019	–
2016 policy bank bond	3,630	2.72	03/03/2019	–
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	–

2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB511.671 billion or 6.58% from the beginning of the year to RMB8,282.43 billion. Among this balance, customer deposits increased by RMB210.105 billion from the beginning of the year, which accounted for 59.63% of total liabilities and represented a decline of 1.22 percentage points from the beginning of the year. Balances due to banks and other financial institutions increased by RMB118.306 billion from the beginning of the year, which accounted for 28.37% of total liabilities and represented a decline of 0.34 percentage point from the beginning of the year.

Customer deposits

Customer deposits are the Group's main source of funding. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB210.105 billion or 4.44% from the beginning of the year to RMB4,938.694 billion. In terms of the Group's customer structure, the proportion of corporate deposits accounted for 67.53%, representing a decrease of 0.28 percentage point from the beginning of the year. The proportion of individual deposits was 32.40%, representing an increase of 0.31 percentage point from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits decreased by 1.92 percentage points from the beginning of the year to 49.85%, while the proportion of term deposits increased by 1.95 percentage points from the beginning of the year to 50.08%.

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

(in millions of RMB)

	30 June 2017	31 December 2016
Corporate deposits	3,335,198	3,206,241
Include: Corporate demand deposits	1,759,908	1,725,948
Corporate time deposits	1,575,290	1,480,293
Individual deposits	1,600,136	1,517,560
Include: Individual demand deposits	702,365	722,225
Individual time deposits	897,771	795,335

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB16.489 billion from the beginning of the year to RMB299.907 billion.

The net cash inflows from operating activities decreased by RMB274.344 billion on a year-on-year basis to RMB46.15 billion, mainly due to the year-on-year decrease in the amount of cash inflows related to financial assets sold under repurchase agreements.

The net cash outflows from investing activities decreased by RMB208.233 billion on a year-on-year basis to RMB91.174 billion, mainly due to the decrease in the amount of cash outflows related to securities investment activities.

The net cash inflows from financing activities increased by RMB24.492 billion on a year-on-year basis to RMB32.446 billion, mainly due to the year-on-year increase in the amount of cash inflows related to the issuance of bonds in 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)

	For the six months ended 30 June			
	2017		2016	
	Profit before tax	Net operating income[1]	Profit before tax	Net operating income[1]
Northern China	6,958	11,838	6,874	11,351
North Eastern China	1,555	3,896	1,933	3,950
Eastern China	14,936	42,504	14,217	38,561
Central and Southern China	11,769	18,728	10,423	17,127
Western China	5,049	8,724	5,576	8,857
Overseas	3,875	5,952	3,505	5,477
Head Office	3,213	11,471	5,969	13,797
Total[2]	47,355	103,113	48,497	99,120

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investments, net gains arising from investments in associated and joint venture enterprises, 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 dates indicated:

(in millions of RMB)

	30 June 2017		31 December 2016	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	735,875	580,978	703,472	568,598
North Eastern China	250,317	204,260	250,716	202,216
Eastern China	1,793,036	1,509,812	1,751,799	1,441,942
Central and Southern China	1,130,426	817,350	1,067,991	761,294
Western China	616,077	435,658	593,674	417,904
Overseas	409,746	440,675	358,061	384,396
Head Office	3,217	381,414	2,876	326,609
Total	4,938,694	4,370,147	4,728,589	4,102,959

3. *Operating results by business segments*

The Group's four main business segments are corporate banking, personal banking, treasury business and other businesses.

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

(in millions of RMB)

	For the six months ended 30 June 2017				
	Corporate banking	Personal banking	Treasury business	Other Businesses	Total
Net interest income	31,095	21,175	9,559	879	62,708
– Net external interest income/(expense)	25,129	15,174	21,526	879	62,708
– Net internal interest income/(expense)	5,966	6,001	(11,967)	–	–

III. CAPITAL ADEQUACY RATIO

(I) Measurement method

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

(II) Scope of measurement

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

(III) Measurement result

At the end of June 2017, as calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* issued by the CBRC, the Group had capital adequacy ratio of 13.86%, Tier 1 Capital adequacy ratio of 11.71%, and Core Tier 1 Capital adequacy ratio of 10.62%, which were all in compliance with the regulatory requirements.

(in millions of RMB unless otherwise stated)

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

Item	The Group	The Bank
Net Core Tier 1 Capital	581,708	547,596
Net Tier 1 Capital	641,671	607,473
Net Capital	759,091	724,702
Core Tier 1 Capital adequacy ratio (%)	10.62	10.44
Tier 1 Capital adequacy ratio (%)	11.71	11.59
Capital adequacy ratio (%)	13.86	13.82

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

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 (%)	10.52	10.47
Capital adequacy ratio (%)	14.13	14.10

(IV) Risk-weighted assets

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

(in millions of RMB)

Item	30 June 2017
Credit risk-weighted asset	5,003,566
Market risk-weighted asset	135,632
Operational risk-weighted asset	338,795
Additional risk-weighted assets arising from the application of capital floor and calibration	–
Total risk-weighted assets	5,477,993

(V) Credit risk exposure

Exposure to default risk covered under the internal rating approach

(in millions of RMB)

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

Item	30 June 2017
Corporate risk exposure	3,202,845
Retail risk exposure	1,537,551
Total	4,740,396

Credit risk exposure not covered under the internal rating approach

(in millions of RMB)

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

Item	30 June 2017
On-balance-sheet credit risk	4,901,278
Including: Asset securitization	7,937
Off-balance-sheet credit risk	98,346
Counterparty credit risk	66,433
Total credit risk exposure not covered under the internal rating approach	5,066,057

(VI) Market risk capital requirement

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

(in millions of RMB)

Risk type	Capital requirement
Market risk covered under internal model approach	9,020
Market risk not covered under internal model approach	1,831
Total	10,851

(VII) Value at risk (VaR)

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

(in millions of RMB)

Item name	January to June 2017	
	Value at risk (VaR)	Stressed value at risk (SVaR)
VaR of market risk as at the end of the Reporting Period	1,330	1,913
Maximum VaR during the Reporting Period	1,516	1,984
Minimum VaR during the Reporting Period	910	1,047
Average VaR during the Reporting Period	1,238	1,519

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

IV. LEVERAGE RATIO

The Group calculated the leverage ratio in accordance with the requirements of the *Rules on Leverage Ratio of Commercial Banks (Revised)* issued by the CBRC in January 2015. As at 30 June 2017, the Group's leverage ratio was 6.65%, which complied with the regulatory requirements.

(in millions of RMB unless otherwise stated)

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

Item	30 June 2017	31 March 2017	31 December 2016
Net Tier 1 Capital	641,671	647,014	628,051
Balance of adjusted on-and-off-balance sheet assets	9,653,233	9,500,019	9,155,659
Leverage ratio (%)	6.65	6.81	6.86

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

V. LIQUIDITY COVERAGE RATIO

Pursuant to relevant requirements of the *Measures for the Disclosure of the Liquidity Coverage Ratio of Commercial Banks* issued by the CBRC, since 2017, Commercial Banks shall disclose the daily average liquidity coverage ratio of each quarter. The daily average liquidity coverage ratio of the Group in the second quarter in 2017 was 109.49% (daily average in a quarter refers to the simple arithmetic mean of daily values within a quarter, the calculation of which is based on 91 daily values), representing a decline of 9.27 percentage points from last quarter, which was mainly due to the increase in the cash outflows arising from unsecured wholesale financing. The details of daily average liquidity coverage ratio in the second quarter are listed below:

(in millions of RMB unless otherwise stated)

Serial Number		Amounts before conversion	Amounts after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,274,827
Cash Outflows			
2	Retail deposits, small business deposits, including:	1,522,223	140,895
3	Stable deposits	223,823	11,055
4	Less stable deposits	1,298,400	129,840
5	Unsecured wholesale financing, including:	3,596,660	1,543,197
6	Business relationship deposits (excluding representative business)	2,249,330	559,945
7	Non-business relationship deposits (including all counterparties)	1,341,417	977,339
8	Unsecured debts	5,913	5,913
9	Secured funding		20,032
10	Other items, including:	1,131,629	508,381
11	Cash outflow related to derivatives and other collateral/pledged assets	469,199	468,868
12	Cash outflow related to loss of funding on asset-backed securities	42	42
13	Committed credit and liquidity facilities	662,388	39,471
14	Other contractual financing obligations	29,589	29,260
15	Contingent funding obligations	1,085,754	25,344
16	Total expected cash outflows		2,267,109
Cash Inflows			
17	Secured lending, including reverse repos and securities borrowing	47,821	43,046
18	Cash inflow related to payment under normal terms of business	793,914	574,944
19	Other cash inflows	495,895	483,848
20	Total expected cash inflows	1,337,630	1,101,838
			Amounts after adjustment
21	The qualified high-quality liquid assets		1,274,827
22	Net cash outflow		1,165,271
23	Liquidity Coverage Ratio (%)		109.49

VI. RISK MANAGEMENT

In the first half of 2017, the Group has continued to refine our comprehensive risk management framework, with particular focuses on "full coverage, whole process, accountability and risk management culture". The Group has also continued to optimize its credit investment structure and strengthened risk management controls over key areas including credit, market, liquidity, operational, compliance, reputational and geopolitical risk management practices. This has laid a solid foundation and support for the in-depth reform and transformational development strategy of the Group.

(I) Risk Appetite

The Board of Directors established the overall risk appetite of "Stability, Balance, Compliance and Innovation" for the Group. During the Reporting Period, the Group adhered to a strong commitment in lawful compliance operation to conscientiously implement external regulatory requirements, actively strengthen risk prevention and control in key areas, thus upholding the bottom line of preventing the occurrence of systematic financial risks. In the first half of 2017, the implementation of the Group's overall risk appetite was satisfactory. All indicators of the risk tolerance levels and risk limits are stable.

(II) Risk Management Framework

The Board of Directors assumes the ultimate responsibility and is responsible for Group's risk management decision-making. The Group monitored and controlled the bank-wide risk management matters through the Risk Management and Related Party Transactions Control Committee. The Group's senior management established a "1+3+2" Risk Management Committee, where Comprehensive Risk Management Committee is responsible for implementing 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 is responsible for improving the management system, optimizing the working system, standardizing the management policies, and performing evaluations on the effectiveness of risk management function. Three sub-committees were established under the 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 Assets Review Committee, were also established to perform their respective duties. Each Tier-1 branch, overseas branch and subsidiary correspondingly established simplified and practical risk management committees in accordance with the above defined framework. To form a unified and coordinated risk management system, members among the Comprehensive Risk Management Committee and other committees as well as committees of the Head Office and branches have ensured the full implementation of risk management requirements through the mechanisms of "Leadership and Execution, Supervision and Reporting" principles.

(III) Risk Management Tools

The Group has placed great emphasis on the establishment and application of risk management tools, information systems and econometrics modelling. During the Reporting Period, the Group strengthened the ability to control credit risk by the big data mining technique, enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk. To continuously improve the effectiveness of risk management, the Group has better deployed the use of risk management tools through the enhancement of information systems in relation to business risks management, and strengthened real time control over operating risk, fraud risk and money laundering risk prevention.

The Group has combined new data mining techniques with information consolidation method in order to enhance the controls on risk management of assets. With the integration of big data techniques into conventional ways of risk identification within the businesses, the Group has proactively managed to enhance its risk identification and monitoring approach targeting at customers with expanded scope of businesses, diversified business operations, and innovative new business operational models. Thus, more comprehensive information concerning customers' equity investments, controlling shareholders and guarantees relationships both on and off balance sheet can be identified and closely monitored. As a result, the Group has managed to gain better control and insights into corporate assets value, investment activities, and capital flow as well as counterparties information details. This has led to better risk identification, prevention and monitoring by the Group.

The Group has established a comprehensive system in the implementation of Advanced Measurement Approach of Capital Management covering areas such as policy procedure building, model development and management, 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 risks and standard approach for operation risks to measure capital requirements.

During the Reporting Period, the Bank has continued to optimize the econometrics modelling and management systems covering credit risk, market risk, operational risk, liquidity risk, interest rate risk of banking book and other risks. The Group has consistently implemented operational model in monitoring and analysis and has expanded the implementation scope of advanced approach as well as has carried out the research and development of new econometrics tools. The Group has applied econometric results extensively in relation to acceptance of new customers' criteria, quota management, risk monitoring and control and performance appraisal. The Group has thoroughly assessed the internal capital adequacy with sufficient forecast carried out on the capital adequacy level in order to strengthen capital planning and economic capital management. The Group's operational principle of "managing capital constraint businesses appropriately with a good balance between risk and return" has been further strengthened.

(IV) Credit risk management

Credit risk is one of the major risks encountered by the Bank, mainly attributable to its loan business, treasury business, international business, and direct investment business. 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 constantly optimized credit assets structure. The Group developed, issued and implemented the *2017 Bank of Communications Credit and Risk Policy Outline* and industry investment guidance, to promote structural reform on the supply side through "de-capacity, de-stocking, de-leverage, cost reduction and weakness strengthening" and to continuously optimize the asset structure. In the first half of 2017, company assets were mainly invested in infrastructures and urban construction. Financing in public utilities and household consumptions kept a higher growth, and loans relating to "agriculture, rural areas and farmers" and small and micro enterprises continued to increase, which continuously decreased the balance of loans and advances to industries with excess capacity.

The Group strengthened the risk management and controls in key areas and remained high risk alert as the uncertainty of external environment was elevated. The Group strengthened its risk monitoring and investigation on the Group's key customers relating to key risk industries and areas so as to improve the capability of "early identification, early alert, early solving". The Group placed high priority on monitoring, managing and controlling the clustered risk of corporate business, corporate funds transfer risk, new business risk of small enterprises, credit-like business risk, individual loan risk and credit default risk. The Group continued to deepen the application of the monitoring results in "suspicious drawers" and "bonds with potential risks" to establish risk categorization management mechanism and carry out follow-up evaluation.

The Group enhanced the risk-elimination strategies. Firstly, the Group firmly pushed forward with reducing exposures and strengthening credit enhancements. In the first half of 2017, the Bank accumulatively reduced and enhanced credit exposure by RMB55.76 billion. Secondly, the Group has focused on key branches, key areas and key customers, and implemented the tiered, categorized and hierarchical management and list system management, thus improving management level. Lastly, the Group took various measures at the same time to reduce its non-performing loans and the total non-performing loans were reduced by RMB21.344 billion in the first half of 2017.

The Group achieved the stable improvement in asset quality with the percentage of impaired loans of the Group declined gradually. Both overdue loans and loans overdue by more than 90 days were reduced. At the end of the Reporting Period, the Group's impaired loans ratio decreased by 0.01 percentage point from the beginning of the year, to 1.51%. The balance of overdue loan decreased by RMB6.026 billion or by 0.30 percentage point from the beginning of the year. Loans overdue by more than 90 days decreased by RMB3.859 billion or by 0.22 percentage point from the beginning of the year. At the end of the Reporting Period, the provision coverage ratio of impaired loans increased by 0.52 percentage point from the beginning of the year to 151.02% demonstrating our increased ability to prevent risk.

According to the regulatory requirements stated in the CBRC's 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 the Reporting Period, the Group's balance of non-performing loans increased by RMB3.553 billion/decreased by 0.01 percentage point from the beginning of the year to RMB65.953 billion/1.51%. As at the end of the Reporting Period, 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)

Categories	30 June 2017 Balance	30 June 2017 Proportion (%)	31 December 2016 Balance	31 December 2016 Proportion (%)	31 December 2015 Balance	31 December 2015 Proportion (%)
Pass	4,177,762	95.60	3,916,818	95.46	3,547,697	95.32
Special mention	126,432	2.89	123,741	3.02	118,103	3.17
Total performing loan balance	4,304,194	98.49	4,040,559	98.48	3,665,800	98.49
Sub-standard	18,788	0.43	17,513	0.42	22,953	0.62
Doubtful	25,328	0.58	26,950	0.66	22,521	0.61
Loss	21,837	0.50	17,937	0.44	10,732	0.28
Total non-performing loan balance	65,953	1.51	62,400	1.52	56,206	1.51
Total	4,370,147	100.00	4,102,959	100.00	3,722,006	100.00

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

Loan migration rates (%)	June 2017	2016	2015
Pass	1.06	2.80	2.52
Special mention	13.42	24.60	27.32
Sub-standard	36.26	50.04	32.14
Doubtful	21.51	33.72	21.78

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.

(V) Market Risk Management

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

During the Reporting Period, the Group kept improving its market risk management system by continuing to optimize market risk management information system, including the establishment of treasury product management system in overseas branches, and the development of the 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 Group continued to improve 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 Group quantified market risk and measured VaR on a daily basis from different perspectives, such as different risk factors and different investment portfolios and products, by 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 Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results revealed that the market risk measurement model was able to timely capture the changes in financial market in a timely manner and objectively reflect market risk encountered by the Group. Meanwhile, the Group closely followed up the changes of both overseas and domestic market risk management. In addition, the Group actively participated in the CBRC's quantitative testing and in-depth analysis of the feasibility and challenges of developing new market risk management systems, as well as provided comments and recommendations in time.

(VI) Liquidity Risk Management

The liquidity management of the Group aimed at identifying, effectively measuring, constantly monitoring and properly controlling the liquidity risk of the Group as a whole and its products, each business line, each business process, and at all levels, ensuring that the Group would carry out its business operations in an orderly manner.

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

(VII) Operational Risk Management

The Group has established a comprehensive management framework for operational risks commensurate with its business nature, scale and product complexity. The objective is to manage and control operational risk through self-assessment on controls, collection of loss data, key risk factors monitoring, and procedures performed over operational risk incidents management.

During the Reporting Period, the Group continued to enhance the level of its operational risk management. The Group re-checked and identified operational risk and control in key business processes across the bank, promoted the utilization of evaluation and monitoring results by operational risk management tool. The Group established and improved tracking mechanism to execute risk-elimination strategies, which has been carried out in different categories at different levels, resulting in continuous improvement on internal risk management. The Group carried out special investigation to target any illegal trading activities so as to prevent wide financial risk from spreading. The Group investigated risks associated with individual customers information and deposits business, and further improved and optimized the system process and function based on the investigation findings. Further, the Group standardized business outsourcing management and strengthened the review and evaluation of information technology risk in business outsourcing. The Group performed special risk assessment on information system in overseas branches (subsidiaries), implemented comprehensive emergency drills such as disaster recovery and backup plans on a city-wide basis, re-checked the impact analysis of key businesses, and improved contingency plans and continuity plans of key businesses.

(VIII) Legal Compliance and Anti-Money Laundering

The Group has been making ongoing efforts to improve its legal compliance risk management framework, strengthen and improve the legal compliance management mechanism, optimize legal compliance management process and innovate ways to manage legal compliance related matters. The objective is to provide strong legal compliance support and protection in order to enforce group-wide lawful compliance operation.

During the Reporting Period, the Group constantly enhanced the overall quality and efficiency of legal compliance management. Firstly, the Group strengthened the routine tasks including legal compliance review, lawsuit management, authorization management, seal management and management of rules and regulations, to provide legal compliance support for business operation. Secondly, the Group pushed forward special governance against behaviors in violation of laws, rules and regulations, and made special efforts in accordance with the *Measures for the Administration of Financial Institutions' Reports on Large-Sum Transactions and Suspicious Transactions and the Administrative Measures on Due Diligence Checks on Tax-related Information of Non-residents' Financial Accounts*, so as to strengthen the capability of legal compliance management. Thirdly, the Group innovated ways to take the initiatives in compliance in order to better align legal compliance management with business operation. Fourthly, the Group promoted overseas compliance management, to strictly control overseas compliance risk. Lastly, the Group consolidated the foundation of compliance management to enhance the protection for legal compliance management.

The Group continued to improve the management mechanism in terms of anti-money laundering by improving business process, optimizing business system and anti-money laundering system, strengthening training on anti-money laundering and enhancing money laundering risk screening and customer due diligence, for the purpose of continuous enhancement of the level of anti-money laundering management.

(IX) Reputational Risk Management

The Group continued to improve the reputational risk management framework. The objective is to effectively prevent the risk of negative comments from various stakeholders in the Group's operation, management, any other behaviors or external events, as well as to handle different types of incidents appropriately, which may give rise to reputational risk.

During the Reporting Period, by means of pilot project of reputational risk stress testing and exploration of capital measurement tool for reputational risk, the Group has made phased progress from qualitative evaluation to quantitative analysis of reputational risk. During the Reporting Period, the Group successfully addressed many reputational risk events and maintained overall stable risk situation, through strengthening the identification, warning, assessing and monitoring reputational risks, as well as actively responding to and providing guidance for negative public opinions.

(X) Cross-Industry, Cross-border and Country Risk Management

The Group continued to improve its cross-industry, cross-border risk management framework with "centralized management, clarified responsibilities, complete and adequate system tools, IT support, risk quantification, and pragmatic consolidation". It required all subsidiaries and overseas entities, as part of its risk management assessment, to take into account both the Group's standardized requirements and the respective requirements from local regulatory governing bodies. The objective is to assess and prevent additional risks arising from cross-industry and cross-border operations.

During the Reporting period, the Group continued to strengthen risk management over cross-industry and cross-border businesses. The Group further improved the system and measures for risk management of overseas banking entities. Upholding the concept of "risk control comes first and compliance has priority", it incorporated overseas branches (subsidiaries), overseas non-banking subsidiaries (including overseas entities established by domestic subsidiaries) and overseas sub-centers of directly operating units into the Group's comprehensive risk management structure and risk limit management system, carried out unified measurement and monitoring on dimensional business exposures including correlative industries, customers and regions of the Group, regularly assessed overall risks of subsidiaries and overseas branches, and improved development and construction of "531" risk management system for overseas branches.

The Group enhanced the country risk management. With actively participating in and supporting for the "Belt and Road Initiatives", a national development strategy, the Group incorporated relevant countries and regions into the scale of country risk rating and analysis reporting to continuously monitor control over country risk tolerance, with particular focus on significant country risk events and their impacts. As at the end of the Reporting Period, country-specific (economic units) risk exposure of the Group after risk transfer was RMB589.199 billion, which accounted for 6.60% of total assets of the Group, among which 94.02% were located in countries and regions with low or relatively low country risk level. The country-specific (economic units) overall risks were within control.

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

VII. BUSINESS INNOVATION AND NEW PRODUCTS

In the first half of 2017, the Group's product innovation played an important role in developing core business, promoting profit growth, deepening transformation development and expanding market influence of the Group.

In the corporate business: firstly, with respect to cash management, the Group innovated the treasury management system service for finance companies by customizing a core business system for bank-level finance companies. The Group took the lead by launching an automated system specialized for centralized receipts and payments of foreign exchange funds and netting settlement, which enables centralized fund settlement service to achieve high efficiency and low cost for global enterprises.

Secondly, with respect to industrial value chain finance, the Group launched the innovative service on "Express Pay" which is characterized by making swift payments on behalf of large-scale enterprises as well as being able to enable middle and small-sized enterprises to obtain quick financing. The Group also promoted innovation of the service "Win to Fortune E Chain", which covers payment, settlement and trade finance.

Thirdly, with respect to investment banking business, the Group launched innovative products such as poverty alleviation bonds, innovation and entrepreneurship bonds and green bonds. The Group pushed forward the pilot test of connectivity between "Bond Connect" business and USD bonds. The Group actively explored the innovative industry fund mode "Long term capital contributions with redemption in batches" and promoted the innovation of real estate securitization business. The Group also improved the pilot plan for investment linked loan business and further pushed forward the pilot run of "Investment linked bonds based funds".

Fourthly, with respect to international businesses, the Group expanded its currencies and electronic payment and settlement methods on international business; the Group processed its first RMB/USD cross currency swap and the first overseas commodity hedging on behalf of customers. The Group focused on building and expanding the service of investment trading banking. The Group innovated its comprehensive service of Free Trade Accounting Unit ("FTU").

Fifthly, with respect to small and micro enterprise businesses (SMEs), the Group launched the product portfolio "Yi Dai Yi Tong", which is targeted at the situation in which the collaterals provided by SMEs may prove insufficient and thereby SMEs can be short of required funding to meet the demand of production expansion. Yet new credit limits may be granted should SMEs keep a good record on its tax payment history and other related credit repayment history. The Group also researched and developed "online self-service withdrawal" function, which provides 24x7 service for SMEs to enable them to draw loans anytime and anywhere.

Retail businesses: Firstly, the Group strengthened the online financial innovation and continued the optimization of mobile banking APP. The aim is to build an efficient and effective scenario-based full-service financial platform.

Secondly, the Group strengthened innovation on credit finance product. The Group became the first to launch its mobile-based credit card together with the release of industry standards. This has significantly reduced the lead time from customer's card application, card activation process to utilization of credit cards on consumer credit consumption. The Group innovatively launched settlement fund custody business for second-hand property transactions, which is processed entirely in a paperless manner. This has ensured a seamless connection between the management of funds under custody and the mortgage lending process for second-hand property transactions; the Group also developed the "secured mortgage loans" so as to meet customers' demands for short-term funds for housing transactions.

Thirdly, the Group made further efforts on the wealth management innovation. The Group launched the open-ended innovative wealth management product "Xin Jin Bao", precious metal wallet and various cash management products, all of which were targeted at private bank customers so that they can enjoy themed strategy-based wealth management products and high-end insurance products.

Fourthly, the Group innovated the customer service mode. The Group pushed forward the pilot of the new intelligent outlet service model so as to promote the development of smart and simplified outlets. The Group innovatively established the comprehensive marketing strategy deployment platform by integrating all on-line and off-line channels, which provides personalized financial services to customers. The Group shortened the delivery time of precious metals for on-line sales by building the storehouse at Head Office and the delivery system for precious metals, which improved customers' experience in on-line purchasing. The Group, by adhering to the "customer-centered" operation principle, carried out the tiered, categorized and hierarchical management for retail customers and continued to promote precision marketing.

In the Interbank business: Firstly, the Group obtained qualifications for a number of new businesses, with its market influence increasing steadily. The Bank was one of the first banks qualified as a custodian for margin deposits of domestic and overseas customers in Shanghai International Energy Exchange; the Group was qualified to be the market dealer for Bond Connect and qualified as a global custodian in overseas and a settlement bank in Hong Kong. The Group managed to complete the first transaction via the mutual bond market access between Mainland China and Hong Kong (Bond Connect).

Secondly, the Group further expanded its investment trading products offerings and made steady progress in building its investment trading bank. The Bank successfully carried out its first interest rate swap transaction, first currency swap transaction and first commodity hedge transaction on behalf of customers.

Thirdly, the Group improved its wealth management product lines and created new competitive advantages for wealth management unit. The Group made great efforts to build a multi-category and multi-channel ¯on the shelf' product offerings. The Group successfully launched featured themes products and foreign-currency based off-balance-sheet products such as "Xian Jin Tian Li" and "Enjoying Private Banking for 7 Days". The Group also launched the precious metal wallet business which integrates gold reserve, conversion and investment. The Group was awarded "2017 Junding Award for Open Wealth Management Products of Banks in China" by the *Securities Times* for interbank wealth management products of "Jin Tai Yang" series.

Fourthly, the Group continued to improve its business infrastructure by building various system platforms. The Bank successfully managed to put China commercial bills exchange system into use; the Group also cooperated with Shanghai Gold Exchange to complete the switching of third generation system with the agency of precious metals and self-operated businesses.

VIII. OPERATIONS OF PRINCIPAL SUBSIDIARIES

(I) BoCom Fund

BoCom Fund was set up in August 2005 with a registered capital of RMB200 million, jointly owned by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The business scope includes the business of fund raising, fund sales, asset management, and other services approved by the CSRC.

As at the end of the Reporting Period, BoCom Fund's total assets were RMB495.571 billion (public offer funds management scale of RMB88.223 billion and non-public offer funds management scale of RMB407.348 billion) and realized a net profit of RMB308 million.

(II) BoCom International Trust

BoCom International Trust was set up in October 2007 with a registered capital of RMB5.765 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 the CBRC.

As at the end of the Reporting Period, the amount of fiduciary trust managed by BoCom International Trust was RMB792.851 billion and the net profit was RMB499 million.

(III) BoCom Leasing

BoCom Leasing, the Bank's wholly-owned subsidiary, was set up in December 2007 with a registered capital of RMB7.5 billion. The business scope includes finance leasing business, taking in deposits of finance lease from lessees, transfer of lease receivables to commercial banks, issuing financial bonds, interbank lending and borrowings, loans to financial institutions, foreign exchange loans, sale and disposal of residual value of rentals, business and financial consulting, and other businesses approved by the CBRC.

As at the end of the Reporting Period, the leased asset balance was RMB195.199 billion, and net profit was RMB1,205 million.

(IV) BoComm Life Insurance

BoComm Life 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 BoComm Life Insurance were established.

As at the end of the Reporting Period, BoComm Life Insurance's total assets were RMB33.711 billion and net assets were RMB2.298 billion. During the Reporting Period, BoComm Life Insurance's accumulated premium income was RMB10.885 billion and net profit was RMB194 million.

(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. BoCom International was listed on the main board of the HKEx in May 2017, of which 73.14% shares were held by the Bank as at the end of the Reporting Period. Principal businesses of BoCom International are involved in four sectors as follows: securities brokerage and margin financing, corporate financing and underwriting, investment and loans, as well as asset management and consulting. Operating results and related information of BoCom International are provided in its performance report published on the website of HKEx on 22 August 2017.

(VI) BoCom Insurance

As a wholly-owned subsidiary of the Bank, BoCom Insurance was set up in November 2000 with a registered capital of HKD400 million. The business scope includes all kinds of general insurance businesses.

As at the end of the Reporting Period, total assets of BoCom Insurance were HKD754 million, net assets were HKD557 million, and net profit for the period was HKD8.45 million.

(VII) Dayi BoCom Rural Bank

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

At the end of the Reporting Period, its total assets were RMB690 million, while the total liabilities were RMB593 million and balances of loans amounted to RMB551 million.

(VIII) Anji BoCom Rural Bank

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

At the end of the Reporting Period, its total assets were RMB1.659 billion, total liabilities were RMB1.468 billion and balances of loans to customers amounted to RMB1.354 billion.

(IX) Xinjiang Shihezi BoCom Rural Bank

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

At the end of the Reporting Period, its total assets were RMB3.221 billion, total liabilities were RMB2.868 billion and balances of loans to customers amounted to RMB2.042 billion.

(X) Qindao Laoshan BoCom Rural Bank

Qindao Laoshan BoCom Rural Bank was set up in September 2012 with a registered capital of RMB150 million and is 51% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlements, bill acceptance and discounts, interbank lending and borrowings, credit cards, agency issuances and settlements and other businesses approved by the CBRC.

At the end of the Reporting Period, its total assets were RMB2.413 billion, total liabilities were RMB2.225 billion and balances of loans to customers amounted to RMB959 million.

IX. OUTLOOK

In the second half of 2017, macroeconomic and financial environment appear to remain to be complex and uncertain.

On one hand, commercial banks will face great challenges in relation to asset and liability management as market competition becomes more intense with interest rate liberalization and financial informatization continued. Interest rate spread tends to become narrow and credit costs are expected to increase continuously, therefore banks will remain under great pressure to increase net profits. Banks will encounter great challenges relating to asset quality during the period of de-capacity and de-stocking. Furthermore, the ongoing international and domestic financial regulation reform and the increasingly prudent and stringent regulatory policies will set higher requirements for banks' lawful compliance operation.

On the other hand, commercial banks will face new opportunities with the continuous deepening of structural reform on the supply side and the acceleration of financial reform. The development of financial technology will provide more support for the innovation of bank products, businesses and management. The construction of "the Belt and Road Initiatives", Renminbi internationalization and "Go Global" of Chinese enterprises will be helpful for China's banking sector to expand into international market more widely. The transformation and upgrade of economic structure and replacing old drivers of growth with new ones will bring in commercial banks with opportunities of business structure adjustment and differentiated business operation.

In the second half of 2017, the Group will continuously keep a close eye on changes in economic situation, monetary policies, regulatory rules and market circumstances, the Group will be determined and confident to respond and take action as well as seek improvement in stability and continuously improve operating efficiency and competence. The Group will specifically focus on the following: firstly, the Group will actively follow up on major national strategies and support the structural reform on the supply side, the Group will implement differentiated credit policies and widely promote the inclusive finance business so as to further improve its capability and level of serving the real economy. Secondly, the Group will dynamically optimize allocation strategy of assets and liabilities and expand the sources of non-interest income by speeding up transformation and promoting innovation more vigorously, which is to ensure steady profit growth. Thirdly, the Group will deepen reform continuously by accelerating the promotion of a series of reform measures related to divisional structure, personnel and remuneration, assessment and incentive, resource allocation. The Group will increase development potential and cultivate new driving forces for development through reform and innovation. Fourthly, the Group will strive to maintain asset quality at a stable level by sticking to the bottom line of risk and to improve our ability to prevent and mitigate financial risks.

Strategic Cooperation with HSBC

A key point of the Bank's deepening reform is to strengthen strategic cooperation with HSBC. During the Reporting Period, with the stable equity ties, BoCom and HSBC realized mutual benefit and joint developments through constant improvement of their cooperation mechanism, broad and in-depth sharing of technology and experience and continuous promotion of global business cooperation.

Close and smooth communication among top management of both banks. Since the beginning of this year, BoCom and HSBC have held one top management meeting, one summit conference and one Executive Chairman regular meeting, where they exchanged their views about the domestic and international economic and financial situations as well as development opportunities for the banking sector. They also discussed about serving the "Belt and Road Initiatives" strategy and reinforced the cooperation consensus. Meanwhile, top management of the two banks had held one informal meeting in respect of enhancing cooperation in overseas and cross-border business.

Constantly improved communication mechanism. Led by BoCom-HSBC Strategic Cooperation Consultant, the five types of daily communication mechanism have been improved, to ensure the cooperation consensus of top management and the cooperation target for the whole year. During the Reporting Period, BoCom and HSBC held three meetings for promoting global business cooperation, four special meetings for business cooperation among domestic and overseas branches, one exchange meeting on international financial regulations (themed by financial consumer rights protection) and one bank-enterprise exchange activity with key customers.

Exchange on regulatory trend and experience sharing. Led by the Chairmen of both banks and the Chairman of the Group, the two banks established a regular communication mechanism relating to global banking regulatory trends in 2016. This year, both banks will have in-depth communication on key topics on financial consumer rights protection, total loss absorption capacity, green credit, liquidity risk management of large-scale banks, effective risk date aggregation and reporting principles.

Enhancement on key business cooperation. During the Reporting Period, both banks maintained sound cooperation in fields such as credit card, "1+1 global financial cooperation", overseas syndicated loans and offshore bond issuance, and fund custody and consignment.

– Credit card business maintained fast development. Credit card business is a field in which the two banks have cooperated for the longest time and reached the most remarkable achievements. As at the end of the Reporting Period, the total amount of credit cards in use of the Bank increased by 5.67 million from the beginning of the year to 56.1 million, ranking the fifth in the market. The spending volume from January to June was RMB1,019.5 billion, ranking the fourth in the market. The non-performing loan ratio was 1.98%, and the risk was generally controllable.

– "1+1 global financial cooperation" was implemented steadily. Through good leverage of the complementary advantages on their customers, capital and licenses, and with the BoCom-HSBC "1+1" mode, two banks jointly provided cross-border comprehensive financial services to domestic and overseas customers. During the Reporting Period, two banks jointly provided syndicated loan and bond issuance service in respect of overseas projects to five state-owned companies. The cooperation amount was equivalent to approximately RMB19 billion.

– Overseas business cooperation had remarkable achievements. During the Reporting Period, both banks cooperated in 6 syndicated loans, 23 bond issuances and 2 deals of IPO in Hong Kong, amounting to approximately USD29 billion in total, representing a year-on-year increase of 27%. In addition, both banks cooperated in 4 syndicated loans amounting to USD6.3 billion in Australia and 2 syndicated loans amounting to USD750 million in Vietnam, which have become a new source of growth of their overseas business cooperation.

– Close cooperation was conducted for custody and fund consignment. During the Reporting Period, both banks' assets under custody of each other through mutual referral of products amounted to approximately RMB63 billion. Domestic branches of the Bank consigned 18 HSBC Jintrust Fund products, with a year-on-year increase of 2 products, and the corresponding consignment scale was RMB2.33 billion, with a year-on-year increase of 17.7%. Hong Kong Branch of the Bank consigned 29 HSBC Global Fund products, amounting to approximately RMB100 million.

Furthermore, both banks continued to maintain positive communication and sound cooperation in fields such as capital and liquidity supplement, Renminbi and US dollar settlement, funds and precious metal business, and non-banking financial business.

In-depth bilateral technical exchange and cooperation. The two banks constantly upheld the concept of “sharing”, and conducted comprehensive and in-depth communications under the “technical exchange and cooperation” framework. Firstly, the top management and core teams of both banks attended trainings on strategic thinking and domestic and overseas market experience. This is to enhance the understanding of both development strategies, operating management and risk controls from respective advantages. Secondly, the working teams of both banks were trained specifically in “1+1 global financial cooperation”. Thirdly, work exchange was conducted in fields such as cross-border interbank payment, bonds underwriting, supply chain management and risk controls fields etc. Fourthly, HSBC continued to provide specific training to the Bank’s management trainees, and delegated risk management experts to share HSBC’s credit risk management experience with the Bank as well as to build an exchange platform for the risk management teams of both banks.

Looking into the future, the two organizations will continue to make joint efforts to serve the “Belt and Road Initiatives” strategy and to facilitate Chinese enterprises to go global and to serve Renminbi internationalization strategy. Both will continue to improve our cooperative communication mechanism and to share market information and business opportunities in a timely manner. We will keep our open and frequent communication on management ideas sharing and development experience sharing. The objective is to derive greater synergies and to realize greater achievements between two organizations through our close strategic cooperation and alliance.

I. CHANGES IN SHARE CAPITAL

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

	31 December 2016		Changes (+/-) during the Reporting Period					30 June 2017	
	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	0	0	–	–	–	–	–	0	0
II. Shares not subject to sales restrictions	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00
1. Renminbi ordinary shares	39,250,864,015	52.85	–	–	–	–	–	39,250,864,015	52.85
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
III. Total	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00

II. SHAREHOLDINGS OF THE SHAREHOLDERS (ACCORDING TO THE BANK'S REGISTER OF MEMBERS MAINTAINED AT ITS SHARE REGISTRARS)

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 379,036, of which 341,809 were holders of A shares and 37,227 were holders of H shares.

Shareholdings of Top 10 Ordinary Shareholders

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Number of shares pledged or frozen[1]	Nature of shareholders
Ministry of Finance	–	15,148,693,829	20.40	A share	Nil	The State
	–	4,553,999,999	6.13	H share	Nil	
HKSCC Nominees Limited[2]	3,683,284	14,948,958,007	20.13	H share	Unknown	Foreign legal person
HSBC[3]	–	13,886,417,698	18.70	H share	Nil	Foreign legal person
SSF[4]	–	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	120,099,443	1,818,294,252	2.45	A share	Nil	State-owned legal person
Capital Airport Holding Company	–	1,246,591,087	1.68	A share	Nil	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	A share	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	A share	Nil	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.	–	745,305,404	1.00	A share	Nil	State-owned legal person
China FAW Group Corporation	–	663,941,711	0.89	A share	Nil	State-owned legal person

Notes:

1. The Bank is not aware of the existence of any related relationship among the above shareholders, or whether they are parties acting in concert as defined in 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 the end of the Reporting Period.
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure of interests forms filed with the HKEx by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the *SFO*" for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the information provided by SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,653,570,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 625,793,000 H shares were indirectly held by certain asset managers. As at the end of the Reporting Period, SSF held a total of 10,936,639,783 A shares and H shares of the Bank, representing 14.73% of the Bank's total ordinary shares issued.

III. CONTROLLING SHAREHOLDERS/ACTUAL CONTROLLERS

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

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

IV. SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTERESTS OR SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER DIVISIONS 2 AND 3 OF PART XV OF THE HONG KONG *SECURITIES AND FUTURES ORDINANCE*

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the *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 ordinary shares (%)
Ministry of Finance	Beneficial owner	15,148,693,829[2]	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451[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 ordinary shares (%)
SSF	Beneficial owner	9,059,126,332[3]	Long position	25.87	12.20
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interests of controlled corporations	2,674,232[4]	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interests of controlled corporations	14,138,310,845[5]	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	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

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held 9,059,126,332 H shares and 1,877,513,451 A shares of the Bank, representing 12.20% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. According to the disclosure of interests forms filed with the HKEx by HSBC Holdings plc, HSBC holds 62.14% of equity interests in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited.
   Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
5. According to the disclosure of interests forms filed with the HKEx by HSBC Holdings plc, HSBC is wholly owned by HSBC Asia Holdings BV, which is wholly owned by HSBC Asia Holdings (UK) Limited. Furthermore, HSBC Asia Holdings (UK) Limited is wholly owned by HSBC Holdings BV, which is in turn wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC.
6. According to the disclosure of interests forms filed with the HKEx by HSBC Holdings plc, HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, 94.90% of which is owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to own the interests associated with the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. According to the disclosure of interests forms filed with the HKEx by HSBC Holdings plc, both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 3, 4 and 5, 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.

Other than as disclosed above, as at 30 June 2017, 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 the *SFO*.

I. ISSUANCE AND LISTING OF PREFERENCE SHARES AS AT THE END OF THE REPORTING PERIOD

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 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. PREFERENCE SHAREHOLDERS

(I) Total Number of Preference Shareholders

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

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

As at the end of the Reporting Period, the overseas preference shareholders and their shareholdings are as follows:

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	Number of shares pledged or frozen: Status of shares	Number of shares pledged or frozen: 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 the end of the Reporting Period.
3. "Percentage" refers to the percentage of number of overseas preference shares held by overseas preference shareholders out of 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 the top 10 ordinary shareholders, or whether they are parties acting in concert.

(III) Top 10 Domestic Preference Shareholders as at the End of the Reporting Period

As at the end of the Reporting Period, the Top 10 domestic preference shareholders are as follows:

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	Number of shares pledged or frozen: Status of shares	Number of shares pledged or frozen: Number of shares	Nature of shareholders
1	China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Nil	–	State-owned legal person
2	AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch single fund trust	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
3	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	Nil	–	Others
4	Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
5	Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
6	Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
7	China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	18,000,000	4.00	Domestic preference share	Nil	–	Others
8	China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Nil	–	State-owned legal person
9	China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Nil	–	Others
10	China CITIC Bank Corporation Limited – Le Ying series of CITIC wealth management products	–	14,000,000	3.11	Domestic preference share	Nil	–	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 out of 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 the top 10 ordinary shareholders, or whether they are parties acting in concert.

III. DIVIDENDS DISTRIBUTION OF PREFERENCE SHARES

According to the resolution and authorization of shareholders' general meeting, the 8th meeting of the eighth Board of Directors of the Bank dated 28 April 2017 reviewed and approved the Bank's plans for the dividends distribution of overseas preference shares and domestic preference shares, and approved to distribute dividends of overseas preference shares on 31 July 2017, and to distribute dividends of domestic preference shares on 7 September 2017.

The total amount of dividends in respect of overseas preference shares was USD136,111,111, including the actual payment of USD122,500,000 to preference shareholders at the (after-tax) dividend rate (5.00%) agreed under the issuance clauses of overseas preference shares, and the income tax withholding of USD13,611,111 at the tax rate of 10% in accordance with relevant laws and regulations, which was borne by the Bank. 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 31 July 2017.

The dividends on domestic preference shares were calculated at the nominal dividend yield of 3.90% and amounted to RMB1,755,000,000, which would be distributed on 7 September 2017.

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

During the Reporting Period, there was 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

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

I. PROFILE OF DIRECTORS

Name	Position	Name	Position
Niu Ximing	Chairman of the Board of Directors and Executive Director	Luo Mingde	Non-executive Director
Peng Chun	Vice Chairman of the Board of Directors, Executive Director and President	Liu Haoyang	Non-executive Director
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	Peter Hugh Nolan	Independent Non-executive Director
Yu Yali	Executive Director and Executive Vice President	Chen Zhiwu	Independent Non-executive Director
Hou Weidong	Executive Director and Executive Vice President	Yu Yongshun	Independent Non-executive Director
Wang Taiyin	Non-executive Director	Li Jian	Independent Non-executive Director
Liu Changshun	Non-executive Director	Liu Li	Independent Non-executive Director
Song Guobin	Non-executive Director (designated)	Jason Yeung Chi Wai	Independent Non-executive Director
He Zhaobin	Non-executive Director (designated)	Raymond Woo Chin Wan	Independent Non-executive Director (designated)
Helen Wong Pik Kuen	Non-executive Director	Cai Hongping	Independent Non-executive Director (designated)
Liu Hanxing	Non-executive Director		

Notes:

1. Qualifications for designated Directors were pending for approval by the CBRC.
2. According to the resolutions of 2016 annual general meeting, the term of office of Mr. Liu Changshun as Non-executive Director expired after the approval by the CBRC for the qualification of Mr. He Zhaobin as Non-executive Director, and Mr. Peter Hugh Nolan and Mr. Chen Zhiwu will hold their offices as Independent Non-executive Directors until the date when qualifications of Mr. Raymond Woo Chin Wan and Mr. Cai Hongping as Directors are approved by the CBRC, respectively.

II. MEMBERS OF THE BOARD OF SUPERVISORS

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

III. PROFILE OF SENIOR MANAGEMENT

Name	Position	Name	Position
Peng Chun	President	Wu Wei	Executive Vice President (designated) and Chief Financial Officer
Yu Yali	Executive Vice President	Du Jianglong	Secretary of the Board of Directors
Shou Meisheng	Commissioner of Commission for Discipline Inspection	Guo Mang	Director of Corporate Banking
Hou Weidong	Executive Vice President	Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant
Shen Rujun	Executive Vice President		

Note: According to the resolution of the 9th meeting of the eighth Board of Directors of the Bank, Mr. Wu Wei was appointed as Executive Vice President and Chief Financial Officer of the Bank, with the qualification as Executive Vice President pending for approval by the CBRC.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change
Newly elected/appointed		
Song Guobin	Non-executive Director (designated)	Elected at Shareholders' General Meetings
He Zhaobin	Non-executive Director (designated)	Elected at Shareholders' General Meetings
Raymond Woo Chin Wan	Independent Non-executive Director (designated)	Elected at Shareholders' General Meetings
Cai Hongping	Independent Non-executive Director (designated)	Elected at Shareholders' General Meetings
Wang Xueqing	Shareholder Representative Supervisor	Elected at Shareholders' General Meetings
Wu Wei	Executive Vice President (designated) and Chief Financial Officer	Appointed by the Board of Directors
Resigned		
Hu Huating	Non-executive Director	Resigned (due to age)
Yan Hong	Shareholder Representative Supervisor	Resigned (due to work arrangement)
Wang Jiang	Executive Vice President	Resigned (due to work arrangement)
Yang Dongping	Chief Risk Officer	Resigned (due to personal arrangement)

V. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Reason for changes
Niu Ximing	Chairman of the Board of Directors and Executive Director	A share	210,000	–	210,000	–
		H share	180,000	–	180,000	–
Peng Chun	Vice Chairman of the Board of Directors, Executive Director and President	A share	150,000	–	150,000	–
		H share	50,000	–	50,000	–
Song Shuguang	Chairman of the Board of Supervisors	A share	130,000	–	130,000	–
		H share	50,000	–	50,000	–
Yu Yali	Executive Director and Executive Vice President	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Hou Weidong	Executive Director and Executive Vice President	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Wang Taiyin	Non-executive Director	A share	80,000	–	80,000	–
		H share	30,000	–	30,000	–
Liu Changshun	Non-executive Director	A share	50,000	–	50,000	–
		H share	30,000	–	30,000	–
Chen Qing	Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Du Yarong	Employee Representative Supervisor	A share	60,000	–	60,000	–
		H share	20,000	–	20,000	–
Fan Jun	Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Xu Ming	Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	0	–	0	–
Shou Meisheng	Commissioner of Commission for Discipline Inspection	A share	79,100	–	79,100	–
		H share	20,000	–	20,000	–
Shen Rujun	Executive Vice President	A share	0	–	0	–
		H share	20,000	–	20,000	–
Wu Wei	Executive Vice President (designated) and Chief Financial Officer	A share	46,000	–	46,000	–
		H share	20,000	–	20,000	–
Du Jianglong	Secretary of the Board of Directors	A share	80,000	–	80,000	–
		H share	0	–	0	–
Guo Mang	Director of Corporate Banking	A share	50,000	–	50,000	–
		H share	0	–	0	–

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)	Reason for changes
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	A share	0	–	0	–
		H share	30,000	–	30,000	–
Directors, Supervisors and Senior Management resigned/retired						
Hu Huating	Former Non-executive Director	A share	80,000	–	80,000	–
		H share	30,000	–	30,000	–
Wang Jiang	Former Executive Vice President	A share	0	–	0	–
		H share	30,000	–	30,000	–
Yang Dongping	Former Chief Risk Officer	A share	150,000	–	150,000	–
		H share	20,000	20,000	0	Shares sold in secondary market

Other than as disclosed above, as at the end of the Reporting Period, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the *SFO*) which were required to be filed to the Bank and the 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 the HKEx.

VI. BASIC INFORMATION OF EMPLOYEES AND INSTITUTIONS

As at the end of the Reporting Period, the Bank had a total of 91,213 domestic and overseas employees, of which 88,960 employees were based domestically and 2,253 were local employees in overseas branches. The number of employees of the Bank's major subsidiaries was 2,786, including 35 delegated employees.

	30 June 2017					
	Assets (in millions of RMB)	Percentage (%)	Number of institutions	Percentage (%)	Number of employees	Percentage (%)
Northern China	1,235,865	13.84	493	14.74	11,243	12.33
North Eastern China	365,153	4.09	394	11.78	9,235	10.12
Eastern China	2,663,306	29.82	1,203	35.96	38,069	41.74
Central and Southern China	1,556,279	17.43	705	21.08	17,815	19.53
Western China	721,419	8.08	484	14.47	9,963	10.92
Overseas	931,917	10.43	65	1.94	2,253	2.47
Head Office	3,987,204	44.64	1	0.03	2,635	2.89
Offset and undistributed assets	(2,530,305)	(28.33)				
Total	8,930,838	100.00	3,345	100.00	91,213	100.00

Corporate Social Responsibilities

During the Reporting Period, based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society", the Bank integrated the concept of social responsibilities into the practice of operation and management, proactively performed its corporate economic, environmental and social responsibilities and maximized the interests of all stakeholders, including shareholders, clients and employees. During the Reporting Period, the Bank was re-awarded the "Best Social Responsibility Award for Financial Institution" and the "Excellent Charity Programme Award" by the China Banking Association.

I. TARGETED POVERTY ALLEVIATION

During the Reporting Period, the Bank implemented the strategic decisions and arrangements of the CPC Central Committee on targeted poverty alleviation, and promoted all poverty alleviation projects, which made great progress. As at the end of the Reporting Period, the Bank's loans on targeted financial poverty alleviation increased by RMB961 million or 15.45% from the end of prior year to RMB7.183 billion; the Bank had carried out 18 donation projects for poverty alleviation with total donation amounting to RMB10.3073 million.

1. Strengthen organization and leadership, and establish a long-term poverty alleviation mechanism. Since the beginning of this year, Niu Ximing, the Chairman, Song Shuguang, Chairman of the Board of Supervisors and Yu Yali, the Executive Vice Present, led teams respectively to Tianzhu County of Gansu Province, Litang County of Sichuan Province and Hunyuan County of Shanxi Province to carry out investigation on poverty alleviation and comfort, obtained the knowledge of the progress of targeted poverty alleviation, provided comfort to local poverty-stricken families, and gave on-site guidance on poverty alleviation. Furthermore, the Bank established and improved working practice of poverty alleviation by holding special meetings and making plans for poverty alleviation; the Bank formulated and issued the *Administrative Measures for Poverty Alleviation and Donation* and the *Administrative Measures for Archives of Targeted Poverty Alleviation (Provisional)*, etc., which regulated poverty alleviation management effectively. The Bank selected cadres for poverty alleviation from the best cadres by strict control, and well implemented the management and service of the poverty alleviation cadres.

2. Promote project implementation and enhance the effectiveness of targeted poverty alleviation. The Bank selected the most efficient projects to assist the poor to get rid of poverty. In Tuofeng Town, Hunyuan County of Shanxi Province, RMB1,219,500 was invested to dig a deep motor-pumped well for planting, aquaculture and domestic water use; RMB150,000 was invested for e-commerce platform establishment so as to promote the sales of local featured agricultural by-products. In Litang County, Sichuan Province, RMB1.5 million was invested to construct a collective pasture and establish tourist reception sites for three villages. In Huazangsi Town, Tianzhu County of Gansu Province, RMB2 million was invested to install street lights along both sides of roads and construct infrastructures such as pavement with water permeable bricks, in order to reduce production and living costs of the people.

3. Innovate financial products and enhance the effectiveness of poverty alleviation. The Bank emphasized "targeted poverty alleviation" in the programmatic document for asset business development of this year. The Bank carried out on-site training and investigation and survey in the banking outlets under the branches in Gansu, Guizhou, Anhui, Xinjiang and etc., to push forward the issuance of loans on financial poverty alleviation. The bank innovated financial products and pushed forward all tasks regarding poverty alleviation funds. As at the end of the Reporting Period, the Bank initiated and approved 32 poverty alleviation funds totally with the scale exceeding RMB100 billion and the amount of withdrawal over RMB12 billion, covering contiguous poor areas, old revolutionary base areas, central soviet areas and minority areas. These funds effectively promoted the economic development of poor areas.

II. ECONOMIC RESPONSIBILITY

During the Reporting Period, the Bank implemented the state's macro policies in an active and comprehensive manner, by optimizing the credit structure, boosting the effectiveness and efficiency of supporting the real economy and balancing the economic development of different areas.

1. Serve major national strategies, adhere to national policies, and optimize the investment policy dynamically. The Group's emphasis of asset development included the "Belt and Road Initiatives", Xiongan New Area, inclusive finance, "Agriculture, Rural Areas and Farmers", the establishment of manufacturing power, consumption upgrading and supporting the real economy, etc. The Bank provided strong support to the construction of urban infrastructure and seized major projects with profound social influence and benefits, such as shanty town renovation procured by the government. The Bank actively supported in areas of development concerning people's livelihood security and improvement on water and gas. The bank has also been active in the development of industries related to consumer needs upgrade in key consumption areas and related new consumption models innovation. As at the end of the Reporting Period, in areas of livelihood security and consumption upgrade such as agriculture, forestry, husbandry and fishing, gas and water, the science, education, culture and public health sectors, a higher growth rate on loans was noted as compared to the average growth rate of all loans issued by the Bank.

2. The Bank provided more financial support to micro and small enterprises, by taking the opportunity of promoting divisional structure reform of inclusive finance. As at the end of the Reporting Period, the balance of loans to SMEs from domestic branches increased by RMB85.079 billion from the same period of last year to RMB739.87 billion with a growth rate of 12.99%, which was 5.08 percentage points higher than the growth rate of the total loan balance; number of SME customers increased by 7,517 from the same period of last year to 149,159; the loan acquisition rate of SMEs increased by 1.61 percentage points from the same period of last year to 90.32%, achieving the goal of “Three No Less Than”. The Bank launched differentiated credit policies and investment guidance to SMEs, forming a top-down customer group planning, selection and promotion mechanism. The Bank promoted the innovation of the business mode, and continued to tailor specific customer services needs and to deepen our comprehensive financial services offerings to SME customers by building the data mining and application system. The Bank continued to promote the product portfolios on “Yi Dai Yi Tong” (You Dai Tong + Shui Rong Tong), launched the innovative service solution on “Mortgage +” and optimized the on-line self-service withdrawal function. The objective is to build a mobile terminal for SMEs and to enhance customer experience.

III. ENVIRONMENTAL RESPONSIBILITY

During the Reporting Period, the Bank actively innovated green financial products and services, with the “Green Credit” project being continuously promoted and the management system being constantly improved. Furthermore, the Bank vigorously developed e-banking channels by enriching e-banking products and services, for purposes of less time spent by customers, less social resources used and less environment impact.

1. The Bank continued to increase the amount of green credit in low-carbon, circulation and ecology fields. During the Reporting Period, the number of “green” customers and the relative credit balance remained at a high level of 99% while energy-saving and environmental protection sector continued to increase steadily. As at the end of the Reporting Period, the loans to “green” customers characterized by low-carbon consumption, environmental protection and integrated use of natural resources increased by 9.19% from the end of last year to RMB263.37 billion. Meanwhile, the Bank further implemented the “de-capacity” requirements in China by constantly strengthening management and control over risks in overcapacity industries, and the optimization of credit structure obtained remarkable achievements. As at the end of the Reporting Period, the balance of loans to the eight “heavy pollution, high energy consumption and over-capacity” industries including vessel, nonferrous metals, polycrystalline silicon, wind power equipment, steel, coal chemical, plate glass, cement and coal decreased by RMB5.21 billion from the beginning of the year to RMB171.57 billion.

2. The "green finance" was actively promoted with strong emphasis on e-banking services. The Bank actively promoted the connectivity of on-line and off-line channels and the remote services through on-line channels, to meet the specific needs of customers. As at the end of the Reporting Period, the channel utilization rate and substitution rate of e-banking services provided by domestic branches increased by 2.36 percentage points and 2.1 percentage points to 93.78% and 84.95% respectively. The Bank was exploring actively to promote and innovate new service models for its outlets, with 316 outlets having carried out pilot run of outlet service mode innovation, which made great progress in reducing customers' average waiting time and achieving synergy of on-line and off-line channels.

IV. SOCIAL RESPONSIBILITY

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

1. The Bank constantly improved customer satisfaction, continuously organized "Step into BoCom for Warm Services", a competition on consumer protection service, promoted "Top 100" outlet assessment organized by the China Banking Association, and showed its image as high quality service provider by improving the service management system and optimizing the service channel. The Bank improved the work mechanism of customer rights protection by assessing 197 products and services and reviewing 78 systems and procedures in terms of customer protection. The Bank not only settled all complaints from customers, but also effectively put complaints of the same sort to an end by means of product improvement, process optimization and system improvement.

2. The Bank advanced construction of a harmonious environment and assisted employees in their career development. It progressed all kinds of talent cultivating by training more experts-to-be, innovating a centralized talent training program and constantly launching young talent cultivating plans. The Bank provided employees with a clear career development path towards becoming an executive or/and an expert. Additionally, it provided employees with green access to medical services for serious diseases, and selected 100 outlets (teams) to take the specific action of building up pilot happy outlets. Moreover, it boosted employees' sense of belonging by establishing and improving vacation and family visiting systems and increasing vacation hours.

3. The Bank played an earnest role in public charity, investing a lot in elderly care and educational assistance. With sustained bank-wide management with respect to public charity projects, the Bank totally approved 20 donation projects in the first half year, amounting to RMB10,694,200. It invested RMB2 million in subsequent projects of “Gateway to Tomorrow – BoCom award to distinguished disabled students on special education program”, to support poor or disabled students and to award distinguished special education instructors and excellent university students. It continuously boosted “BoCom–HSBC Shanghai Yi Le Action Plan”, thereby totally subsidizing approximately 100 good elderly service projects in 5 committees of Shanghai and then benefiting 50,000 old people in Shanghai. It carried on subsidizing university students in Hong Kong and Macau, showing a “Loving BoCom” to the public.

I. CORPORATE GOVERNANCE

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

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

II. SHAREHOLDERS' GENERAL MEETINGS

On 22 June 2017, the Bank held 2016 Shareholders' General Meeting, at which 13 proposals, including, among others, *2016 Work Report of the Board of Directors, 2016 Report of the Board of Supervisors and 2016 Report of Financial Accounts*, were reviewed and approved. The resolution announcements for all Shareholders' General Meetings have been disclosed on the websites of SSE, HKEx and the Bank, and published in *China Securities Journal, Shanghai Securities News and Securities Times*.

III. PROFIT DISTRIBUTION

(I) Implementation of the Profit Distribution Plan of Ordinary Shares during the Reporting Period

The profit distribution plan of the Bank for the year of 2016 was considered and approved at the 2016 Shareholders' General Meeting of the Bank held on 22 June 2017. Based on the total 74.263 billion ordinary shares issued as at 31 December 2016, a cash dividend of RMB0.2715 (before tax) per share was distributed, totalling RMB20.162 billion. The aforesaid dividends have been paid to holders of A shares and H shares of the Bank on 7 July 2017 and 26 July 2017 respectively.

(II) Proposal on Payment of Interim Dividend and Proposal on Conversion of Capital Reserve into Share Capital

The Bank will not distribute an interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2017.

(III) Implementation of the Bank's Cash Dividend Distribution Policy during the Reporting Period

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

IV. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group was not involved in any material litigation or arbitration. As at the end of the Reporting Period, the Group was a defendant or third party of certain outstanding litigations/arbitrations with an aggregate amount of approximately RMB1.522 billion[1]. The Group anticipated that the above litigations/arbitrations will not have any significant impact on the Bank's business, financial position or operating performance of the Bank.

V. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(I) Material Trust, Sub-contract and Lease

During the Reporting Period, the Group did not enter into any material trust, sub-contract or leasing arrangement in respect of assets of other corporations, nor any trust, sub-contract or leasing arrangement with other corporations in respect of the Group's assets.

(II) Material Guarantees

The provision of guarantees is 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.

VI. 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. The Bank renewed the Interbank Transactions Master Agreement with HSBC as approved by the Board of Directors on 28 April 2017, disclosing relevant announcements respectively at the websites of SSE, HKEx and the Bank.

As at the end of the Reporting Period, details of continuing related party transactions of the Group were disclosed in Note 42 to the Financial Statements set out in this Report. Directors, Supervisors and Senior Management of the Bank had outstanding loan balance of RMB701,800 in the Bank as at the end of the Reporting Period.

VII. ASSET ACQUISITIONS, SALES AND MERGER BY ABSORPTION

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

[1] The above statistical data does not cover oversea branches

VIII. ASSET COLLATERAL

The Group's assets pledged were mainly collaterals under repurchase arrangements and loans from banks and other financial institutions. Other than as disclosed above, there were no other significant assets pledged to be disclosed during the Reporting Period.

IX. AUDIT COMMITTEE

The Bank has established an Audit Committee under the Board of Directors in accordance with the requirements of the *Hong Kong Listing Rules*. The main responsibilities of the Audit Committee are to propose the appointment, rotation or termination of the external auditors, to oversee the Bank's internal control policies and its implementation, to communicate between internal and external auditors, to examine and approve financial reports and related disclosures, to examine accounting policies, financial position and financial reporting process, and to examine the operating effectiveness of the Bank's internal control policy. As at the end of the Reporting Period, the seven members of the Audit Committee are 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, being the Chairman. The Audit Committee and Senior Management reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting, and also reviewed this interim report.

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

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

XI. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank requires the Directors, Supervisors and Senior Management of the Bank to strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares* issued by the CSRC, and the *Model Code*. In addition, the Bank has adopted the Model Code as the code of conduct of the Bank in relation to securities trading by the Directors, Supervisors and Senior Management of the Bank. As at the end of the Reporting Period, the Bank's shares deemed to be beneficially owned by the current Directors, Supervisors and Senior Management of the Bank remain unchanged. All the Directors, Supervisors and Senior Management of the Bank confirmed that they complied with the above rules.

XII. APPOINTMENT OF ACCOUNTING FIRM

With the approval at the 2016 Shareholders' General Meeting, the Bank has continued to appoint PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Group in accordance with China Accounting Standards and to provide other related professional services, and appoint PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Bank in accordance with IFRS and to provide other related professional services. The term of appointment starts upon the approval on the date of the Bank's 2016 Shareholders' General Meeting, and ceases at the end of day of 2017 Shareholders' General Meeting. The overall remuneration is RMB29.47 million.

XIII. SHARE INCENTIVE AND SHAREHOLDINGS OF EMPLOYEES

At present, the Bank has neither share incentive nor employee stock ownership.

XIV. DISCIPLINARY ACTIONS AGAINST THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% SHAREHOLDINGS, ACTUAL CONTROLLERS AND ACQUIRERS

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

XV. 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.

XVI. SIGNIFICANT SUBSEQUENT EVENTS

The Bank proposed to set up Bank of Communications (Hong Kong) Limited ("BoCom HK") with a capital contribution of HKD7.9 billion, accounting for 100% of the share capital of BoCom HK. Such investment has been approved by Board of Directors of the Bank and no approval from Shareholders' General Meeting is required. The Bank proposed to, by means of *Bank of Communications (Hong Kong) Limited (Merger) Bill*, transfer businesses, assets and legal liabilities relating to the Bank's retail banking business and private banking business in Hong Kong which are operated by Hong Kong Branch now, to BoCom HK. The *Bank of Communications (Hong Kong) Limited (Merger) Bill* entered into effect upon release by Chief Executive of the Hong Kong Special Administrative Region on 14 July 2017, such business transfer would come into force on the date designated by the board of directors of BoCom HK, and the balance sheet regarding such business transfer should be the one as at the effective date designated for such business transfer. Such designated date will be published on the Government of the Hong Kong Special Administrative Region Gazette in due course. After such business transfer comes into force, the Bank's Hong Kong Branch will retain other existing businesses and continue to hold a banking license which enables its operation in Hong Kong.

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

List of Domestic and Overseas Branches, Major Subsidiaries and Rural Banks

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

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

SN	Name	Address
20	Bank of Communications Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province
21	Bank of Communications Qingdao Branch	No. 6 Zhongshan Road, Shinan District, Qingdao City, Shandong Province
22	Bank of Communications Henan Provincial Branch	No. 11 Zhenghua Road, Jinshui District, Zhengzhou City, Henan Province
23	Bank of Communications Hubei Provincial Branch	No. 847 Jianshe Avenue, Jianghan District, Wuhan City, Hubei Province
24	Bank of Communications Hunan Provincial Branch	No. 37 Shaoshan Middle Road, Yuhua District, Changsha City, Hunan Province
25	Bank of Communications Guangdong Provincial Branch	No. 11 Xiancun Road, Tianhe District, Guangzhou City, Guangdong Province
26	Bank of Communications Shenzhen Branch	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 Centre, Longhua District, Haikou City, Hainan Province
29	Bank of Communications Chongqing Branch	No. 158 Zhongshan Third Road, Yuzhong District, Chongqing City
30	Bank of Communications Sichuan Provincial Branch	Bank of Communications Building, No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province
31	Bank of Communications Guizhou Provincial Branch	No. 4 Shengfu Road, Yunyan District, Guiyang City, Guizhou Province
32	Bank of Communications Yunnan Provincial Branch	Bank of Communications Building, No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
33	Bank of Communications Shaanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi’an City, Shaanxi Province
34	Bank of Communications Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
35	Bank of Communications Ningxia Hui Autonomous Region Branch	No. 296 MinZu North Street, Xingqing District, YinChuan City, NingXia Hui Autonomous Region
36	Bank of Communications Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
37	Bank of Communications Qinghai Provincial Branch	No. 29 Wusi West Road, Chengxi Distri t, Xining City, Qinghai Province

List of Overseas Banking Institutions

SN	Name	Address of Banking Outlet
1	Bank of Communications Hong Kong Branch	20 Pedder Street, Central, Hong Kong
2	Bank of Communications New York Branch	ONE EXCHANGE PLAZA 55 BROADWAY, 31ST & 32ND FLOOR, NEW YORK NY 10006-3008, U.S.A.
	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) Limited	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
12	Bank of communications (Luxemburg) Limited/Bank of communications Luxemburg Branch	7 Ruede la Chapelle, Luxembourg–L-325
13	Bank of Communications Toronto Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3, Canada
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, Italy
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

SN	Name	Address
1	BoCom International Holdings Company Limited	No. 68 Des Voeux Road Central, Central, Hong Kong
2	China BoCom Insurance Co., Ltd.	No. 8 Cotton Tree Drive, Central, Hong Kong
3	Bank of Communications Schroder Fund Management Co., Ltd.	No. 8 Century Avenue, Pudong New District, Shanghai
4	Bank of Communications International Trust Co., Ltd.	No.333 Lujiazui Ring Road, Pudong New District, Shanghai/No. 847 Jianshe Avenue, Wuhan
5	Bank of Communications Financial Leasing Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
6	BoComm Life Insurance Company Limited	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	Zhejiang Anji BoCom Rural Bank Ltd.	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province
9	Xinjiang Shihezi BoCom Rural Bank Ltd.	No. 127 Dongyi Road, Shihezi City, Xinjiang Uygur Autonomous Region
10	Qindao Laoshan BoCOM Rural Bank Ltd.	No. 458 Xianggang East Road, Laoshan District, Qingdao City, Shandong Province

pwc 羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 98 to 209, which comprises the interim condensed consolidated statement of financial position of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2017 and the interim related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
24 August 2017

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Notes	Six months ended 30 June	
		2017	2016
Interest income		154,381	144,361
Interest expense		(91,673)	(76,213)
Net interest income	4	62,708	68,148
Fee and commission income	5	23,045	22,238
Fee and commission expense	6	(1,784)	(1,274)
Net fee and commission income		21,261	20,964
Net gains arising from trading activities	7	189	1,095
Net gains arising from financial investments		2,655	520
Share of profit of associates and joint venture		51	38
Insurance business income		10,768	8,764
Other operating income	8	6,308	4,080
Impairment losses on loans and advances to customers	9	(14,646)	(14,807)
Insurance business expense		(9,862)	(8,161)
Other operating expense	10	(32,077)	(32,144)
Profit before tax		47,355	48,497
Income tax	13	(8,133)	(10,574)
Net profit for the period		39,222	37,923

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

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

	Notes	Six months ended 30 June	
		2017	2016
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		(39)	364
Changes in fair value reclassified from equity to profit or loss		(1,789)	(225)
Net gains/(losses) arising from cash flow hedge			
Changes in fair value recorded in equity		2	(9)
Changes in fair value reclassified from equity to profit or loss		68	–
Translation difference on foreign operations		(583)	754
		(2,341)	884
Item that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on pension benefits		20	(24)
Other comprehensive income for the period	37	(2,321)	860
Comprehensive income for the period		36,901	38,783
Net profit attributable to:			
Shareholders of the Bank		38,975	37,661
Non-controlling interests		247	262
		39,222	37,923
Total comprehensive income attributable to:			
Shareholders of the Bank		36,672	38,609
Non-controlling interests		229	174
		36,901	38,783
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	0.49	0.50

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 30 June 2017	As at 31 December 2016
ASSETS			
Cash and balances with central banks	15	963,575	991,435
Due from banks and other financial institutions	16	854,775	715,787
Financial assets at fair value through profit or loss	17	219,803	216,444
Loans and advances to customers	19	4,270,542	4,009,046
Financial investments – loans and receivables	20	410,429	385,020
Financial investments – available-for-sale	20	393,938	342,755
Financial investments – held-to-maturity	20	1,449,859	1,407,449
Investment in associates and joint venture	21	3,300	714
Property and equipment	22	121,666	114,425
Deferred income tax assets	23	16,331	12,567
Other assets	24	226,620	207,524
Total assets		8,930,838	8,403,166
LIABILITIES			
Due to banks and other financial institutions	25	2,349,366	2,231,060
Financial liabilities at fair value through profit or loss	26	54,854	84,299
Due to customers	27	4,938,694	4,728,589
Certificates of deposit issued	28	443,126	318,950
Current tax liabilities		10,155	5,164
Deferred income tax liabilities	23	175	145
Debt securities issued	29	260,945	229,515
Other liabilities	30	225,115	173,037
Total liabilities		8,282,430	7,770,759
EQUITY			
Share capital	31	74,263	74,263
Preference shares	32	59,876	59,876
Capital surplus	31	113,683	113,392
Other reserves		294,872	280,913
Retained earnings		100,556	100,698
Equity attributable to shareholders of the bank		643,250	629,142
Non-controlling interests		5,158	3,265
Total equity		648,408	632,407
Total equity and liabilities		8,930,838	8,403,166

The condensed consolidated interim financial information was approved and authorised for issue by the Board of Directors on 24 August 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.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

				Other reserves											
	Share capital Note 31	Preference shares Note 32	Capital surplus Note 31	Statutory reserve Note 33	Discretionary reserve Note 33	Statutory general reserve Note 33	Revaluation reserve for available-for-sale financial assets	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial revaluation reserve	Others	Retained earnings Note 33, 34	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the period	–	–	–	–	–	–	–	–	–	–	–	38,975	38,975	247	39,222
Other comprehensive income	–	–	–	–	–	–	(1,827)	70	(566)	20	–	–	(2,303)	(18)	(2,321)
Total comprehensive income	–	–	–	–	–	–	(1,827)	70	(566)	20	–	38,975	36,672	229	36,901
Capital contribution by non-controlling shareholders	–	–	291	–	–	–	–	–	–	–	–	–	291	1,678	1,969
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	(20,162)	(20,162)	(14)	(20,176)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	(2,693)	(2,693)	–	(2,693)
Transfer to reserves	–	–	–	88	4	16,170	–	–	–	–	–	(16,262)	–	–	–
Balance at 30 June 2017	74,263	59,876	113,683	50,738	139,768	103,902	5	(44)	(857)	24	1,336	100,556	643,250	5,158	648,408
Balance at 1 January 2016	74,263	14,924	113,392	44,098	139,764	75,653	1,608	(64)	(1,868)	17	–	73,098	534,885	3,207	538,092
Net profit for the period	–	–	–	–	–	–	–	–	–	–	–	37,661	37,661	262	37,923
Other comprehensive income	–	–	–	–	–	–	227	(9)	754	(24)	–	–	948	(88)	860
Total comprehensive income	–	–	–	–	–	–	227	(9)	754	(24)	–	37,661	38,609	174	38,783
Purchase of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	(44)	(44)	(367)	(411)
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	–	–	–	–	(20,051)	(20,051)	(35)	(20,086)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	–	–	–	–	(884)	(884)	–	(884)
Transfer to reserves	–	–	–	61	–	11,625	–	–	–	–	–	(11,686)	–	–	–
Balance at 30 June 2016	74,263	14,924	113,392	44,159	139,764	87,278	1,835	(73)	(1,114)	(7)	–	78,094	552,515	2,979	555,494

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	Six months ended 30 June 2017	2016
Cash flows from operating activities:			
Profit before tax:		47,355	48,497
Adjustments for:			
Provision for impairment allowances on loans and advances to customers		14,646	14,807
Provision for impairment of finance lease receivables		159	320
Provision for impairment of financial investments		107	(5)
Provision for/(Reversal of) impairment of others		29	30
Provision for impairment foreclosed assets		1	16
Provision for Insurance contracts reserve		6,895	5,555
Depreciation and amortisation		4,498	3,786
Provision for/(Reversal of) outstanding litigation and unsettled obligation		(4)	10
Net gains on disposal of property and equipment		(18)	(12)
Net gains on disposal of foreclosed assets		(1)	–
Interest income from financial investments		(38,983)	(31,162)
Unwind of discount on allowances during the period		(905)	(955)
Fair value (gains)/losses		(39)	1,248
Share of profit of associates and joint venture		(51)	(38)
Net gains arising from financial investments		(2,655)	(520)
Interest expense on debt securities issued		4,735	3,718
Operating cash flows before movements in operating assets and liabilities		35,769	45,295
Net (increase)/decrease in mandatory reserve deposits		(6,664)	(28,423)
Net (increase)/decrease in due from banks and other financial institutions		(120,952)	(100,991)
Net increase in financial assets at fair value through profit or loss		(17,685)	(34,690)
Net increase in loans and advances to customers		(275,237)	(270,715)
Net increase in other assets		(18,181)	(35,362)
Net increase in due to banks and other financial institutions		118,306	383,282
Net increase/(decrease) in financial liabilities at fair value through profit or loss		(20,832)	20,004
Net increase in due to customers		339,737	345,448
Net increase in other liabilities		20,549	6,981
Net increase/(decrease) in value-added tax, business tax and surcharge payable		253	(837)
Income tax paid		(8,913)	(9,498)
Net cash flows from operating activities		46,150	320,494

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

	Notes	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash flows from investing activities:			
Purchase of financial investments		(298,774)	(728,018)
Disposal or redemption of financial investments		176,973	408,715
Dividends received		257	208
Interest received from financial investments		42,146	31,867
Purchase of non-controlling interests		–	(411)
Purchase of intangible assets and other assets		(379)	(298)
Disposal of intangible assets and other assets		6	14
Purchase and construction of property and equipment		(11,829)	(11,552)
Disposal of property and equipment		426	68
Net cash flows from investing activities		(91,174)	(299,407)
Cash flows from financing activities:			
Proceeds on debt securities issued		56,096	9,960
Interest paid on debt securities issued		(1,549)	(348)
Capital contribution by non-controlling interests		1,969	–
Repayment of the principals of debt securities issued		(24,056)	(1,623)
Dividends paid to non-controlling interests		(14)	(35)
Net cash flows from financing activities		32,446	7,954
Effect of exchange rate changes on cash and cash equivalents		(3,911)	1,927
Net (decrease)/increase in cash and cash equivalents		(16,489)	30,968
Cash and cash equivalents at the beginning of the period		316,396	330,435
Cash and cash equivalents at the end of the period	38	299,907	361,403
Net cash flows from operating activities include:			
Interest received		118,315	114,882
Interest paid		(81,357)	(71,297)

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 235 city-level and above branches in Mainland China and 20 subsidiary banks, branches (sub-branches) and representative offices including 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 and Bank of Communications (England) Co., Ltd., Luxembourg Branch and Bank of Communications (Luxembourg) Co., Ltd., Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Banco BBM S.A ("BBM Bank") and Toronto Representative Office. 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 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

2.1 Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standard Board and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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

These unaudited condensed consolidated financial statements of the Group should be read in conjunction with the 2016 annual consolidated financial statements.

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

Except as described below, the Group's accounting policies applied in preparing these unaudited condensed consolidated financial statements are consistent with those policies applied in preparing the financial reports as at 31 December 2016.

2.1.1 New and revised IFRSs effective by 1 January 2017 applied by the Group

Amendments to IAS 7	Statement of cash flows
Amendments to IAS 12	Income tax
Amendments to IFRS 12	IASB Annual Improvements 2014-2016 cycle

Amendments to IFRSs effective for the year ended 31 December 2017 do not have a material impact to the Group.

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

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

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

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

		Effective for annual period beginning on or after
Amendments to IAS 40	Transfer of investment property	1 January 2018
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 28	IASB Annual Improvements 2014-2016 cycle	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRIC 23	Uncertainty over income tax	1 January 2019
Amendments to IFRS 2	Share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Lease	1 January 2019
IFRS 17	Insurance contracts	1 January 2021

IFRS 9, Financial Instrument will take effect on 1 January 2018. As at 30 June 2017, the Group has preliminarily completed the analysis of its business models and contract terms of loans and other financial instruments, and is still analysing the changes to its existing credit exposures, and assessing the potential impact on its financial statements resulting from the adoption of IFRS 9, Financial Instrument and any consequential effects on regulatory capital requirements. Given the nature of the Group'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 Group is starting to carry out an assessment of the need for any system modification related to the implementation of the expected credit loss model, updating of 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, Financial Instrument and therefore its possible impact on the Bank's operating results and financial position has not yet been quantified.

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

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

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Group *(Continued)*

As at 30 June 2017, the Group has non-cancellable operating lease commitments of RMB13,783 million, see note 35. 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 on implementation of IFRS 16. 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 its financial information.

Except for 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.

2.2 Critical accounting estimates and judgments in applying accounting policies

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

2.3 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 Tax*. (Cai Shui [2016] No. 36) issued by the MOF, the pilot program for replacing business tax with value-added tax for financial industry has become effective nationwide and the tax rate is mainly 6%. The business tax was still applicable before 1 May 2016 at a rate of 5%. Value-added Tax is excluded from the price of good and services sold, is recorded separately from income, expenses and costs, and is not recorded in the statement of profit and loss.

Except as stated above, the Group has no other significant changes of taxation.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risk and return and 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 Subordinate 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 (the Assets Preservation Department) 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.

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 ***Credit risk assessment*** *(Continued)*

(a) *Loans and advances to customers and off-balance sheet commitments (Continued)*

The Group has issued credit commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by industry, geography and customer type. This information is monitored regularly by senior management.

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the CBRC, the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, 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. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(c) *Financial investments – loans and receivables*

The Group established a risk evaluation system for financial investments in loans and receivables. The Group assesses the credit risk of counter parties, including consideration of credit rating and reputation of fund management companies, trust companies and securities companies. Also, credit limits have been imposed and monitored by the Group to ensure there is no concentration of credit risk for transactions with a particular entity.

(d) *Derivative instruments*

The Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are 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.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below:

(a) *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 favourable 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 affects 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.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 *Impairment and provision policies (Continued)*

The Group periodically identifies potential risks in the corporate loan 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.

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 30 June 2017	As at 31 December 2016
Assets		
Balances with central banks	948,274	973,823
Due from banks and other financial institutions	854,775	715,787
Financial assets at fair value through profit or loss (bond investments and derivatives)	98,508	136,301
Loans and advances to customers		
– Loans to corporate entities	2,997,425	2,841,728
– Loans to individuals	1,273,117	1,167,318
Financial investments – loans and receivables	410,429	385,020
Financial investments – available-for-sale (bond investments)	387,404	334,049
Financial investments – held-to-maturity	1,449,859	1,407,449
Other financial assets	197,814	183,391
Total	8,617,605	8,144,866
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	581,120	638,145
Other credit related commitments	746,715	614,324
Total	1,327,835	1,252,469

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.4 Maximum exposure to credit risk before collaterals held or other credit enhancements *(Continued)*

The above table represents a worst case scenario of credit risk exposure to the Group as at 30 June 2017 and 31 December 2016, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 50% of the total on-balance sheet exposure is derived from loans and advances to customers (as at 31 December 2016: 49%).

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;
- 97.64% of the loans and advances portfolio are neither past due nor impaired (2016: 97.35%);
- The impaired loans and advances to customers to total loans and advances to customers are 1.51%. (2016: 1.52%).

3.1.5 Loans and advances to customers

	As at 30 June 2017		As at 31 December 2016	
	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	4,267,068	854,775	3,994,254	715,787
Past due but not impaired	37,126	–	46,305	–
Impaired	65,953	–	62,400	–
Gross	4,370,147	854,775	4,102,959	715,787
Less: Allowances for collectively assessed impairment losses	(66,204)	–	(63,756)	–
Allowances for individually assessed impairment losses	(33,401)	–	(30,157)	–
Net	4,270,542	854,775	4,009,046	715,787

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

As at 30 June 2017, the Group's total loans and advances to customers increased by 6.52% 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 30 June 2017		
	Normal	Special-mention	Total
Corporate loans and advances	2,905,703	93,026	2,998,729
Individual loans and advances	1,268,051	288	1,268,339
Total	4,173,754	93,314	4,267,068

	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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

	As at 30 June 2017					
	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	6,018	2,451	1,667	17,769	27,905	22,542
Individuals						
– Mortgages	1,725	354	333	48	2,460	3,402
– Credit Cards	4,700	830	450	–	5,980	–
– Others	313	98	138	232	781	1,099
Total	12,756	3,733	2,588	18,049	37,126	27,043
Due from banks and other financial institutions	–	–	–	–	–	–

	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	–	–	–	–	–	–

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 30 June 2017, impaired loans and advances to customers before taking into consideration the collaterals held is RMB65,953 million (31 December 2016: RMB62,400 million).

The breakdown of the gross amount of impaired loans and advances to customers by class, along with the fair value of related collaterals held by the Group as security, are as follows:

	As at 30 June 2017	As at 31 December 2016
Impaired loans and advances to customers		
Corporate entities	50,588	48,097
Individuals	15,365	14,303
Total	65,953	62,400
Fair value of collaterals		
Corporate entities	17,370	16,032
Individuals	9,583	9,461
Total	26,953	25,493

No individually impaired due from banks and other financial institutions are held by the Group as at 30 June 2017 and 31 December 2016.

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

	As at 30 June 2017	As at 31 December 2016
Unsecured loans	1,340,084	1,246,423
Guaranteed loans	888,450	828,651
Collateralised and other secured loans	2,141,613	2,027,885
Including: Loans secured by collaterals	1,591,172	1,551,431
Pledged loans	550,441	476,454
Gross amount of loans and advances before impairment allowances	4,370,147	4,102,959

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(e) Geographical risk concentration for loans and advances to customers

	As at 30 June 2017		As at 31 December 2016	
		%		%
North of China (1)	580,978	13.29	568,598	13.86
Northeast (2)	204,260	4.67	202,216	4.93
East of China (3)	1,891,226	43.29	1,768,551	43.10
South and middle of China (4)	817,350	18.70	761,294	18.55
West of China (5)	435,658	9.97	417,904	10.19
Overseas (6)	440,675	10.08	384,396	9.37
Gross amount of loans and advances	4,370,147	100.00	4,102,959	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, Seoul, 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 30 June 2017		As at 31 December 2016	
		%		%
Corporate loans				
Mining	108,286	2.48	107,787	2.63
Manufacturing				
– Petroleum and chemical	111,909	2.56	106,514	2.60
– Electronics	83,559	1.91	59,942	1.46
– Steel	38,064	0.87	36,841	0.90
– Machinery	104,751	2.40	118,200	2.88
– Textile and clothing	32,544	0.74	33,714	0.82
– Other manufacturing	227,320	5.21	224,455	5.47
Electricity, gas and water production and supply	157,248	3.60	147,141	3.59
Construction	100,973	2.31	99,487	2.42
Transportation, storage and postal service	518,845	11.88	495,427	12.07
Telecommunication, IT service and software	24,542	0.56	20,594	0.51
Wholesale and retail	323,526	7.40	319,579	7.79
Accommodation and catering	35,570	0.81	34,489	0.84
Financial institutions	111,407	2.55	94,464	2.30
Real estate	189,729	4.34	204,111	4.97
Services	331,002	7.57	300,929	7.33
Water conservancy, environmental and other public services	240,172	5.50	188,622	4.60
Education, science, culture and public health	83,482	1.91	80,597	1.96
Others	118,005	2.70	117,290	2.86
Discounted bills	136,036	3.11	126,589	3.09
Total corporate loans	3,076,970	70.41	2,916,772	71.09
Individual loans				
Mortgages	836,185	19.14	770,280	18.78
Credit cards	347,610	7.95	307,857	7.50
Others	109,382	2.50	108,050	2.63
Total individual loans	1,293,177	29.59	1,186,187	28.91
Gross amount of loans and advances before impairment allowances	4,370,147	100.00	4,102,959	100.00

The industry risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Debt investments

		As at 30 June 2017	As at 31 December 2016
Neither past due nor impaired	(a)	2,325,784	2,228,199
Past due but not impaired		–	–
Impaired	(b)	1,015	1,020
Gross		2,326,799	2,229,219
Less:	(c)		
Collective impairment		(2,535)	(2,703)
Individual impairment		(935)	(920)
Net		2,323,329	2,225,596

(a) *The table below presents an analysis of rating from reputable independent agencies for debt investment that are neither past due nor impaired.*

	As at 30 June 2017				
	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	9,450	66,778	822,672	36,649	935,549
AA- to AA+	4,999	11,415	8,677	7,944	33,035
A- to A+	–	5,711	832	2,589	9,132
Below A-	–	698	–	270	968
Unrated (1)	397,103	75,690	606,652	6,788	1,086,233
Sub-total	411,552	160,292	1,438,833	54,240	2,064,917
Foreign currency securities					
AAA	–	10,396	384	2,036	12,816
AA- to AA+	–	49,250	3,663	4,507	57,420
A- to A+	–	71,489	3,927	11,894	87,310
Below A-	–	42,893	1,533	1,907	46,333
Unrated (1)	1,332	53,084	1,519	1,053	56,988
Sub-total	1,332	227,112	11,026	21,397	260,867
Total	412,884	387,404	1,449,859	75,637	2,325,784

(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 rating from reputable independent agencies for debt investment that are neither past due nor impaired. (Continued)*

	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

(1) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks as well as investments in trustees and asset management products which are not rated by independent agencies.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Debt investments *(Continued)*

(b) *Impaired debt investments*

	As at 30 June 2017				
	Financial investments – held-for-trading	Financial investments – available-for-sale	Financial investments – held-to-maturity	Financial investments – loans and receivables	Total
A- to A+	–	–	–	–	–
Below A-	–	30	351	–	381
Unrated [(1)]	–	434	–	200	634
Total	–	464	351	200	1,015

	As at 31 December 2016				
	Financial investments – held-for-trading	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

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

(c) *Impairment allowances for debt investments*

	As at 30 June 2017	As at 31 December 2016
Allowances for collectively assessed impairment losses	2,535	2,703
Allowances for individually assessed impairment losses	935	920
	3,470	3,623

The impaired debt investments were individual impaired loans and receivables, held-to-maturity and available-for-sale bond investments. As at 30 June 2017 (as at 31 December 2016: Nil), no collateral was held by the Group against these debt investments.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Derivative instruments

The Group undertakes its transactions in foreign exchange, 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 30 June 2017	As at 31 December 2016
Counterparty credit risk weighted amount	24,448	23,297

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the CBRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk weighted amounts stated above have not taken the effects of netting arrangements into account.

3.1.8 Foreclosed assets

	As at 30 June 2017	As at 31 December 2016
Buildings	950	857
Land use rights	29	156
Others	24	15
Gross	1,003	1,028
Less: Impairment allowances	(137)	(136)
Net	866	892

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 30 June 2017				
Financial assets				
Balances with central banks	845,826	1,313	101,135	948,274
Due from banks and other financial institutions	762,445	29,533	62,797	854,775
Financial assets at fair value through profit or loss (debt securities and derivatives)	70,481	9,938	18,089	98,508
Loans and advances to customers	3,832,961	222,951	214,630	4,270,542
Financial investments – loans and receivables	409,108	–	1,321	410,429
Financial investments – available-for-sale (debt securities)	154,585	68,113	164,706	387,404
Financial investments – held-to-maturity	1,437,570	473	11,816	1,449,859
Other financial assets	182,828	9,470	5,516	197,814
	7,695,804	341,791	580,010	8,617,605
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	549,879	10,643	20,598	581,120
Other credit related commitments	697,988	23,361	25,366	746,715
	1,247,867	34,004	45,964	1,327,835

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

	Mainland China	Hong Kong	Others	Total
As at 31 December 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

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 mainly arise from interest rates, exchange rates, commodity and equity prices.

In accordance with the requirements of the CBRC, the positions of financial instruments held by the Group are divided into trading account and bank account. The trading account consists of positions in financial instruments held either for trading intent or economic hedging for other elements of the trading account. The banking account consists of the investments purchased by the Group with excess funds and other financial instruments that are not captured in the trading account.

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 2017. The Group conducted 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:

	Six months ended 30 June 2017			
Items	30 June 2017	Average	Maximum	Minimum
VaR	682	563	811	348
– Interest rate risk	159	141	187	89
– Foreign exchange risk	706	529	858	288

	Six months ended 30 June 2016			
Items	30 June 2016	Average	Maximum	Minimum
VaR	518	385	632	158
– Interest rate risk	165	143	173	111
– Foreign exchange risk	562	355	580	147

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 behaviour 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.

The table below illustrates the impact to net interest income of the coming year of the Group based on the structure of interest bearing assets and liabilities as at 30 June 2017 and 31 December 2016, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Expected changes in net interest income	
	As at 30 June 2017	As at 31 December 2016
+100 basis points parallel shift in yield curves	13,304	14,198
-100 basis points parallel shift in yield curves	(13,304)	(14,198)

The table below illustrates the impact on other comprehensive income of the coming year of the Group based on the structure of interest bearing assets and liabilities as at 30 June 2017 and 31 December 2016, caused by a parallel shift of 100 basis points in RMB, USD and HKD interest rates.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity tests *(Continued)*

Interest rate sensitivity test (Continued)

	Changes in other comprehensive income	
	As at 30 June 2017	As at 31 December 2016
+100 basis points parallel shift in yield curves	(6,156)	(5,364)
-100 basis points parallel shift in yield curves	5,980	5,280

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.

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)	
	Six months ended 30 June 2017	Year ended 31 December 2016
5% appreciation of RMB	(2,948)	(2,286)
5% depreciation of RMB	2,948	2,286

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 in other comprehensive income	
	As at 30 June 2017	As at 31 December 2016
5% appreciation of RMB	(688)	(681)
5% depreciation of RMB	688	681

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 30 June 2017							
Assets							
Cash and balances with central banks	909,237	112	157	45	–	54,024	963,575
Due from banks and other financial institutions	482,218	99,162	237,420	35,975	–	–	854,775
Financial assets at fair value through profit or loss	11,108	21,423	56,997	40,732	7,682	81,861	219,803
Loans and advances to customers	2,118,978	445,575	1,490,718	149,702	65,569	–	4,270,542
Financial investments – loans and receivables	6,698	26,568	67,313	194,316	115,534	–	410,429
Financial investments – available-for-sale	51,057	86,802	46,203	154,545	48,797	6,534	393,938
Financial investments – held-to-maturity	19,907	36,485	131,291	809,852	452,324	–	1,449,859
Other assets	7,321	6,961	23,435	65,707	21,661	242,832	367,917
Total assets	3,606,524	723,088	2,053,534	1,450,874	711,567	385,251	8,930,838
Liabilities							
Due to banks and other financial institutions	(865,054)	(496,312)	(737,952)	(236,179)	(13,869)	–	(2,349,366)
Financial liabilities at fair value through profit or loss	(7,210)	(9,001)	(13,298)	(3,307)	–	(22,038)	(54,854)
Due to customers	(3,032,403)	(661,784)	(798,687)	(420,284)	(70)	(25,466)	(4,938,694)
Other liabilities	(32,216)	(67,559)	(167,522)	(329,896)	(137,920)	(204,403)	(939,516)
Total liabilities	(3,936,883)	(1,234,656)	(1,717,459)	(989,666)	(151,859)	(251,907)	(8,282,430)
Total interest sensitivity gap	(330,359)	(511,568)	336,075	461,208	559,708	133,344	648,408

(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)*

3.2.5 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 and changes on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. As at 30 June 2017, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.7744 (31 December 2016: 6.9370) and 1 HK dollar to RMB0.86792 (31 December 2016: 0.89451), respectively. The tables below summarise the Group's exposure to foreign exchange risk at the end of the period/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 30 June 2017					
Assets					
Cash and balances with central banks	858,913	68,490	3,890	32,282	963,575
Due from banks and other financial institutions	521,736	293,739	15,635	23,665	854,775
Financial assets at fair value through profit or loss	193,191	20,480	1,190	4,942	219,803
Loans and advances to customers	3,710,525	367,814	143,447	48,756	4,270,542
Financial investments – loans and receivables	409,097	1,332	–	–	410,429
Financial investments – available-for-sale	164,923	152,923	38,205	37,887	393,938
Financial investments – held-to-maturity	1,438,824	8,331	–	2,704	1,449,859
Other assets	263,795	97,038	4,995	2,089	367,917
Total assets	7,561,004	1,010,147	207,362	152,325	8,930,838
Liabilities					
Due to banks and other financial institutions	(1,898,855)	(402,271)	(10,085)	(38,155)	(2,349,366)
Financial liabilities at fair value through profit or loss	(21,818)	(14,614)	(6,565)	(11,857)	(54,854)
Due to customers	(4,258,639)	(429,683)	(206,695)	(43,677)	(4,938,694)
Other liabilities	(764,076)	(136,324)	(18,835)	(20,281)	(939,516)
Total liabilities	(6,943,388)	(982,892)	(242,180)	(113,970)	(8,282,430)
Net position	617,616	27,255	(34,818)	38,355	648,408
Financial guarantees and credit related commitments	1,084,431	200,475	20,919	22,010	1,327,835

(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 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

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 30 June 2017, 16.5% (31 December 2016: 17.0%) of the Group's total RMB denominated customer deposits and 5.0% (31 December 2016: 5.0%) 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 30 June 2017									
Liabilities									
Due to banks and other financial institutions	–	–	(353,871)	(512,656)	(498,388)	(750,966)	(260,684)	(15,490)	(2,392,055)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(600)	(6,302)	(5,517)	(17,959)	(3,569)	–	(33,947)
Due to customers	–	–	(2,474,983)	(683,149)	(669,972)	(819,562)	(439,408)	(70)	(5,087,144)
Certificates of deposit issued	–	–	(881)	(27,971)	(60,416)	(162,006)	(216,053)	–	(467,327)
Debt securities issued	–	–	–	(4,495)	–	(5,148)	(149,768)	(137,545)	(296,956)
Other financial liabilities	–	–	(32,798)	(177)	(236)	(1,802)	(5,526)	(23,301)	(63,840)
Total liabilities (contractual maturity dates)	–	–	(2,863,133)	(1,234,750)	(1,234,529)	(1,757,443)	(1,075,008)	(176,406)	(8,341,269)
Assets									
Cash and balances with central banks	–	798,685	164,576	–	112	158	45	–	963,576
Due from banks and other financial institutions	–	–	120,381	362,068	99,566	241,579	38,087	–	861,681
Non-derivative financial assets at fair value through profit or loss	–	55,245	3,744	4,234	13,517	55,705	61,368	10,414	204,227
Loans and advances to customers	70,068	–	–	441,734	293,527	1,132,233	1,342,154	2,279,330	5,559,046
Financial investments – loans and receivables	80	–	–	6,711	27,118	69,558	217,518	133,974	454,959
Financial investments – available-for-sale	–	6,534	–	5,867	10,225	71,768	265,470	62,863	422,727
Financial investments – held-to-maturity	–	–	–	17,956	22,201	135,711	892,486	503,010	1,571,364
Other financial assets	328	–	28,457	3,099	7,725	26,918	74,466	24,465	165,458
Assets held for managing liquidity risk (contractual maturity dates)	70,476	860,464	317,158	841,669	473,991	1,733,630	2,891,594	3,014,056	10,203,038
Net position	70,476	860,464	(2,545,975)	(393,081)	(760,538)	(23,813)	1,816,586	2,837,650	1,861,769

(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 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 deposit 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

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and settlement, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, early termination of lending to other financial institutions and reverse repurchase agreement and utilizing the mandatory reserve deposits upon the PBOC's approval.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivative settled on a net basis*

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange and commodity contracts: non-deliverable forward;
- Interest rate contracts and others: interest rate swaps, forward rate agreements, over the counter interest rate options and others.

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 30 June 2017						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	43	55	202	–	–	300
– Interest rate contracts and others	32	121	365	808	82	1,408
Total	75	176	567	808	82	1,708
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(30)	(58)	(128)	–	–	(216)
– Interest rate contracts and others	(46)	(123)	(381)	(699)	(55)	(1,304)
Total	(76)	(181)	(509)	(699)	(55)	(1,520)

(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 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)

(b) *Derivative settled on a gross basis*

The Group's derivative financial instruments that will be settled on a gross basis include: foreign exchange derivative instruments: currency forward, currency swaps, cross currency interest rate swaps, commodity forward and commodity swaps.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 30 June 2017						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(520,856)	(567,336)	(1,103,586)	(98,971)	–	(2,290,749)
– Inflow	522,353	554,732	1,102,667	94,796	–	2,274,548
Total	1,497	(12,604)	(919)	(4,175)	–	(16,201)

	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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 *Maturity analysis*

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

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 30 June 2017									
Assets									
Cash and balances with central banks	164,576	–	112	157	45	–	–	798,685	963,575
Due from banks and other financial institutions	120,382	361,836	99,162	237,420	35,975	–	–	–	854,775
Financial assets at fair value through profit or loss	3,744	8,147	18,413	65,344	59,269	9,641	–	55,245	219,803
Loans and advances to customers	–	441,561	286,596	1,071,804	1,080,136	1,320,398	70,047	–	4,270,542
Financial investments – loans and receivables	–	6,567	26,366	67,313	194,567	115,536	80	–	410,429
Financial investments – available-for-sale	–	5,742	10,023	70,469	249,337	51,833	–	6,534	393,938
Financial investments – held-to-maturity	–	17,475	21,520	130,941	824,721	455,202	–	–	1,449,859
Other assets	28,674	10,495	19,380	30,297	98,940	30,131	1,656	148,344	367,917
Total assets	317,376	851,823	481,572	1,673,745	2,542,990	1,982,741	71,783	1,008,808	8,930,838
Liabilities									
Due to banks and other financial institutions	(353,871)	(511,183)	(496,312)	(737,952)	(236,179)	(13,869)	–	–	(2,349,366)
Financial liabilities at fair value through profit or loss	(600)	(10,128)	(9,802)	(28,122)	(5,934)	(268)	–	–	(54,854)
Due to customers	(2,464,917)	(592,952)	(661,784)	(798,687)	(420,284)	(70)	–	–	(4,938,694)
Other liabilities	(76,791)	(43,933)	(92,098)	(198,715)	(385,992)	(141,987)	–	–	(939,516)
Total liabilities	(2,896,179)	(1,158,196)	(1,259,996)	(1,763,476)	(1,048,389)	(156,194)	–	–	(8,282,430)
Net amount on liquidity gap	(2,578,803)	(306,373)	(778,424)	(89,731)	1,494,601	1,826,547	71,783	1,008,808	648,408

(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 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)*

3.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date.

	Up to 1 year	1 – 5 years	Over 5 years	Total
As at 30 June 2017				
Loan commitments and credit related commitments	702,209	42,103	2,403	746,715
Guarantees, acceptances and letters of credit	450,649	110,298	20,173	581,120
Total	1,152,858	152,401	22,576	1,327,835
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

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

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

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt instruments 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 unlisted equities (private equity) held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for lack of marketability. The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair values.

	As at 30 June 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments – loans and receivables	410,429	408,146	385,020	385,014
Financial investments – held-to-maturity	1,449,859	1,419,607	1,407,449	1,409,564
Financial liabilities				
Debt securities issued	(241,702)	(241,062)	(208,880)	(207,882)

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 30 June 2017				
Financial assets				
Financial investments – loans and receivables	–	97,882	310,264	408,146
Financial investments – held-to-maturity	12,195	1,407,412	–	1,419,607
Financial liabilities				
Debt securities issued	–	(241,062)	–	(241,062)

	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)

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 30 June 2017				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
– Governments and central banks	3,557	4,763	–	8,320
– Public sector entities	93	2,495	–	2,588
– Banks and other financial institutions	3,723	30,311	–	34,034
– Corporate entities	1,190	29,505	–	30,695
Fund investments	472	54,615	–	55,087
Equity securities	158	–	–	158
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	20,736	–	20,736
– Interest rate contracts and others	–	2,135	–	2,135
Precious metal contracts	–	48,798	–	48,798
	9,193	193,358	–	202,551
Financial assets designated at fair value through profit or loss				
Loans to banks and other financial institutions	–	17,252	–	17,252
	–	17,252	–	17,252
Available-for-sale financial assets				
Debt securities				
– Governments and central banks	14,901	25,238	–	40,139
– Public sector entities	74	5,942	–	6,016
– Banks and other financial institutions	107,965	172,927	–	280,892
– Corporate entities	26,683	29,485	4,189	60,357
Fund investments and others	1,154	509	–	1,663
Equity securities	2,914	169	1,788	4,871
	153,691	234,270	5,977	393,938
Total assets	162,884	444,880	5,977	613,741
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(443)	–	–	(443)
Certificates of deposit issued	(4,809)	(15,732)	–	(20,541)
Others	–	(11)	–	(11)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(19,334)	–	(19,334)
– Interest rate contracts and others	–	(2,093)	–	(2,093)
Financial liabilities related to precious metal contracts	–	(12,432)	–	(12,432)
Debt securities issued	–	(19,243)	–	(19,243)
Total liabilities	(5,252)	(68,845)	–	(74,097)

(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 2016				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
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	–	40,819	–	40,819
	9,608	185,602	–	195,210
Financial assets designated at fair value through profit or loss				
Loans to banks and other financial institutions	–	21,234	–	21,234
	–	21,234	–	21,234
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 deposit 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)

There was no transfer between level 1 and 2 during the period.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair 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

	Debt securities – corporate entities	Equity securities – unlisted	Total
Balance at 1 January 2017	4,189	1,736	5,925
Total gains or losses			
– Net gains arising from trading activities	–	(300)	(300)
– Other comprehensive income	–	–	–
Additions	–	364	364
Disposals	–	(12)	(12)
Transfer from current level to other levels	–	–	–
Balance at 30 June 2017	4,189	1,788	5,977
Total gains/(losses) for consolidated financial assets/liabilities held at 30 June 2017			
– Realised gains/(losses)	–	(300)	(300)
– Unrealised gains/(losses)	–	–	–

	Debt securities – corporate entities	Equity securities – 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)	–	–	–

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 30 June 2017, the carrying amounts of financial instruments with fair values determined based on unobservable inputs were insignificant, and the effect on the valuation results by using reasonable alternatives for the unobservable assumptions is considered to be insignificant.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such a mutual consent, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 30 June 2017, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

4 NET INTEREST INCOME

	Six months ended 30 June	
	2017	2016
Interest income		
Balances with central banks	6,685	6,969
Due from banks and other financial institutions	9,559	7,224
Loans and advances to customers	97,350	96,895
Financial investments	40,787	33,273
	154,381	144,361
Interest expense		
Due to banks and other financial institutions	(37,323)	(25,843)
Due to customers	(43,849)	(44,989)
Debt securities issued	(4,735)	(3,718)
Certificates of deposit issued	(5,766)	(1,663)
	(91,673)	(76,213)
Net interest income	62,708	68,148
Including:		
Interest income on impaired financial assets	905	955
Interest income on financial investments at fair value through profit or loss	1,803	2,112
Interest expense on financial liabilities at fair value through profit or loss	390	258

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

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2017	2016
Settlement service	1,058	980
Bank card business	7,763	5,630
Investment banking	2,813	3,392
Guarantee and commitment	1,531	1,689
Management service	7,236	6,783
Agency service	2,183	3,395
Others	461	369
	23,045	22,238

	Six months ended 30 June	
	2017	2016
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	755	661
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,552	1,308

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2017	2016
Settlement service	370	295
Bank card business	1,193	920
Others	221	59
	1,784	1,274

	Six months ended 30 June	
	2017	2016
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	4	7

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

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2017	2016
Foreign exchange	(103)	2,019
Interest rate instruments and others	(155)	(467)
Trading securities	447	(457)
	189	1,095

Net gains on foreign exchange include gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

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

Net gains arising from trading activities for the six months ended 30 June 2017 include a loss of RMB91 million (for the six months ended 30 June 2016: a loss of RMB111 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
Profit on sales of property and equipment	32	18
Revaluation of investment property	56	12
Income from sales of precious metal merchandise	1,583	1,150
Leasing income	3,549	1,984
Others	1,088	916
	6,308	4,080

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

9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Six months ended 30 June	
	2017	2016
Loans and advances to customers (Note 19.2)		
– Collectively assessed losses provision	6,268	6,107
– Individually assessed losses provision	8,378	8,700
	14,646	14,807

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

10 OTHER OPERATING EXPENSE

	Six months ended 30 June	
	2017	2016
Staff costs (Note 11)	12,484	12,106
General operational and administrative expense	11,614	9,756
Depreciation and amortisation	2,922	2,995
Taxes and surcharges(a)	1,198	4,807
Provision for impairment of finance lease receivables	159	320
Provision for/(Reversal of) impairment loss on financial investments ((b), Note 20)	107	(5)
(Reversal)/charge of provision for outstanding litigations	(5)	10
Provision for impairment of other receivables	19	30
Leasing cost	1,576	791
Others	2,003	1,334
	32,077	32,144

(a) 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.

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

	Six months ended 30 June	
	2017	2016
Loans and receivables (Note 20)	(149)	(5)
Available-for-sale financial assets (Note 20)	256	–
Held-to-maturity investments (Note 20)	–	–
	107	(5)

11 STAFF COSTS

	Six months ended 30 June	
	2017	2016
Salaries and bonuses	8,862	8,681
Post-employment benefit (a)	1,591	1,515
Housing benefits and subsidies	20	20
Other social security and benefit costs	2,011	1,890
	12,484	12,106

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

11 STAFF COSTS *(Continued)*

(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:

	Six months ended 30 June	
	2017	2016
Expenses incurred for retirement benefit plans and unemployment insurance	1,200	1,158
Expenses incurred for annuity plan	381	346
Total	1,581	1,504

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

	As at 30 June 2017	As at 31 December 2016
Expenses incurred for retirement benefit plans and unemployment insurance	40	26
Expenses incurred for annuity plan	59	68
Total	99	94

(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 30 June 2017	As at 31 December 2016
Statement of financial position		
– Obligations for pension benefits	388	427

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

	Six months ended 30 June	
	2017	2016
Components of defined benefit costs recognised in profit or loss	10	11
Components of defined benefit costs recognised in other comprehensive income	(20)	24
Total	(10)	35

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

The average duration of the supplementary retirement benefits plan at 30 June 2017 is 12.19 years (31 December 2016: 12.62 years).

The Group expects to make a contribution of RMB40 million (2016: RMB42 million) to the defined benefit 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.

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

11 STAFF COSTS *(Continued)*

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

Defined benefit plan *(Continued)*

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate or inflation rate, which were 3.83% (31 December 2016: 3.49%) and 1.50% (31 December 2016: 1.97%) respectively as at 30 June 2017. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 30 June 2017, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2016: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2016: 28.70 years).

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

	Six months ended 30 June	
	2017	2016
Remuneration	5	5

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

For the six months ended 30 June 2017, RMB625,000 was accrued for independent non-executive directors' emolument (six months ended 30 June 2016: RMB625,000).

13 INCOME TAX

	Six months ended 30 June	
	2017	2016
Current tax		
– PRC enterprise income tax	10,620	8,874
– Hong Kong profits tax	492	402
– Overseas taxations	178	219
	11,290	9,495
Deferred income tax (Note 23)	(3,157)	1,079
	8,133	10,574

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2016: 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% (2016: 25%). The major reconciliation items are as follows:

	Six months ended 30 June	
	2017	2016
Profit before tax	47,355	48,497
Tax calculated at a tax rate of 25%	11,839	12,124
Effect of different tax rates in other countries (or regions)	33	66
Tax effect of expense not deductible for tax purposes (1)	954	84
Tax effect arising from income not subject to tax (2)	(4,798)	(1,738)
Income tax adjustment for prior years	105	38
Income tax expense	8,133	10,574

(1) The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense etc., which exceed the tax deduction limits in accordance with PRC tax regulations.

(2) The income not subject to tax mainly represents interest income arising from PRC treasury bonds, which is not taxable in accordance with the PRC tax regulations.

14 BASIC AND DILUTED EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
Net profit attributable to shareholders of the Bank	38,975	37,661
Less: net profit attributable to preference shareholders of the Bank	(2,693)	(884)
Net profit attributable to ordinary shareholders of the Bank	36,282	36,777
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	0.49	0.50

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 32 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,693 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2017, 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 30 June 2017	As at 31 December 2016
Cash	15,301	17,612
Mandatory reserve deposits	787,144	782,821
Excess reserve deposits	149,274	181,487
Balances with central banks other than reserve deposits	11,856	9,515
	963,575	991,435

The Group is required to place mandatory reserves with PBOC and other overseas regulatory bodies. The mandatory reserves are calculated based on the eligible deposits from customers. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

	As at 30 June 2017 %	As at 31 December 2016 %
Mandatory reserve rate for deposits denominated in RMB	16.50	17.00
Mandatory reserve rate for deposits denominated in foreign currencies	5.00	5.00

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2017	As at 31 December 2016
Due from banks and other financial institutions		
– Banks operating in Mainland China	127,732	132,556
– Banks operating outside Mainland China	44,751	47,397
Financial assets held under resale agreements		
– Securities	166,965	58,043
– Bills	3,852	10,000
Placements with and loans to banks		
– Banks operating in Mainland China	176,523	117,207
– Banks operating outside Mainland China	55,258	83,436
Placements with and loans to other financial institutions operating in Mainland China	279,694	267,148
	854,775	715,787

As at 30 June 2017, placements with and financial assets held under resale agreements with wealth management products that were sponsored and not consolidated by the Group amounted to RMB85,227 million (31 December 2016: RMB90,085 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements.

The average exposure of the above transactions for the six months ended 30 June 2017 was RMB48,413 million and the weighted average outstanding period was 2.84 days (The average exposure during 2016 was RMB20,790 million and the weighted average outstanding period was 1.38 days). As at the approval date of these consolidated financial statements, the placements and financial assets under resale agreements had matured and the amounts had been fully repaid.

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2017	As at 31 December 2016
Derivative financial instruments (Note 18)	22,871	37,223
Financial assets held for trading		
Government bonds		
– Listed in Hong Kong	2,931	2,422
– Listed outside Hong Kong(a)	4,688	6,466
– Unlisted	701	1,426
Other debt securities		
– Listed in Hong Kong	5,115	4,185
– Listed outside Hong Kong(a)	61,138	84,079
– Unlisted – corporate entities	11	10
– Unlisted – banking sector	1,053	490
Equity securities		
– Listed in Hong Kong	92	1
– Listed outside Hong Kong	66	33
Fund investments		
– Listed in Hong Kong	–	47
– Listed outside Hong Kong	–	181
– Unlisted	55,087	17,828
Precious metal contracts	48,798	40,819
Sub-total	202,551	195,210
Financial assets designated at fair value through profit or loss		
Loans to banks and other financial institutions	17,252	21,234
Sub-total	17,252	21,234
Total	219,803	216,444

(a) Debt securities traded on the China domestic inter-bank bond market are included in "Listed outside Hong Kong".

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

	As at 30 June 2017	As at 31 December 2016
Financial investments – financial assets at fair value through profit or loss		
– Governments and central banks	8,320	10,314
– Public sector entities	2,588	474
– Banks and other financial institutions	89,121	50,142
– Corporate entities	30,853	56,238
	130,882	117,168

The financial assets at fair value through profit or loss include financial assets held for trading, derivatives designated as effective hedging instruments and financial assets designated at fair value through profit or loss.

(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 favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

As at 30 June 2017	Contractual/ notional amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	2,425,078	20,732	(19,329)
Interest rate contracts and others	632,777	2,139	(2,098)
Total amount of derivative instruments recognised	3,057,855	22,871	(21,427)

As at 31 December 2016	Contractual/ notional amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity 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)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2017	As at 31 December 2016
RMB	1,378,211	1,305,983
US dollar	1,229,334	1,187,380
HK dollar	214,403	130,261
Others	235,907	182,976
Total	3,057,855	2,806,600

Hedge accounting

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

As at 30 June 2017	Contractual/ notional amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	27,822	166	(525)
Derivative financial instruments designated as hedging instruments in fair value hedges	63,066	508	(275)
Total	90,888	674	(800)

As at 31 December 2016	Contractual/ notional amount	Fair values	
		Assets	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)

(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 and loans and advances to customers.

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

	As at 30 June 2017	As at 31 December 2016
Net losses on hedging instruments	(359)	(1,159)
Net gains on hedged items attributable to the hedge risk	296	1,102
Net losses from fair value hedges	(63)	(57)

(b) Cash flow hedge

The Group uses foreign exchange contracts 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 deposit issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the six months ended 30 June 2017, the Group's profit from the cash flow hedge of RMB2 million (for the six months ended 30 June 2016: a net loss of RMB12 million) was recognised in other comprehensive income and the gain and loss arising from the ineffective portion of cash flow hedge was immaterial for the six months ended 30 June 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the six months ended 30 June 2017, as a result of the highly probable cash flows no longer being expected to occur.

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

Group	As at 30 June 2017	As at 31 December 2016
Loans and advances to customers	4,370,147	4,102,959
Less: Allowance for collectively assessed impairment losses	(66,204)	(63,756)
Less: Allowance for individually assessed impairment losses	(33,401)	(30,157)
	4,270,542	4,009,046

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements in allowance for losses on loans and advances

	Six months ended 30 June 2017		
	Collectively assessed	Individually assessed	Total
Balance at the beginning of the period	63,756	30,157	93,913
Net impairment allowances for loans charged to profit or loss (Note 9)	6,268	8,378	14,646
– Impairment allowances for loans	6,268	9,356	15,624
– Reversal of impairment allowances for loans	–	(978)	(978)
Recoveries of loans written-off in previous years	–	325	325
Unwind of discount on allowances during the period	–	(905)	(905)
Loans written off during the period as uncollectible	–	(8,237)	(8,237)
Other transfer (out)/in	(3,728)	3,728	–
Exchange differences	(92)	(45)	(137)
Balance at the end of the period	66,204	33,401	99,605

	Year ended 31 December 2016		
	Collectively assessed	Individually assessed	Total
Balance at the beginning of the year	64,004	23,434	87,438
Net impairment allowances for loans charged to profit or loss (Note 9)	9,439	19,041	28,480
– Impairment allowances for loans	9,439	20,830	30,269
– Reversal of impairment allowances for loans	–	(1,789)	(1,789)
Recoveries of loans written-off in previous years	–	808	808
Unwind of discount on allowances during the year	–	(1,959)	(1,959)
Loans written off during the year as uncollectible	–	(21,225)	(21,225)
Other transfer (out)/in	(9,902)	9,902	–
Acquisition of subsidiaries	44	76	120
Exchange differences	171	80	251
Balance at the end of the year	63,756	30,157	93,913

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements in allowance for losses on loans and advances *(Continued)*

	Six months ended 30 June 2017		
	Corporate Loan	Individual Loan	Total
Balance at the beginning of the period	75,044	18,869	93,913
Net impairment allowances for loans charged to profit or loss	12,896	1,750	14,646
– Impairment allowances for loans	13,684	1,940	15,624
– Reversal of impairment allowances for loans	(788)	(190)	(978)
Recoveries of loans written-off in previous years	124	201	325
Unwind of discount on allowances during the period	(794)	(111)	(905)
Loans written off during the period as uncollectible	(7,616)	(621)	(8,237)
Exchange differences	(109)	(28)	(137)
Balance at the end of the period	79,545	20,060	99,605

	Year ended 31 December 2016		
	Corporate Loan	Individual Loan	Total
Balance at the beginning of the year	70,540	16,898	87,438
Net impairment allowances for loans charged to profit or loss	23,857	4,623	28,480
– Impairment allowances for loans	25,487	4,782	30,269
– Reversal of impairment allowances for loans	(1,630)	(159)	(1,789)
Recoveries of loans written-off in previous years	344	464	808
Unwind of discount on allowances during the year	(1,756)	(203)	(1,959)
Loans written off during the year as uncollectible	(18,258)	(2,967)	(21,225)
Acquisition of subsidiaries	116	4	120
Exchange differences	201	50	251
Balance at the end of the year	75,044	18,869	93,913

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.3 Analysis of loans and advances to customers by collective and individual assessments

	Loan and advances not impaired	Identified impaired loans and advances to customers				
	Loans and advances for which the allowance is collectively assessed	For which the allowance is collectively assessed	For which the allowance is individually assessed	Sub-total	Total	Identified impaired Gross loans and advances as a % of total gross loans and advances
As at 30 June 2017						
Gross loans and advances	4,304,194	7,749	58,204	65,953	4,370,147	1.51
Allowance for impairment losses	(58,890)	(7,314)	(33,401)	(40,715)	(99,605)	
Net loans and advances to customers	4,245,304	435	24,803	25,238	4,270,542	
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	

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

20 FINANCIAL INVESTMENTS

	As at 30 June 2017	As at 31 December 2016
Loans and receivables – at amortised cost		
– Listed outside Hong Kong(a)	101,714	83,850
– Unlisted	311,370	303,973
Less: Impairment allowance	(2,655)	(2,803)
Loans and receivables (net)	410,429	385,020
Available-for-sale debt securities – at fair value		
– Listed in Hong Kong	63,994	46,971
– Listed outside Hong Kong(a)	176,131	164,078
– Unlisted	147,279	123,000
Debt securities	387,404	334,049
Available-for-sale equity securities – at fair value		
– Listed in Hong Kong	1,169	666
– Listed outside Hong Kong	1,711	2,934
– Unlisted	1,991	3,204
Equity securities	4,871	6,804
Available-for-sale fund investments and others – at fair value		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	–	233
– Unlisted	1,663	1,669
Fund investments and others	1,663	1,902
Total available-for-sale financial assets	393,938	342,755
Held-to-maturity debt securities – at amortised cost		
– Listed in Hong Kong	1,832	1,312
– Listed outside Hong Kong(a)	1,442,871	1,405,133
– Unlisted	5,507	1,354
Less: Impairment allowance	(351)	(350)
Held-to-maturity investments (net)	1,449,859	1,407,449

(a) Debt securities traded on the China domestic inter-bank bond market are included in "Listed outside Hong Kong".

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

20 FINANCIAL INVESTMENTS *(Continued)*

The movements in allowance for impairment losses of financial investments are summarised as follows:

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2017	2,803	1,175	350	4,328
Provision for impairment	94	273	–	367
Reversal of impairment allowances	(243)	(17)	–	(260)
Transfers in	–	–	–	–
Disposals	–	(39)	–	(39)
Written-off	–	–	–	–
Recovery after written-off	–	17	–	17
Exchange differences	1	(9)	1	(7)
As at 30 June 2017	2,655	1,400	351	4,406

	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)*

Financial investments analysed by issuer are as follows:

	As at 30 June 2017	As at 31 December 2016
Loans and receivables		
– Governments and central banks	98,519	80,572
– Banks and other financial institutions	35,849	64,755
– Corporate entities	278,716	242,496
Less: Impairment allowance	(2,655)	(2,803)
Loans and receivables (net)	410,429	385,020
Available-for-sale financial assets		
– Governments and central banks	40,139	37,735
– Public sector entities	6,016	4,472
– Banks and other financial institutions	284,607	231,360
– Corporate entities	63,176	69,188
Total	393,938	342,755
Held-to-maturity investments		
– Governments and central banks	1,067,011	1,003,962
– Public sector entities	29,989	28,505
– Banks and other financial institutions	292,027	306,591
– Corporate entities	61,183	68,741
Less: Impairment allowance	(351)	(350)
Held-to-maturity investments (net)	1,449,859	1,407,449

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

	As at 30 June 2017	As at 31 December 2016
Available-for-sale financial investment (at fair value) – unlisted	49,735	47,534

The maturity profile of certificates of deposits in the inter-bank market held by the remaining period as at period end to the contractual maturity dates are summarised as follows:

	As at 30 June 2017	As at 31 December 2016
Within 3 months	3,211	2,430
3 months to 12 months	35,144	10,316
1 year to 5 years	11,380	34,788
	49,735	47,534

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

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	As at 30 June 2017	As at 31 December 2016
Investment in associates		
Investment cost	2,898	362
Net profit adjusted by the equity method	358	307
Changes in other equity	43	45
Investment in joint venture	1	–
Totals	3,300	714

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd.

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,223 million, and the principal activities of the entity are commercial banking activities. The Group held 9.00% of equity interest in this associate as at 30 June 2017.

There are 15 directors at the 6th Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group and approved by the shareholders' general meeting. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as associates, instead of available-for-sale financial assets.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,018 million, and the principal activities of the entity are commercial banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2017 (31 December 2016: 10.60%).

There are 11 directors at the Board of Directors of Bank of Tibet Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as associates.

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

22 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2017	53,391	7,120	25,174	61,627	7,122	154,434
Additions	58	658	470	10,767	82	12,035
Transfer out to investment properties	–	–	–	–	–	–
Disposals	(148)	(206)	(546)	(353)	(14)	(1,267)
Construction in progress transfer in	1,904	(2,201)	–	–	297	–
Other transfers in/(out)	–	–	–	–	–	–
As at 30 June 2017	55,205	5,371	25,098	72,041	7,487	165,202
Accumulated depreciation						
As at 1 January 2017	(13,288)	–	(19,066)	(4,072)	(3,562)	(39,988)
Charge for the period	(886)	–	(1,348)	(1,605)	(342)	(4,181)
Transfer out to investment properties	–	–	–	–	–	–
Transfers in	–	–	–	–	–	–
Disposals	35	–	522	92	5	654
As at 30 June 2017	(14,139)	–	(19,892)	(5,585)	(3,899)	(43,515)
Allowance for impairment losses						
As at 1 January 2017	–	(16)	–	(5)	–	(21)
Provision for impairment	–	–	–	–	–	–
Decrease	–	–	–	–	–	–
As at 30 June 2017	–	(16)	–	(5)	–	(21)
Net book value						
As at 30 June 2017	41,066	5,355	5,206	66,451	3,588	121,666

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

22 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2016	49,275	12,067	24,151	32,850	6,299	124,642
Additions	254	1,353	2,199	30,741	276	34,823
Transfers out to investment properties	(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)
Transfer out to investment properties	314	–	–	–	9	323
Transfers in	(2)	–	(14)	–	–	(16)
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

As at 30 June 2017, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB66,269 million (31 December 2016: RMB57,483 million).

As at 30 June 2017, the property and equipment with re-registration procedure not completed amounted to RMB210 million (31 December 2016: RMB211 million). However, this registration process does not affect the rights of the Bank to these assets.

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

23 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2017 (for the year ended 31 December 2016: 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 2016: 16.5%).

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

	Allowance for impairment losses	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 properties	Other temporary differences	Total
Balance at 1 January 2017	12,401	109	107	(628)	(644)	(509)	1,586	12,422
Recognised in profit or loss	2,650	(22)	(10)	–	284	(6)	261	3,157
Recognised in other comprehensive income	–	–	–	599	(22)	–	–	577
Balance at 30 June 2017	15,051	87	97	(29)	(382)	(515)	1,847	16,156

	Allowance for impairment losses	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 properties	Other temporary differences	Total
Balance at 1 January 2016	16,389	116	111	(555)	(273)	(77)	854	16,565
Recognised in profit or loss	(3,988)	(7)	(4)	–	(391)	13	732	(3,645)
Recognised in other comprehensive income	–	–	–	(73)	20	(445)	–	(498)
Balance at 31 December 2016	12,401	109	107	(628)	(644)	(509)	1,586	12,422

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

23 DEFERRED INCOME TAX *(Continued)*

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

	As at 30 June 2017		As at 31 December 2016	
	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	(961)	(269)	(2,329)	(636)
Change in fair value of investment properties	(2,251)	(515)	(2,255)	(509)
Changes in fair value of derivative instruments	(22,871)	(5,716)	(37,223)	(9,294)
Other temporary differences	(84)	(20)	(694)	(172)
	(26,167)	(6,520)	(42,501)	(10,611)
Deferred income tax assets				
Allowance for impairment losses	60,094	15,051	49,489	12,401
Retirement supplementary pension payable	388	97	427	107
Outstanding litigations and unsettled obligation	342	87	448	109
Change in fair value of available-for-sale financial assets	1,117	240	58	8
Changes in fair value of derivative instruments	21,427	5,334	34,599	8,650
Other temporary differences	7,358	1,867	7,016	1,758
	90,726	22,676	92,037	23,033
Net deferred income tax assets	64,559	16,156	49,536	12,422

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

	As at 30 June 2017	As at 31 December 2016
Deferred income tax assets	16,331	12,567
Deferred income tax liabilities	(175)	(145)

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

24 OTHER ASSETS

	As at 30 June 2017	As at 31 December 2016
Interest receivable	48,855	47,803
Settlement accounts	11,207	6,495
Other receivables and prepayments	14,118	13,273
Less: Impairment allowance (d)	(689)	(673)
Leasehold improvement	699	818
Intangible assets (a)	1,195	1,172
Land use rights and others	1,183	1,016
Foreclosed assets	866	892
Rental deposits	111	127
Goodwill (e)	457	471
Investment properties (b)	8,758	8,762
Finance lease receivables (c)	123,878	117,676
Less: Impairment allowance (d)	(3,376)	(3,219)
Precious metal	755	1,268
Others	18,603	11,643
	226,620	207,524

(a) Intangible assets

	Software
Cost	
As at 1 January 2017	2,380
Additions	148
Transfers in	–
Disposals	(6)
As at 30 June 2017	2,522
Accumulated amortisation	
As at 1 January 2017	(1,208)
Amortisation expense	(122)
Transfers in	–
Disposals	3
As at 30 June 2017	(1,327)
Net book value	1,195

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

24 OTHER ASSETS *(Continued)*

(a) Intangible assets *(Continued)*

	Software
Cost	
As at 1 January 2016	2,133
Additions	299
Transfers 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

(b) Investment properties

	Six months ended 30 June 2017	Year ended 31 December 2016
Balance at the beginning of the period/year	8,762	5,634
Additions of the period/year	–	2,988
Gains on property revaluation	56	41
Exchange differences	(60)	99
Balance at the end of the period/year	8,758	8,762

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 30 June 2017, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 30 June 2017
Commercial property units located in Hong Kong	–	–	1,090	1,090
Commercial property units located outside Hong Kong	–	–	7,668	7,668

The valuation of these investment properties located in Hong Kong as at 31 March 2017 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)

24 OTHER ASSETS *(Continued)*

(c) Finance lease receivables

	As at 30 June 2017	As at 31 December 2016
Minimum finance lease receivables		
Within 1 year (inclusive)	38,665	36,778
1 year to 2 years (inclusive)	30,349	29,301
2 years to 3 years (inclusive)	21,070	20,786
Over 3 years	50,294	45,935
	140,378	132,800
Gross investment in finance leases	140,378	132,800
Unearned finance income	(16,500)	(15,124)
Net investment in finance leases	123,878	117,676
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	34,057	32,451
1 year to 2 years (inclusive)	26,907	26,092
2 years to 3 years (inclusive)	18,738	18,438
Over 3 years	44,176	40,695
	123,878	117,676
The allowance for uncollectible finance lease receivable	(3,376)	(3,219)
Net finance lease receivables	120,502	114,457

(d) Impairment allowance

	As at 1 January 2017	Amounts accrued	Reversal	Write-off	Transfers (in)/out	Exchange differences	As at 30 June 2017
Other receivables	(629)	(63)	44	1	(2)	–	(649)
Finance lease receivables	(3,219)	(159)	–	–	–	2	(3,376)
Others	(44)	(10)	–	14	–	–	(40)
Total	(3,892)	(232)	44	15	(2)	2	(4,065)

	As at 1 January 2016	Amounts accrued	Reversal	Write-off	Transfers (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)

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

24 OTHER ASSETS *(Continued)*

(e) Goodwill

	As at 1 January 2017	Addition during the period	Decrease during the period	Exchange differences	As at 30 June 2017
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
Others	149	–	–	(14)	135
Total	471	–	–	(14)	457

	As at 1 January 2016	Addition during the period	Decrease during the period	Exchange differences	As at 31 December 2016
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

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2017	As at 31 December 2016
Borrowing from central banks	508,304	443,597
Deposits from other banks		
– Banks operating in Mainland China	269,543	375,400
– Banks operating outside Mainland China	13,904	12,066
Deposits from other financial institutions		
– Other financial institutions operating in Mainland China	1,001,184	844,836
– Other financial institutions operating outside Mainland China	17,618	21,685
Placement from banks		
– Banks operating in Mainland China	191,311	170,002
– Banks operating outside Mainland China	219,084	184,265
Financial instruments sold under repurchase agreements		
– Securities	106,518	175,920
– Bills	21,900	3,289
Total	2,349,366	2,231,060

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

26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2017	As at 31 December 2016
Derivative financial instruments (Note 18)	21,427	34,599
Short position of securities held for trading	443	1,206
Certificates of deposit issued	20,541	15,135
Financial liabilities related to precious metal contracts	12,432	33,350
Others	11	9
Total	54,854	84,299

Except for certificates of deposit issued which are designated as at fair value through profit or loss, the financial liabilities at fair value through profit or loss include financial liabilities held for trading and derivatives designated as effective hedging instruments.

Financial liabilities designated as fair value through profit or loss

	As at 30 June 2017	As at 31 December 2016
Difference between carrying amount and maturity amount		
– Fair values	20,541	15,135
– Amount payable at maturity	20,505	15,142
Difference	36	(7)

For the six months ended 30 June 2017 and the year ended 31 December 2016, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

27 DUE TO CUSTOMERS

	As at 30 June 2017	As at 31 December 2016
Corporate demand deposits	1,759,908	1,725,948
Corporate time deposits	1,575,290	1,480,293
Individual demand deposits	702,365	722,225
Individual time deposits	897,771	795,335
Other deposits	3,360	4,788
	4,938,694	4,728,589
Including:		
Deposits pledged as collateral	371,685	389,771

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

28 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposit issued by the Bank's domestic branches, branches in, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London and BBM Bank were measured at amortised cost.

29 DEBT SECURITIES ISSUED

		As at 30 June 2017	As at 31 December 2016
Carried at amortised cost:			
Subordinated bonds	29.1	39,450	55,450
Tier 2 capital bonds	29.2	69,835	39,839
Bonds			
The Bank	29.3	79,991	74,212
Subsidiaries	29.3	52,426	39,379
Sub-total		241,702	208,880
Carried at fair value:			
Bonds	29.3	19,243	20,635
Total		260,945	229,515

Notes: These debt securities are designated as fair value through profit and loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses 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. For the period ended 30 June 2017 and the year ended 31 December 2016, there were no significant changes due to the Group's changes in credit risks.

29.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate (%)	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Balance at the end of the period	Balance at the beginning of the period
07 BoComm 01	RMB	China	4.13	16,000	2007/03/06	15 years	(a)	16,000	–	16,000
09 BoComm 02	RMB	China	4.00	13,500	2009/07/01	15 years	(b)	13,500	13,500	13,500
11 BoComm 01	RMB	China	5.75	26,000	2011/10/21	15 years	(c)	26,000	25,950	25,950
Total								55,500	39,450	55,450

(a) The Group redeemed these bonds on 8 March 2017.

(b) The Group has an option to redeem these bonds on 3 July 2019. If no redemption exercised by the Group, the bonds will bear a fixed coupon rate of 7.00% for the remaining 5 years commencing 3 July 2019.

(c) The Group has an option to redeem these bonds on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

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

29 DEBT SECURITIES ISSUED *(Continued)*

29.2 Tier 2 capital bonds

Detailed information of Tier 2 capital bonds is disclosed as follows:

	Currency	Issue place	Coupon rate	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Balance at the end of the period	Balance at the beginning of the period
14 BoComm 01	RMB	China	5.80	28,000	2014/08/18	10 years	(a)	28,000	27,966	27,959
14 BoComm USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 years	(b)	8,129	8,068	8,259
14 BoComm Euro	EUR	Hong Kong	3.625	500	2014/10/03	12 years	(c)	3,875	3,842	3,621
17 BoComm 02	RMB	China	4.50	30,000	2017/04/11	10 years	(d)	30,000	29,959	–
Total								70,004	69,835	39,839

(a) The Group has an option to redeem these bonds at the face value partially or as a whole on 19 August 2019, provided CBRC's permission is acquired in advance and the Group's capital structure fulfils the CBRC requirements on capital if the redemption is exercised.

(b) The Group has an option to redeem these bonds as a whole on 3 October 2019. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year US treasury bonds plus 285 basis points.

(c) The Group has an option to redeem these bonds as a whole on 3 October 2021. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year Euro plus 300 basis points.

(d) The Group has an option to redeem these bonds at the face value partially or as a whole on 13 April 2022, provided CBRC's permission is acquired in advance and the Group's capital structure fulfills the CBRC requirements on capital if the redemption is exercised.

These secondary capital bonds have the write-down feature of a secondary capital instrument, which allows the Group to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. The subordinated debts are regarded as Tier 2 capital without any guarantees provided and the proceeds of the debts cannot be used for offsetting daily operating loss of the Group.

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

29 DEBT SECURITIES ISSUED *(Continued)*

29.3 Bonds

Detailed information of bonds held at amortised cost is as follows:

Bank	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Balance at the end of the period	Balance at the beginning of the period
13 BoComm 01	RMB	Mainland China	4.37	10,000	2013/07/26	5 years	10,000	10,000	10,000
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	30,000	30,000
16 BoComm Green Financial bond 01	RMB	Mainland China	2.94	10,000	2016/11/18	3 years	10,000	10,000	10,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	20,000	20,000
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
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
17 medium-term notes 01	USD	Hong Kong	3MLibor +0.78	700	2017/05/15	3 years	4,742	4,743	–
17 medium-term notes 02	USD	Hong Kong	3MLibor +0.88	300	2017/05/15	5 years	2,032	2,032	–
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 years	900	908	906
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 years	700	706	705
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 years	200	202	201
Sub-total							80,974	79,991	74,212
Subsidiaries									
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 years	3,387	3,387	3,464
14 Azure Orbit	USD	Hong Kong	3.375	500	2014/04/25	5 years	3,387	3,387	3,464
5 Year medium-term notes	USD	Hong Kong	3.125	385	2015/08/18	5 years	2,608	2,608	2,667
3 Year medium-term notes	EUR	Luxembourg	3M Euribor +1.15	100	2015/08/18	3 years	752	752	731
3 Year USD bond	USD	Hong Kong	2.23	400	2016/03/15	3 years	2,710	2,710	2,772
5 Year USD bond	USD	Hong Kong	2.748	600	2016/03/15	5 years	4,065	4,040	4,157
14 Leasing 01	RMB	Mainland China	6.10	200	2014/01/17	3 years	200	–	150
14 Leasing 02	RMB	Mainland China	5.20	3,800	2014/07/17	3 years	3,800	3,040	2,850
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	3,900
16 Leasing 02	RMB	Mainland China	3.05	1,500	2016/09/07	3 years	1,500	1,200	1,200
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	450	450
Azure Nova	USD	Hong Kong	2.25	500	2016/10/25	3 years	3,465	3,402	3,465
Azure Nova	USD	Hong Kong	2.625	1,000	2016/10/25	5 years	6,908	6,785	6,909
Azure Nova	USD	Hong Kong	3.00	700	2017/03/21	3 years	4,806	4,757	–
Azure Nova	USD	Hong Kong	3.50	1,050	2017/03/21	5 years	7,186	7,114	–
Azure Nova	USD	Hong Kong	4.25	250	2017/03/21	10 years	1,711	1,694	–
Sub-total							54,985	52,426	39,379
Total							135,959	132,417	113,591

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

29 DEBT SECURITIES ISSUED *(Continued)*

29.3 Bonds *(Continued)*

Detailed information of bonds held at fair value is as follows:

	Currency	Issue place	Coupon rate	Par value (CCY)	Issue date	Maturity	Issue amount	Balance	Fair value at the end of the period	Fair value at the beginning of the period
14 Hong Kong medium-term notes	USD	Hong Kong	2.125	700	2014/01/15	3 years	4,742	–	–	4,856
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 years	434	431	447	451
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 years	304	304	309	316
14 CHF bond	CHF	Hong Kong	0.875	300	2014/06/26	3 years	2,127	–	–	2,050
14 SGD bond	SGD	Hong Kong	2.10	100	2014/07/24	3 years	491	492	492	481
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 years	5,081	5,078	5,084	5,206
16 Hong Kong medium-term notes	USD	Hong Kong	2.25	500	2016/01/25	3 years	3,387	3,387	3,372	3,450
16 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+0.88	550	2016/08/16	3 years	3,726	3,726	3,742	3,825
17 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+0.775	850	2017/02/21	3 years	5,758	5,759	5,797	–
Total							26,050	19,177	19,243	20,635

30 OTHER LIABILITIES

	As at 30 June 2017	As at 31 December 2016
Interest payable	88,757	79,635
Settlement accounts	30,492	22,741
Staff compensation payable	4,660	7,814
VAT and other taxes payable	4,425	4,529
Insurance contracts reserve	19,407	12,512
Deposits received for finance lease	8,707	8,934
Provision for outstanding litigation (a)	342	348
Provision for unsettled obligation (a)	–	100
Dividends payable	22,941	71
Others	45,384	36,353
Total	225,115	173,037

30 OTHER LIABILITIES *(Continued)*

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

	As at 1 January 2017	Amounts accrued in during the period	Amounts reversed during the period	Amounts paid during the period	Exchange differences	As at 30 June 2017
Provision for outstanding litigation	348	31	(36)	(1)	–	342
Provision for unsettled obligation	100	–	–	(100)	–	–
	448	31	(36)	(101)	–	342

	As at 1 January 2016	Amounts transferred during the period	Amounts accrued during the period	Amounts reversed during the period	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

31 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2017	74,263	74,263	113,392	187,655
As at 30 June 2017	74,263	74,263	113,683	187,946

	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

As at 30 June 2017 and 31 December 2016, the number of A shares of the Group is 39,251 million, and the number of H shares of the Group is 35,012 million, both with par value of RMB1 per share.

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

31 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 30 June 2017 and 31 December 2016, the Group's capital surplus is listed as follows:

	As at 1 January 2017	Additions	Reductions	As at 30 June 2017
Share premium	112,769	291	–	113,060
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	291	–	113,683

	As at 1 January 2016	Additions	Reductions	As at 31 June 2016
Share premium	112,769	–	–	112,769
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	28	–	–	28
Total	113,392	–	–	113,392

32 PREFERENCE SHARES

32.1 Preference shares outstanding at the end of the period

	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%	USD 20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the period
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB 100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
					Total		59,982			
					Less: Issuance fees		(106)			
					Book value		59,876			

32.2 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 offshore 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.

32 PREFERENCE SHARES *(Continued)*

32.2 Main clauses *(Continued)*

Offshore preference share *(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. 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.

(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 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.

32 PREFERENCE SHARES *(Continued)*

32.2 Main clauses *(Continued)*

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 offshore 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. 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. The initial mandatory conversion price is RMB6.25 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 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.

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

32 PREFERENCE SHARES *(Continued)*

32.2 Main clauses *(Continued)*

Domestic preference shares *(Continued)*

(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.

32.3 Movement of preference shares issued

	Balance at 1 January 2017	Movement: Additions	Movement: Reductions	Balance at 30 June 2017
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

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

32 PREFERENCE SHARES *(Continued)*

32.4 Interests attribute to holders of preference shares

	As at 30 June 2017	As at 31 December 2016
Total equity attribute to equity holders of the parent company	643,250	629,142
Equity attribute to ordinary equity holders of the parent company	583,374	569,266
Equity attribute to preference shares holders of the parent company	59,876	59,876
Of which: Net profit	2,693	884
Total comprehensive income	–	–
Dividends paid during the year	2,693	884
Unpaid cumulative dividends	–	–
Total equity attribute to non-controlling interests	5,158	3,265
Equity attribute to non-controlling interests of ordinary shares	5,158	3,265
Equity attribute to non-controlling interests of preference shares	–	–

33 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank and its domestic subsidiaries are required to appropriate 10% of its net profit for the year (Note 34) to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is 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.

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank and its domestic subsidiaries.

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

33 RESERVES AND RETAINED EARNINGS *(Continued)*

Movements in surplus reserve for the current period are set out as below:

	As at 1 January 2017	Appropriation	Reductions	As at 30 June 2017
Statutory reserve	50,650	88	–	50,738
Discretionary reserve	139,764	4	–	139,768
Total	190,414	92	–	190,506

34 DIVIDENDS

	Six months ended 30 June	
	2017	2016
Dividends to ordinary shareholders of the Bank	20,162	20,051
Dividends to preference shareholders of the Bank	2,693	884

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

(1) Making up cumulative losses from prior years, if any;

(2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;

(3) Allocations to statutory general reserve;

(4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

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

Pursuant to the proposal raised at the Board meeting on 28 April 2017 and the approval by the Annual General Meeting of Shareholders on 22 June 2017, the Bank appropriated RMB16,116 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2715 (before tax) for each ordinary share, with total amount of RMB20,162 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2016, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 28 April 2017, the Bank appropriated overseas preference dividends on 31 July 2017 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders), with total amount of USD136 million. The Bank will appropriate domestic preference dividends on 7 September 2017 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

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

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

Financial guarantees and credit related commitments

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

	As at 30 June 2017	As at 31 December 2016
Letters of guarantee	275,318	279,694
Letters of credit commitments	114,389	126,885
Acceptances bills	191,413	231,566
Credit card commitments	678,800	528,199
Loan commitments		
– Under 1 year	19,624	21,590
– 1 year and over	48,291	64,535
	1,327,835	1,252,469

Capital expenditure commitments

	As at 30 June 2017	As at 31 December 2016
Contracted but not provided for	9,701	9,371
	9,701	9,371

Operating lease commitments

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

	As at 30 June 2017	As at 31 December 2016
Within 1 year (inclusive)	4,184	3,962
Beyond 1 year but no more than 2 years (inclusive)	3,065	3,005
Beyond 2 years but no more than 3 years (inclusive)	2,260	2,286
Beyond 3 years but no more than 5 years (inclusive)	2,478	2,548
More than 5 years	1,796	1,792
	13,783	13,593

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

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments *(Continued)*

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

	As at 30 June 2017	As at 31 December 2016
Within 1 year (inclusive)	8,482	6,295
Beyond 1 year but no more than 2 years (inclusive)	8,448	6,291
Beyond 2 years but no more than 3 years (inclusive)	8,306	6,287
Beyond 3 years but no more than 5 years (inclusive)	15,266	11,958
More than 5 years	34,982	36,525
	75,484	67,356

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2017, the principal value of the Treasury Bonds that the Bank had the obligation to buy back amounted to RMB72,151 million (31 December 2016: RMB70,725 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 30 June 2017, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2016: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 30. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

	As at 30 June 2017	As at 31 December 2016
Outstanding claims	1,522	1,669
Provision for outstanding litigation (Note 30)	342	348

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

36 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 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
Investment securities	706,427	732,928	603,115	609,683
Bills	23,559	4,331	23,506	4,331
Total	729,986	737,259	626,621	614,014

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 41 transfers of financial assets.

(2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 30 June 2017, the fair value of such collaterals amounted to RMB18,565 million (31 December 2016: RMB25,934 million). All pledges are conducted under standard and normal business terms. As at 30 June 2017 and 31 December 2016, the Group did not sell or re-pledge any collaterals received.

37 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2017		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Financial investments – available-for-sale	(2,427)	599	(1,828)
Changes in fair value recorded in equity	(52)	13	(39)
Changes in fair value reclassified from equity to profit or loss	(2,375)	586	(1,789)
Cash flow hedge reserve	92	(22)	70
Changes in fair value recorded in equity	2	–	2
Changes in fair value reclassified from equity to profit or loss	90	(22)	68
Translation difference on foreign operations	(583)	–	(583)
Actuarial gains on pension benefits	20	–	20
Other comprehensive income for the period	(2,898)	577	(2,321)

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

37 OTHER COMPREHENSIVE INCOME *(Continued)*

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

38 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 30 June 2017	As at 30 June 2016
Cash and balances with central banks (Note 15)	164,575	256,039
Due from banks and other financial institutions (Note 16)	135,332	105,364
	299,907	361,403

39 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are primarily wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those wealth management products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at 30 June 2017, the wealth management products managed and consolidated by the Group amounted to RMB952,319 million (31 December 2016: RMB761,239 million). The financial impact of any individual wealth management products on the Group's financial performance is not significant.

Interests held by other interest holders are included in due to customers.

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

40 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or 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 30 June 2017, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products and wealth management products with principals not guaranteed by the Group.The Group earns commission income by providing management services to the investors of these structured entities, which are 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.

As at 30 June 2017, 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) amounted to RMB2,029,224 million(31 December 2016: RMB2,009,829 million).

As at 30 June 2017 and 31 December 2016, unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		Type of income
	30 June 2017	31 December 2016	
Funds	78,986	86,760	Commission income
Trusts and asset management products	731,515	700,839	Commission income
Wealth management products	865,112	918,279	Commission income
Total	1,675,613	1,705,878	

For the period ended 30 June 2017, the Group's Commission Income from provision of service to the investors of the structured entities managed by the Group was RMB1,721 million (During the period ended 30 June 2016: RMB1,183 million), and Net Interest Income which related to placements transactions by the Group with non principal guaranteed wealth management products was RMB674 million (During the period ended 30 June 2016: RMB75 million).

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

40 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 30 June 2017 and 31 December 2016, the carrying amount of interests in unconsolidated structured entities held by the Group through investment is set out as below:

	As at 30 June 2017				
	Carrying amount				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Maximum exposure to loss	Type of income
Funds	55,087	1,298	–	56,385	Investment income
Trusts and asset management products	–	365	276,061	276,426	Interest income
Wealth management products	–	–	20,800	20,800	Interest income
Total	55,087	1,663	296,861	353,611	

The information of total size of the unconsolidated structured entities listed above is not readily available from the public domain.

	As at 31 December 2016				
	Carrying amount				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	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	

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

41 TRANSFERS OF FINANCIAL ASSETS

41.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not 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 30 June 2017 and 31 December 2016, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 25).

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	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Investment securities	403	745	403	738

41.2 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 30 June 2017, the carrying value of debt securities lent to counterparties was RMB70,774 million (31 December 2016: RMB3,610 million).

41.3 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 condensed consolidated interim financial statement to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2016, total loans with an original carrying amount of RMB8,000 million have been securitized by the Group under arrangements in which the Group retained a continuing involvement in such assets in the form of holding subordinated tranches. As at 30 June 2017, the trust plan has met the early repayment requirement and the Group has completed the early settlement.

As at 30 June 2017, loans with an original value of RMB4,893 million and carrying amount of RMB1,580 million (31 December 2016: RMB4,893 million and RMB1,580 million) have been securitized and fully derecognized by the Group and the Bank.

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

41 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

41.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transfer to third parties in the normal course of business. For the six months ended 30 June 2017, the Group had transferred impaired loans and advances to customers with a total gross carrying amount of RMB15,150 million (2016: RMB28,101 million) and collected cash totalling RMB7,845 million (2016: 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-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

42 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2017, the MOF holds 19,703 million (31 December 2016: 19,703 million) shares of the Group which represents 26.53% (31 December 2016: 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 30 June 2017	As at 31 December 2016
Bonds issued by MOF	390,776	379,228
Interest receivable	4,633	5,458

	Six months ended 30 June	
	2017	2016
Interest income	6,438	5,489
Interest expense	–	403

The interest rates of the transactions between the Group and MOF are summarised below:

	Six months ended 30 June	
	2017 %	2016 %
Bonds issued by MOF	1.94~5.05	2.22~6.15
Due to customers	–	2.75~3.20

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 30 June 2017, National Council for Social Security Fund holds 10,937 million (31 December 2016: 10,920 million) shares in the Group which represents 14.73% (31 December 2015: 14.70%) 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 30 June 2017	As at 31 December 2016
Due to customers	52,000	58,000
Interest payable	1,642	964

	Six months ended 30 June	
	2017	2016
Interest expense	1,429	1,430

The interest rates of the transactions between the Group and the National Council for Social Security Fund are summarised below:

	Six months ended 30 June	
	2017 %	2016 %
Due to customers	3.85~6.10	3.85~6.10

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

As at 30 June 2017, HSBC holds 13,886 million (31 December 2016: 13,886 million) shares of the Group which represents 18.70% (31 December 2016: 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.

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

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

Details of transaction volumes and outstanding balances are summarised below:

Group	As at 30 June 2017	As at 31 December 2016
On-balance sheet items		
Due from banks and other financial institutions	833	2,348
Placements with and loans to banks and other financial institutions	1,278	2,770
Derivative financial assets	1,641	2,554
Interest receivable	28	53
Financial investments-available-for-sale	2,197	2,067
Financial assets at fair value through profit or loss	1,501	917
Deposits from banks and other financial institutions	2,818	3,128
Placements from banks and other financial institutions	10,113	11,394
Derivative financial liabilities	1,276	1,091
Financial instruments sold under repurchase agreements	–	1,960
Interest payable	49	27
Off-balance sheet items		
Notional principal of derivative financial instruments	239,015	160,413

	Six months ended 30 June	
	2017	2016
Net gains/(losses) from trading activities	193	(263)
Interest income	72	32
Interest expense	97	62

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

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

The interest rates of the transactions between the Group and HSBC are summarised below:

	Six months ended 30 June	
	2017	2016
	%	%
Due from banks and other financial institutions	0.01~0.25	0.01~0.125
Placements to banks and other financial institutions	0.20~3.55	1.00~1.80
Financial investments-available-for-sale	1.50~3.50	1.33~3.50
Deposits from banks and other financial institutions	0.01~5.75	0.05~5.75
Placements from banks and other financial institutions	(0.28)~4.30	0.10~2.85
Financial assets held under resale agreements	2.60~2.87	2.02~2.87
Financial instruments sold under repurchase agreements	2.45~4.95	2.28~4.95

(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 period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

(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 30 June 2017	As at 31 December 2016
Due from banks and other financial institutions	–	195
Placements to banks and other financial institutions	25,517	27,125
Financial investments	2,010	2,050
Loans and advances to customers	18,011	18,083
Interest receivable	387	428
Other assets	2,011	105
Deposits from banks and other financial institutions	6,515	6,329
Placements from banks and other financial institutions	440	–
Due to customers	1,948	2,409
Debt securities issued	51	51
Interest payable	72	18
Other liabilities	19	25

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

Bank	Six months ended 30 June 2017	2016
Interest income	674	779
Interest expense	47	25
Fee and commission income	648	404
Fee and commission expense	28	16
Other operating income	57	41
Other operating expense	103	58

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

Bank	Six months ended 30 June 2017 %	2016 %
Due from banks and other financial institutions	0.72~4.60	3.50~3.53
Placements to banks and other financial institutions	(0.03)~5.55	1.85~3.71
Financial investments	3.05~6.10	3.80~6.10
Loans and advances to customers	0.96~4.18	2.23~3.67
Deposits from banks and other financial institutions	0.01~5.50	0.01~3.50
Placements from banks and other financial institutions	0.04~4.95	0.85~3.00
Due to customers	0.01~1.65	0.35~4.75
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 30 June 2017	As at 31 December 2016
Due to customers	36	34
Loans and advances to customers	1	1

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

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates

As at 30 June 2017, the Group holds 9.00% of total share capital of Jiangsu Changshu Rural Commercial Bank Co., Ltd. and 10.60% (31 December 2016: 10.60%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2017	As at 31 December 2016
Deposits from banks and other financial institutions	2,172	2,064
Interest payable	6	4

	Six months ended 30 June	
	2017	2016
Interest income	2	–
Interest expense	11	7

The interest rates of the transactions between the Group and Associates are summarised below:

	Six months ended 30 June	
	2017 %	2016 %
Deposits from banks and other financial institutions	1.35~4.95	1.35~2.85
Placements to banks and other financial institutions	2.31~2.88	–
Financial assets held under resale agreements	2.075~2.95	–

43 SEGMENTAL ANALYSIS

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

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

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

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

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

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

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

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Six months ended 30 June 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	13,170	4,625	35,217	18,934	10,005	9,839	62,591	–	154,381
External interest expense	(16,039)	(4,396)	(28,308)	(16,417)	(7,250)	(6,606)	(12,657)	–	(91,673)
Inter-segment net Interest income/(expense)	11,597	2,674	13,603	11,015	3,994	(211)	(42,672)	–	–
Net Interest income	8,728	2,903	20,512	13,532	6,749	3,022	7,262	–	62,708
Net fee and commission income	2,362	875	6,806	4,586	1,724	1,503	3,405	–	21,261
Net gains/(losses) arising from trading activities	136	29	560	260	50	506	(1,352)	–	189
Net gains/(losses) arising from financial investments	–	–	369	9	–	210	2,067	–	2,655
Insurance business income	–	–	10,748	–	–	20	–	–	10,768
Share of profit of associates and joint venture	–	–	–	–	–	(6)	57	–	51
Other operating income	716	124	3,804	509	282	709	164	–	6,308
Total operating income	11,942	3,931	42,799	18,896	8,805	5,964	11,603	–	103,940
Impairment losses on loans and advances to customers	(1,564)	(744)	(6,910)	(2,169)	(1,358)	(128)	(1,773)	–	(14,646)
Insurance business expense	–	–	(9,856)	–	–	(6)	–	–	(9,862)
Other operating expense	(3,420)	(1,632)	(11,097)	(4,958)	(2,398)	(1,955)	(6,617)	–	(32,077)
Profit before tax	6,958	1,555	14,936	11,769	5,049	3,875	3,213	–	47,355
Income tax									(8,133)
Net profit for the period									39,222
Depreciation and amortisation	(392)	(194)	(892)	(557)	(320)	(83)	(484)	–	(2,922)
Capital expenditure	(70)	(54)	(11,150)	(239)	(157)	(185)	(558)	–	(12,413)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Six months ended 30 June 2016								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	13,400	4,848	34,619	18,866	10,360	7,168	55,100	–	144,361
External interest expense	(15,021)	(4,324)	(25,055)	(14,400)	(6,515)	(4,555)	(6,343)	–	(76,213)
Inter-segment net Interest income/(expense)	10,544	2,578	11,545	8,606	3,314	133	(36,720)	–	–
Net Interest income	8,923	3,102	21,109	13,072	7,159	2,746	12,037	–	68,148
Net fee and commission income	2,458	918	7,449	4,306	1,870	1,040	2,923	–	20,964
Net gains/(losses) arising from trading activities	176	55	504	150	49	811	(650)	–	1,095
Net gains/(losses) arising from financial investments	–	–	326	34	–	160	–	–	520
Insurance business income	–	–	8,741	–	–	23	–	–	8,764
Share of profit of associates and joint venture	–	–	–	–	–	–	38	–	38
Other operating income	391	102	2,007	481	276	707	116	–	4,080
Total operating income	11,948	4,177	40,136	18,043	9,354	5,487	14,464	–	103,609
Impairment losses on loans and advances to customers	(1,449)	(555)	(7,401)	(2,470)	(1,135)	(197)	(1,600)	–	(14,807)
Insurance business expense	–	–	(8,154)	–	–	(7)	–	–	(8,161)
Other operating expense	(3,625)	(1,689)	(10,364)	(5,150)	(2,643)	(1,778)	(6,895)	–	(32,144)
Profit before tax	6,874	1,933	14,217	10,423	5,576	3,505	5,969	–	48,497
Income tax									(10,574)
Net profit for the period									37,923
Depreciation and amortisation	(406)	(222)	(673)	(514)	(334)	(338)	(508)	–	(2,995)
Capital expenditure	(180)	(53)	(10,538)	(337)	(91)	(91)	(561)	–	(11,851)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 30 June 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,235,865	365,153	2,663,306	1,556,279	721,419	931,917	3,987,204	(2,546,636)	8,914,507
Including:									
Investment in associates and joint venture	–	–	8	8	–	85	3,199	–	3,300
Unallocated assets									16,331
Total assets									8,930,838
Segment liabilities	(1,228,446)	(363,632)	(2,594,747)	(1,536,928)	(718,447)	(918,878)	(3,467,813)	2,546,636	(8,282,255)
Unallocated liabilities									(175)
Total liabilities									(8,282,430)

	As at 31 December 2016								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	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 and joint venture	–	–	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)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information

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

The business information of the Group is summarised as follows:

	Six months ended 30 June 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	25,129	15,174	21,526	879	62,708
Inter-segment net interest income/(expense)	5,966	6,001	(11,967)	–	–
Net interest income	31,095	21,175	9,559	879	62,708
Net fee and commission income	9,347	10,199	1,097	618	21,261
Net gains/(losses) arising from trading activities	1,177	64	(1,181)	129	189
Net gains/(losses) arising from financial investments	–	–	2,655	–	2,655
Share of profit of associates	–	–	–	51	51
Insurance business income	–	–	–	10,768	10,768
Other operating income	4,095	1,612	–	601	6,308
Total operating income	45,714	33,050	12,130	13,046	103,940
Impairment losses on loans and advances to customers	(12,896)	(1,750)	–	–	(14,646)
Insurance business expense	–	–	–	(9,862)	(9,862)
Other operating expense					
– Depreciation and amortisation	(880)	(1,843)	(64)	(135)	(2,922)
– Others	(11,387)	(14,948)	(1,346)	(1,474)	(29,155)
Profit before tax	20,551	14,509	10,720	1,575	47,355
Income tax					(8,133)
Net profit for the period					39,222
Depreciation and amortisation	(880)	(1,843)	(64)	(135)	(2,922)
Capital expenditure	(3,734)	(7,831)	(273)	(575)	(12,413)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Six months ended 30 June 2016				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	31,294	9,906	26,371	577	68,148
Inter-segment net interest income/(expense)	4,712	10,942	(15,654)	–	–
Net interest income	36,006	20,848	10,717	577	68,148
Net fee and commission income	9,691	9,438	1,136	699	20,964
Net gains/(losses) arising from trading activities	879	9	(123)	330	1,095
Net gains/(losses) arising from financial investments	–	–	520	–	520
Share of profit of associates and joint venture	–	–	–	38	38
Insurance business income	–	–	–	8,764	8,764
Other operating income	2,320	1,380	81	299	4,080
Total operating income	48,896	31,675	12,331	10,707	103,609
Impairment losses on loans and advances to customers	(12,419)	(2,388)	–	–	(14,807)
Insurance business expense	–	–	–	(8,161)	(8,161)
Other operating expense					
– Depreciation and amortisation	(902)	(1,889)	(66)	(138)	(2,995)
– Others	(12,810)	(14,042)	(1,078)	(1,219)	(29,149)
Profit before tax	22,765	13,356	11,187	1,189	48,497
Income tax					(10,574)
Net profit for the period					37,923
Depreciation and amortisation	(902)	(1,889)	(66)	(138)	(2,995)
Capital expenditure	(3,566)	(7,476)	(260)	(549)	(11,851)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 30 June 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,176,181	1,360,829	4,313,567	63,930	8,914,507
Including: Investment in associates and joint venture				3,300	3,300
Unallocated assets					16,331
Total assets					8,930,838
Segment liabilities	(3,606,292)	(1,631,120)	(3,002,066)	(42,777)	(8,282,255)
Unallocated liabilities					(175)
Total liabilities					(8,282,430)

	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 and joint venture				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)

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

44 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

The Bank of Communications (Hong Kong) Limited (Merger) Ordinance came into force upon the promulgation by the Chief Executive of the Hong Kong on 14 July 2017. The Bank proposes to invest and establish Bank of Communications (Hong Kong) ("BoCom HK"), for an investment amount of HK$7.9 billion, accounting for 100% of the share capital of BoCom HK. Such investment has been approved by Board of Directors of the Bank and no approval is required from General Meeting of the Bank.

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

45 COMPARATIVE FIGURES

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

Unaudited Supplementary Financial Information

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

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

1 Capital adequacy ratio

In April 2014, CBRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on "Administrative Measures for the Capital of Commercial Banks (Provisional)" are as follows:

	As at 30 June 2017	As at 31 December 2016
Item		
Net Core Tier 1 Capital	581,708	568,131
Net Tier 1 Capital	641,671	628,051
Net Capital	759,091	723,961
Core Tier 1 Capital Adequacy Ratio (%)	10.62	11.00
Tier 1 Capital Adequacy Ratio (%)	11.71	12.16
Capital Adequacy Ratio (%)	13.86	14.02

2 Liquidity ratio

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

	As at 30 June 2017	As at 31 December 2016
Liquidity ratio (%)	54.96	51.22

3 Currency concentrations

As at 30 June 2017	USD	HKD	Others	Total
Spot assets	932,244	204,481	146,435	1,283,160
Spot liabilities	(982,741)	(243,144)	(114,939)	(1,340,824)
Forward purchases	1,057,119	117,248	124,628	1,298,995
Forward sales	(1,021,021)	(62,431)	(138,012)	(1,221,464)
Net option position	(1,984)	(791)	102	(2,673)
Net long/(short) position	(16,383)	15,363	18,214	17,194
Net structural position	79,872	4,167	4,952	88,991

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

3 Currency concentrations *(Continued)*

As at 31 December 2016	USD	HKD	Others	Total
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

The net options position is calculated using the user model 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 properties, net of depreciation charges;

– Capital and statutory reserve of overseas branches;

– Investments in overseas subsidiaries and related companies; and

– Loan capital.

4 International claims

The Group is principally engaged in business operations within Mainland China. The international claims of the Group 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.

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

4 International claims *(Continued)*

As at 30 June 2017	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	513,802	64,926	362,509	–	941,237
Of which attributed to Hong Kong	79,014	40,906	180,279	–	300,199
North and South America	69,408	9,432	26,087	–	104,927
Africa	–	203	–	–	203
Europe	37,820	454	21,271	–	59,545
	621,030	75,015	409,867	–	1,105,912

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

5 Overdue and restructured assets

5.1 Gross amount of overdue loans

	As at 30 June 2017	As at 31 December 2016
Loans and advances to customers which have been overdue for		
– Within 3 months	19,234	21,401
– Between 3 and 6 months	9,632	13,020
– Between 6 and 12 months	20,010	21,999
– Over 12 months	53,281	51,763
	102,157	108,183
Percentage (%)		
– Within 3 months	0.45	0.52
– Between 3 and 6 months	0.23	0.32
– Between 6 and 12 months	0.47	0.54
– Over 12 months	1.24	1.26
	2.39	2.64

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

5 Overdue and restructured assets *(Continued)*

5.2 Overdue and restructured loans

	As at 30 June 2017	As at 31 December 2016
Total restructured loans and advances to customers	13,300	15,464
Including: Restructured loans and advances to customers overdue above 3 months	11,252	10,616
Percentage of restructured loans and advances to customers overdue above 3 months in total loans (%)	0.26	0.26

6 Segmental information of loans

6.1 Impaired loans and advances to customers by geographical area

	As at 30 June 2017		As at 31 December 2016	
	Impaired loans and advances to customers	Allowances for individually assessed impaired loans and advances to customers	Impaired loans and advances to customers	Allowances for individually assessed impaired loans and advances to customers
PRC domestic regions				
– Northern China	9,601	(5,347)	8,340	(4,494)
– North Eastern China	3,066	(1,513)	2,601	(1,266)
– Eastern China	34,036	(15,602)	32,696	(14,151)
– Central and Southern China	9,039	(5,429)	9,574	(5,306)
– Western China	8,506	(4,550)	7,860	(3,915)
	64,248	(32,441)	61,071	(29,132)
Hong Kong, Macau, Taipei and overseas regions	1,705	(960)	1,329	(1,025)
	65,953	(33,401)	62,400	(30,157)

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

6 Segmental information of loans *(Continued)*

6.2 Overdue loans and advances to customers by geographical area

	As at 30 June 2017			As at 31 December 2016		
	Overdue loans	Allowances for individually assessed impaired loans and advances to customers	Allowances for collectively assessed impaired loans and advances to customers	Overdue loans	Allowances for individually assessed impaired loans and advances to customers	Allowances for collectively assessed impaired loans and advances to customers
PRC domestic regions						
– Northern China	12,728	(5,089)	(707)	13,119	(4,230)	(1,284)
– North Eastern China	6,177	(1,505)	(641)	5,510	(1,258)	(648)
– Eastern China	53,017	(14,729)	(11,859)	57,384	(14,440)	(11,994)
– Central and Southern China	14,311	(5,425)	(997)	15,124	(5,313)	(1,280)
– Western China	14,204	(4,526)	(1,300)	15,385	(3,905)	(1,631)
	100,437	(31,274)	(15,504)	106,522	(29,146)	(16,837)
Hong Kong, Macau, Taipei and overseas regions	1,720	(960)	(25)	1,661	(1,025)	(70)
	102,157	(32,234)	(15,529)	108,183	(30,171)	(16,907)
Fair value of collaterals	56,260	Not applicable	Not applicable	56,769	Not applicable	Not applicable

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

7 Loans and advances to customers

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

Hong Kong	As at 30 June 2017	%	Amount covered by collaterals	As at 31 December 2016	%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Electronics	53	0.02	30	55	0.03	29
– Textile and clothing	3,883	1.73	26	3,638	1.77	29
– Other manufacturing	21,916	9.77	480	19,676	9.59	288
Electricity, gas and water production and supply	2,301	1.03	2	2,327	1.13	2
Construction	7,907	3.53	1,391	7,166	3.49	1,401
Transportation, storage and postal service	2,723	1.21	1,664	2,542	1.24	1,394
Telecommunication, IT service and software	521	0.23	–	539	0.26	–
Wholesale and retail	64,668	28.84	3,822	57,616	28.09	2,144
Accommodation and catering	989	0.44	27	1,056	0.51	37
Financial institutions	35,738	15.93	10,461	32,083	15.64	10,992
Real estate	5,257	2.34	7,692	4,734	2.31	8,380
Education, science, culture and public health	–	–	–	–	–	–
Others	52,084	23.22	2,581	47,282	23.07	2,397
Total corporate loans	198,040	88.29	28,176	178,714	87.13	27,093
Individual loans						
Mortgage	11,173	4.98	11,168	11,649	5.68	11,646
Credit cards	154	0.07	–	173	0.08	–
Others	14,935	6.66	12,316	14,590	7.11	11,547
Total individual loans	26,262	11.71	23,484	26,412	12.87	23,193
Gross amount of loans and advances before impairment allowance	224,302	100.00	51,660	205,126	100.00	50,286
Outside Hong Kong	4,145,845			3,897,833		

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group is 49% as at 30 June 2017 (31 December 2016: 49%).

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

7 Loans and advances to customers *(Continued)*

7.2 Allowance on loans and advances to customers by loan usage

	As at 30 June 2017		As at 31 December 2016	
	Impaired loans and advances to customers	Allowances for individually assessed impaired loans and advances to customers	Impaired loans and advances to customers	Allowances for individually assessed impaired loans and advances to customers
Corporates	50,588	(26,836)	48,097	(23,975)
Individuals	15,365	(6,565)	14,303	(6,182)
	65,953	(33,401)	62,400	(30,157)
Fair value of collateral	26,953	Not applicable	25,493	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 current period are disclosed below:

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	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	12,896	(7,616)	124	12,419	(8,669)	92
Individuals	1,750	(621)	201	2,388	(767)	189
	14,646	(8,237)	325	14,807	(9,436)	281

Supplementary Information on Capital Adequacy Ratio and Leverage Ratio

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

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

(in millions of RMB)

	Balance sheet of the accounting consolidation	Balance sheet of the regulatory consolidation
Assets:		
Cash and balances with central banks	963,575	963,575
Deposits with banks and other financial institutions	172,483	171,480
Placements with banks and other financial institutions	511,475	530,269
Financial assets at fair value through profit or loss	196,932	196,325
Positive fair value of derivatives	22,871	22,856
Financial assets held under re-sale agreements	170,817	170,553
Interest receivable	48,855	49,252
Loans and advances to customers	4,270,542	4,274,470
Available-for-sale financial assets	393,938	374,721
Held-to-maturity investments	1,449,859	1,447,396
Debt securities classified as receivables	410,429	403,155
Investments to subsidiaries	3,300	5,164
Fixed assets	116,311	113,755
Land use rights	957	957
Deferred tax assets	16,331	16,276
Goodwill	457	335
Intangible assets	1,421	1,398
Other assets	180,285	172,838
Total assets	8,930,838	8,914,775

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

(in millions of RMB)

	Balance sheet of the accounting consolidation	Balance sheet of the regulatory consolidation
Liabilities:		
Borrowings from central banks	508,304	508,304
Deposits from banks and other financial institutions	1,302,249	1,304,666
Placements from banks and other financial institutions	410,395	420,145
Financial liabilities at fair value through profit or loss	33,427	33,427
Negative fair value of derivatives	21,427	21,427
Financial assets sold under repurchase agreements	128,418	125,349
Customer deposits	4,938,694	4,939,884
Debt securities issued	260,945	260,996
Employee benefits payable	4,660	4,452
Taxes payable	14,580	14,488
Interests payable	88,757	89,423
Deferred tax liabilities	175	156
Provisions	342	342
Liabilities	570,057	543,018
Total liabilities	8,282,430	8,266,077
Equity:		
Paid-in capital	74,263	74,263
Other equity instruments	59,876	59,876
Capital surplus	113,683	113,712
Other comprehensive income	464	1,045
Surplus reserve	190,506	190,493
General risk reserve	103,902	103,889
Retained earnings	100,556	101,123
Minority interests	5,158	4,297
Total equity	648,408	648,698

Appendix 2: Elaborated Balance Sheet under Regulatory Consolidation

(in millions of RMB)

	Balance sheet of the regulatory consolidation	Code
Assets:		
Cash and balances with central banks	963,575	
Deposits with banks and other financial institutions	171,480	
Placements with banks and other financial institutions	530,269	
Financial assets at fair value through profit or loss	196,325	
Positive fair value of derivatives	22,856	
Financial assets held under re-sale agreements	170,553	
Interest receivable	49,252	
Loans and advances to customers	4,274,470	
Available-for-sale financial assets	374,721	
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	196	a
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	628	b
Held-to-maturity investments	1,447,396	
Debt securities classified as receivables	403,155	
Investments to subsidiaries	5,164	
Including: Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	1,779	c
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	2,537	d
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	670	e
Fixed assets	113,755	
Land use rights	957	f
Deferred tax assets	16,276	g
Including: Net deferred tax assets arising from operating losses which is expected to offset against future profits	0	h
Including: Other net deferred tax assets relying on the Bank's future profits	16,276	
Intangible assets	1,398	i
Goodwill	335	j
Other assets	172,838	
Total assets	8,914,775	

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

(in millions of RMB)

	Balance sheet of the regulatory consolidation	Code
Liabilities:		
Borrowings from central banks	508,304	
Deposits from banks and other financial institutions	1,304,666	
Placements from banks and other financial institutions	420,145	
Financial liabilities at fair value through profit or loss	33,427	
Negative fair value of derivatives	21,427	
Financial assets sold under repurchase agreements	125,349	
Customer deposits	4,939,884	
Debt securities issued	260,996	
Including: Recognized in Tier 2 Capital	103,336	k
Employee benefits payable	4,452	
Taxes payable	14,488	
Interest payable	89,423	
Deferred tax liabilities	156	l
Including: Deferred tax liabilities relating to goodwill	0	m
Including: Deferred tax liabilities relating to other intangible assets	0	n
Provisions	342	
Other liabilities	543,018	
Total liabilities	8,266,077	
Equity:		
Paid-in capital	74,263	
Including: Those to be included in Core Tier 1 Capital	74,263	o
Including: Those to be included in other Tier 1 Capital	0	p
Other equity instruments	59,876	q
Capital surplus	113,712	r
Other comprehensive income	1,045	s
Including: Effective portion of gains or losses on hedging instruments in cash flow hedge	-45	t
Including: Exchange reserve	-301	u
Surplus reserve	190,493	v
General risk reserve	103,889	w
Retained earnings	101,123	x
Minority interests	4,297	
Including: Those to be included in Core Tier 1 Capital	650	y
Including: Those to be included in other Tier 1 Capital	87	z
Including: Recognized in Tier 2 Capital	166	aa
Total equity	648,698	

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

Appendix 3: Group's Composition of Capital

(in millions of RMB)

	Items	Amount	Code
Core Tier 1 Capital:			
1	Paid-in capital	74,263	o
2	Retained earnings	395,505	
2a	Surplus reserve	190,493	v
2b	General risk reserve	103,889	w
2c	Undistributed profits	101,123	x
3	Accumulated other comprehensive income and disclosed reserve	114,757	
3a	Capital surplus	115,058	r+s-u
3b	Others	-301	u
4	Amount given recognition in Core Tier 1 Capital (Only applicable to non-stock companies; for joint-stock companies, to be completed with "0")	0	
5	Minority interest given recognition in Core Tier 1 Capital	650	y
6	Core Tier 1 Capital before regulatory adjustments	585,175	
Core Tier 1 Capital: Regulatory adjustments			
7	Prudent valuation adjustment	0	
8	Goodwill (net of deferred tax liabilities)	335	j-m
9	Other intangible assets (excluding land use rights) (net of deferred tax liabilities)	1,398	i-n
10	Net deferred tax assets relying on future profitability and arising from operating losses	0	h
11	Cash-flow hedge reserves	-45	t
12	Gaps of loan loss provisions	0	
13	Gains from sales of asset securitization	0	
14	Unrealized profit/loss arising from the changes in own credit risks on fair value of liability	0	
15	Net defined-benefit pension assets (excluding deferred tax liabilities)	0	
16	Direct or indirect investments in own shares	0	
17	Reciprocal cross-holdings in Core Tier 1 Capital	0	
18	Non-significant investments in the Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
19	Significant investments in the Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
20	Mortgage servicing rights	0	

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

(in millions of RMB)

	Items	Amount	Code
21	Other deferred tax assets relying on the Bank's future profitability	0	
22	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other deferred tax assets that rely on the Bank's future profitability after all regulatory adjustments (amount exceeding the 15% threshold)	0	
23	Including: Significant investments in the capital of financial institutions	0	
24	Including: Mortgage servicing rights	0	
25	Including: Other deferred tax assets that rely on the Bank's future profitability	0	
26a	Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	1,779	c
26b	Gaps of Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
26c	Other deductions from Core Tier 1 Capital	0	
27	Regulatory adjustments applied to Core Tier 1 Capital due to insufficient Other Tier 1 Capital and Tier 2 Capital to cover deductions	0	
28	Total regulatory adjustments to Core Tier 1 Capital	3,467	
29	Core Tier 1 Capital	581,708	
Other Tier 1 Capital:			
30	Directly issued qualifying Other Tier 1 instruments plus stock surplus	59,876	
31	Including: Classified as equity	59,876	q
32	Including: Classified as liabilities	0	
33	Instruments not given recognition in Other Tier 1 Capital after the transition period	0	
34	Minority interest given recognition in Other Tier 1 Capital	87	z
35	Including: Portions not given recognition in Other Tier 1 Capital after the transition period	0	
36	Other Tier 1 Capital before regulatory adjustments	59,963	

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

(in millions of RMB)

	Items	Amount	Code
Other Tier 1 Capital: Regulatory adjustments			
37	Directly or indirectly investments in own other Tier 1 instruments	0	
38	Reciprocal cross-holdings in other Tier 1 instruments	0	
39	Non-significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
40	Significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
41a	Investments in Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
41b	Gaps of Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
41c	Other deductions from Other Tier 1 Capital	0	
42	Regulatory adjustments applied to Other Tier 1 Capital due to insufficient Tier 2 Capital to cover deductions	0	
43	Total regulatory adjustments to Other Tier 1 Capital	0	
44	Other Tier 1 Capital	59,963	
45	Tier 1 Capital (Core Tier 1 Capital + Other Tier 1 Capital)	641,671	
Tier 2 Capital:			
46	Directly issued qualifying Tier 2 instruments plus stock surplus	103,336	k
47	Portions not given recognition in Tier 2 Capital after the transition period	0	
48	Minority interest given recognition in Tier 2 Capital	166	aa
49	Including: Portions not given recognition after the transition period	0	
50	Provisions in Tier 2	13,918	
51	Tier 2 Capital before regulatory adjustments	117,420	
Tier 2 Capital: Regulatory adjustments			
52	Directly or indirectly investments in own Tier 2 instruments	0	
53	Reciprocal cross-holdings in Tier 2 instruments	0	
54	Non-significant investments in Tier 2 Capital of financial institutions outside the scope of regulatory consolidation	0	

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

(in millions of RMB)

	Items	Amount	Code
55	Significant investments in the Tier 2 Capital of financial institutions outside the scope of regulatory consolidation	0	
56a	Investments in Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
56b	Gaps of Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
56c	Other deductions from Tier 2 Capital	0	
57	Total regulatory adjustments to Tier 2 Capital	0	
58	Tier 2 Capital	117,420	
59	Total capital (Tier 1 Capital + Tier 2 Capital)	759,091	
60	Total risk-weighted assets	5,477,993	
Capital adequacy ratio and reserve capital requirements			
61	Core Tier 1 Capital adequacy ratio (%)	10.62	
62	Tier 1 Capital adequacy ratio (%)	11.71	
63	Capital adequacy ratio (%)	13.86	
64	Specific buffer requirements of regulators (%)	4	
65	Including: Capital conservation buffer requirements (%)	3	
66	Including: Countercyclical buffer requirements (%)	0	
67	Including: Additional buffer requirements of global systemically important banks (%)	1	
68	Core Tier 1 Capital available to meet buffers as a percentage of risk-weighted assets (%)	5.62	
Domestic minimum regulatory capital requirements			
69	Core Tier 1 Capital adequacy ratio (%)	5	
70	Tier 1 Capital adequacy ratio (%)	6	
71	Capital adequacy ratio (%)	8	
Amounts below the threshold deductions			
72	Non-significant investments in Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	2,733	a+d
73	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation	1,298	b+e
74	Mortgage servicing rights (net of deferred tax liabilities)	0	
75	Other net deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	18,836	g-h-l

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

(in millions of RMB)

Items		Amount	Code
Limit of provisions in Tier 2 Capital			
76	Provisions actually made in respect of exposures subject to risk-weighted approach	14,027	
77	Provisions eligible for inclusion in Tier 2 Capital under risk-weighted approach	11,909	
78	Provisions actually made in respect of exposures subject to internal ratings-based approach	85,578	
79	Provisions eligible for inclusion in Tier 2 Capital under internal ratings-based approach	2,009	
Capital instruments subject to phase-out arrangements			
80	Amount given recognition in current-period Core Tier 1 Capital due to transitional arrangements	0	
81	Amount not given recognition in current-period Core Tier 1 Capital due to transitional arrangements	0	
82	Amount given recognition in current-period Other Tier 1 Capital due to transitional arrangements	0	
83	Amount not given recognition in current-period Other Tier 1 Capital due to transitional arrangements	0	
84	Amount given recognition in current-period Tier 2 Capital due to transitional arrangements	33,500	
85	Amount not given recognition in current-period Tier 2 Capital due to transitional arrangements	6,000	

Appendix 4: Main Features of Qualified Regulatory Capital Instruments

1	Issuer	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications
2	Unique identifier	3328	601328	1428013	XS1113240268	XS1115459528	4605	360021	1728007
3	Governing law(s)	China Hong Kong/*Hong Kong Securities and Futures Ordinance*	China/*Securities Law of China*	China/*Securities law of China, Measures for Capital Management of Commercial Banks (Provisional)*	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Overseas preference shares and accompanying rights and obligations are governed by and construed in accordance with Chinese laws.	China/*Company Law of China, Securities law of China, Measures for Capital Management of Commercial Banks (Provisional), State Council Guidance on the Implementation of Pilot Scheme of Preference Shares, Measures for the Pilot Management of Preferred Shares, etc.*	China/*Securities law of China, Measures for Capital Management of Commercial Banks (Provisional)*
Regulatory treatment									
4	Transitional rules under the *Measures for Capital Management of Commercial Banks (Provisional)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 capital	Other Tier 1 Capital	Tier 2 Capital
5	Post-transitional rules under the *Measures for Capital Management of Commercial Banks (Provisional)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 Capital	Other Tier 1 Capital	Tier 2 Capital
6	Eligible at Bank/Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level
7	Instrument type	Ordinary shares	Ordinary shares	Tier 2 Capital bonds	Tier 2 Capital bonds	Tier 2 Capital bonds	Preference shares	Preference shares	Tier 2 Capital bonds

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

8	Amount recognized in regulatory capital (In millions of RMB, as at the latest reporting date)	RMB89,498	RMB97,534	RMB27,985	Equivalent to RMB8,073	Equivalent to RMB3,844	Equivalent to RMB14,924	Equivalent to RMB44,952	Equivalent to RMB29,968
9	Par value of instrument (in millions of RMB)	RMB35,012	RMB39,251	RMB28,000	USD1,200	EUR500	USD2,450	RMB45,000	RMB30,000
10	Accounting treatment	Share capital and capital reserve	Share capital and capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments	Other equity instruments	Bonds payable
11	Original date of issuance	2005/6/23	2007/4/24	2014/8/19	2014/10/3	2014/10/3	2015/7/29	2016/9/2	2017/4/13
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity date	No maturity date	2024/8/19	2024/10/3	2026/10/3	No maturity date	No maturity date	2027/4/13
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	2019/8/19; full or partial	2019/10/3; full.	2021/10/3; full.	First call date 2020/7/29, full or partial	First call date 2021/9/7, full or partial	2021/4/13; full or partial
16	Subsequent call dates, if applicable	N/A	N/A	Nil	Nil	Nil	29 July of each year subsequent to the first call date	7 September of each year subsequent to the first call date	Nil
	Coupons/dividends								
17	Fixed or floating dividend/coupon	Floating	Floating	Fixed	Floating (coupon rate is fixed for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year, the coupon rate will be reset)	Floating (coupon rate is fixed for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year, the coupon rate will be reset)	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years	Fixed

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

18	Coupon rate and any related index	N/A	N/A	5.80%	It is 4.5% for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year (3 October 2019), the coupon rate will be reset based on the rate of 5-year US treasury bond, plus 285 basis points	It is 3.625% for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year (3 October 2021), the coupon rate will be reset based on the 7-year EUR swaps median value, plus 300 basis points	It is 5% for the first 5 years. The dividend rate will be reset every 5 years based on the yield rate of 5-year US treasury bond plus 334.4 basis points	It is 3.9% for the first 5 years. The dividend rate will be reset every 5 years based on the benchmark interest rate plus 137 basis points. Note: the benchmark interest rate at reset dates refers to the arithmetic mean value (rounding off to 0.01%) of five-year Chinese treasury bonds yield, in the yield curve of interbank Chinese treasury bonds at fixed interest rate published 20 transaction days (excluding that day) prior to the reset dates (the days when each five years are expired as from the first day of issuance, 2 September).	4.50%

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

19	Existence of a dividend stopper	N/A	N/A	No	No	No	Yes	Yes	No
20	Fully discretionary, partially discretionary or mandatory dividends	Totally at discretion	Totally at discretion	Without discretion	Without discretion	Without discretion	Totally at discretion	Totally at discretion	Without discretion
21	Existence of incentive to redeem	No	No	No	No	No	No	No	No
22	Cumulative or non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	No	No	No	Yes	Yes	No
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	If a other Tier 1 Capital instrument trigger event occurs, i.e. adequacy of core Tier 1 Capital reduced to 5.125% (or below); or if a Tier 2 Capital instrument trigger event occurs, i.e. earlier of the following: (1) CBRC identifies that the Bank is unable to survive if conversion or write-down is not carried out; (2) Relevant departments identify that the Bank is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	If a other Tier 1 Capital instrument trigger event occurs, i.e. adequacy of core Tier 1 Capital reduced to 5.125% (or below); or if a Tier 2 Capital instrument trigger event occurs, i.e. earlier of the following: (1) CBRC identifies that the Bank is unable to survive if conversion or write-down is not carried out; (2) Relevant departments identify that the Bank is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	N/A

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

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

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

26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	The average stock transaction price of H ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing overseas preference shares is deemed as initial conversion price and the mandatory conversion price adjustment is conducted in accordance with Paragraph 9(5) "Mandatory Conversion Price Adjustment Mode" under Proposals on the Plan for Private Placement of Offshore Preference Shares by Bank of Communications Co., Ltd.	The average stock transaction price of A ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing domestic preference shares is deemed as initial conversion price (i.e. RMB6.25 per share) and the mandatory conversion price adjustment is conducted in accordance with Paragraph 5 "Mandatory Conversion Price Adjustment Mode" in Section 4 "Main Terms of Issuance Scheme" under Prospectus for *Private Placement of Preference Shares by Bank of Communications Co., Ltd.*	N/A

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

27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	Mandatory	Mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	H ordinary shares	A ordinary shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	Bank of Communications	Bank of Communications	N/A
30	Write-down feature	No	No	Yes	Yes	Yes	No	No	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.	N/A	N/A	Earlier of the following: (1) CBRC identifies that the issuer is unable to survive if write-down is not carried out; (2) Relevant departments identify that the issuer is unable to survive if capital is not injected by the public departments or equally authentic support is not provided.
32	If write-down, full or partial	N/A	N/A	Full	Full	Full	N/A	N/A	Full
33	If write-down, permanent or temporary	N/A	N/A	Permanent	Permanent	Permanent	N/A	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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

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

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

(in millions of RMB)

SN	Item	Balance
1	Total consolidation assets	8,930,838
2	Adjusted item of consolidation	-16,063
3	Adjusted item of customer's assets	0
4	Adjusted item of derivatives	41,553
5	Adjusted item of securities financing transactions	2,009
6	Adjusted item of off-balance sheet item	698,363
7	Other adjusted items	-3,467
8	Balance of adjusted on-and-off-balance sheet assets	9,653,233

Appendix 6: Information relating to Leverage Ratio

(in millions of RMB unless otherwise stated)

SN	Item	Balance
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,136,702
2	Less: Deduction of Tier 1 Capital	-3,467
3	**Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	8,133,235
4	Replacement costs of derivatives (less eligible margin)	22,871
5	Potential risk exposure of derivatives	41,553
6	Sum of collaterals that have been deducted from the balance sheet	0
7	Less: Assets receivable from providing eligible margin	0
8	Less: Asset balance of derivatives from transactions with central counterparties in providing clearing services for customers	0
9	Notional principal of sold credit derivatives	0
10	Less: Balance of deductible sold credit derivatives	0
11	**Balance of derivatives**	64,424
12	Accounting asset balance of securities financing transactions	755,202
13	Less: Balance of deductible securities financing transaction assets	0
14	Counterparty credit risk exposure of securities financing transactions	2,009
15	Balance of securities financing transaction assets from acting for securities financing transactions	0
16	**Asset balance of securities financing transactions**	757,211
17	Balance of off-balance sheet items	1,576,218
18	Less: Balance of off-balance sheet items from reduction of credit transfer	-877,855
19	**Balance of adjusted off-balance sheet items**	698,363
20	Net Tier 1 Capital	641,671
21	Balance of adjusted on-and-off-balance sheet assets	9,653,233
22	**Leverage ratio (%)**	6.65

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