



SINCE 1908 YOUR WEALTH MANAGEMENT BANK

Bank of Communications Co., Ltd.

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

## A large graphic celebrating the 110th anniversary. The word 'Hello' is written in a white, outlined, sans-serif font. The number '110' is also in a white, outlined, sans-serif font, with the year '1908-2018' written in a smaller white font inside the second zero. Below 'Hello 110', the year '2018' is written in a large, white, outlined, sans-serif font. The background is a deep red with faint, white line-art illustrations of various landmarks and symbols, including the Eiffel Tower, the Leaning Tower of Pisa, the Colosseum, and a traditional Chinese lantern.

110<sup>th</sup> Anniversary of  
Bank of Communications

**2017 ANNUAL REPORT**

Stock Code: 03328

# Company Profile

The year of 2018 is the 110th anniversary of the establishment of BoCom.

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

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

Currently, BoCom is one of the major financial service providers in China. The Group's business scope includes commercial banking, securities, trust, financial leasing, fund management, insurance, and offshore financial services, etc. As at the end of the Reporting Period, the Bank has set up 235 domestic branches, including 30 Tier-1 branches, 7 directly operating branches of Head Office and 198 Tier-2 branches. 3,270 banking outlets were set up in 239 prefecture-level cities or above and 158 county-level cities nationwide. There are 7 non-bank subsidiaries, including wholly-owned subsidiaries such as BoCom Leasing, BoCom Insurance and BoCom Investment, and subsidiaries with the controlling interests including BoCom Fund, BoCom International Trust, BoCommLife Insurance and BoCom International. Moreover, the Bank is the largest shareholder of Changshu Rural Commercial Bank Co., Ltd. and the paratactic largest shareholder of Bank of Tibet Co., Ltd. The Bank has strategically invested in the Bank of Hainan, and controlled 4 rural banks.

BoCom set up 21 overseas banking branches, subsidiaries and representative office in 16 countries and regions, including branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, London, Luxembourg, Brisbane, Paris and Rome, subsidiaries in Hong Kong, UK, Luxembourg and Banco BoCom BBM S.A., and representative office in Toronto, and established 65 overseas banking outlets in total (excluding the representative offices).

In 2015, the State Council approved *BoCom's Plan to Strengthen Reformation*. The strengthened reformation concentrates on three key areas including refining corporate governance mechanism as a large commercial bank, reinforcing operational improvements and promoting transformation, and innovating operating model. BoCom steadily implemented reform programs. The positive effect of reforms, stimulation of transformation forces and the enhancement of core development indicator are anticipated. In 2017, BoCom was honored 'Top 500 Global Companies' for nine consecutive years and was ranked No. 171 in terms of revenue by *FORTUNE*. It was ranked No. 11 among the global top 1,000 banks in terms of Tier-1 Capital rated by *The Banker*, which went up 2 places compared to the previous year.

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



110 1908-2018 2018

110<sup>th</sup> Anniversary of  
Bank of Communications

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Financial Highlights	6	II. Mr. Peng Chun, the Chairman of the Bank, Mr. Wu Wei, Principal in charge of Accounting and Ms. Lin Zhihong, Head of Accounting Department represent that they are responsible for the authenticity, accuracy and completeness of the financial statements in Annual Report.
Statement from the Chairman	8	III. The Group's financial statements that were prepared in accordance with China Accounting Standards was audited by PricewaterhouseCoopers Zhong Tian LLP, and those prepared in accordance with IFRSs was audited by PricewaterhouseCoopers, with unqualified auditor's reports issued.
Statement from the Chairman of the Board of the Supervisors	14	IV. Proposal on distribution of dividend during the Reporting Period considered by the Board of Directors: Based on the total issued ordinary shares of 74.263 billion as at the end of the Reporting Period, a cash dividend of RMB0.2856 (before tax) per share will be distributed to the registered shareholders of A share and H share of the Bank, totalling RMB21.209 billion. There is no proposal on bonus share or proposal on conversion of capital reserve into share capital for the current year.
Business Profile	15	V. Prospective statements involved in the report, such as future plans, development strategies do not constitute a real commitment of the Bank to investors. Investors and stakeholders are required to keep sufficient risk awareness, and understand the differences among the plan, forecasting and commitment.
Ranking and Rewards	18	VI. The Group's operation is mainly exposed to credit risk, market risk, operational risk and compliance risk operation. The Group has taken and will continue to take various steps to effectively manage risks. Please refer to section headed "Management Discussion and Analysis – Risk Management".
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This report is prepared in Chinese and English, respectively. Should there be any inconsistency between the Chinese and English versions, the Chinese version will prevail.

# DEFINITIONS

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

“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Hong Kong Listing Rules
“Company Law”	The Company Law of the People’s Republic of China
“Articles of Associations”	The Articles of Association of Bank of Communications Co., Ltd. as approved by the CBRC
“Securities Law”	Securities Law of the People’s Republic of China
“Reporting Period”	The period from 1 January 2017 to 31 December 2017
“Group”	The Bank and its subsidiaries
“Bank”, “BoCom”	Bank of Communications Co., Ltd.
“Ministry of Finance”	Ministry of Finance of the People’s Republic of China
“Changshu Rural Commercial Bank”	Jiangsu Changshu Rural Commercial Bank Co., Ltd.
“North Eastern China”	Includes Liaoning Province, Jilin Province and Heilongjiang Province
“Bank of Hainan”	Bank of Hainan Co., Ltd.
“Overseas”	Includes Hong Kong Branch and Hong Kong Subsidiary, 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/UK Subsidiary, Luxembourg Subsidiary/Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Banco Bocom BBM S.A., Toronto representative office and other overseas subsidiaries
“Northern China”	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
“Eastern China”	Includes Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
“Central and Southern China”	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
“HSBC Group”	HSBS and its subsidiaries and associates
“HSBC”	The Hong Kong and Shanghai Banking Corporation Limited
“Basis point”	One in ten thousand
“BoCom Insurance”	China BoCom Insurance Co., Ltd.
“BoCom International”	BoCom International Holdings Company Limited
“BoCom International Trust”	Bank of Communications International Trust Co., Ltd.
“BoCommLife Insurance”	BoCommLife Insurance Company Limited
“BoCom Fund”	Bank of Communications Schroder Fund Management Co., Ltd.
“BoCom Leasing”	Bank of Communications Financial Leasing Co., Ltd.
“BoCom Investment”	BoCom Financial Asset Investment Co., Ltd.
“BoCom Aviation and Shipping”	Bank of Communications Aviation and Shipping Financial Leasing Company Limited
“Luxembourg Subsidiary”	Bank of Communications (Luxembourg) Co., Ltd.
“SSE”	The Shanghai Stock Exchange
“SSF”	The National Council for Social Security Fund
“Western China”	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region
“Bank of Tibet”	Bank of Tibet Co., Ltd.
“Hong Kong Subsidiary”	Bank of Communications (Hong Kong) Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“CBRC”	China Banking Regulatory Commission

## DEFINITIONS (CONTINUED)

“CSRC”	China Securities Regulatory Commission
“UK Subsidiary”	Bank of Communications (UK) Co., Ltd.
“Head Office”	The Group’s Head Office

# CORPORATE INFORMATION

## CORPORATE INFORMATION

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

## CONTACT PERSON AND CONTACT INFORMATION

Du Jianglong (Secretary to the Board of Directors and Company Secretary)

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(Shanghai) Pilot Free Trade Zone,  
Shanghai, P.R. China

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

## ADDRESS AND OFFICIAL WEBSITE

Registered address: 188 Yin Cheng Zhong Lu, China  
(Shanghai) Pilot Free Trade Zone,  
Shanghai, P.R. China

Official website: www.bankcomm.com

Head Office address: 188 Yin Cheng Zhong Lu,  
China (Shanghai) Pilot Free Trade  
Zone, Shanghai, P.R. China

Principal place of business in Hong Kong: 20 Pedder Street, Central,  
Hong Kong

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

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

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

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

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

## INFORMATION OF ORDINARY AND PREFERENCE SHARES

Classes	Stock exchange	Stock name	Stock code
A Share	SSE	Bank of Communications	601328
H Share	Hong Kong Stock Exchange	Bank of Communications	03328
Domestic Preference Share	SSE	BOCOM PREF1	360021
Overseas Preference Shares	Hong Kong Stock Exchange	BOCOM 15USD PREF	4605

## AUDITORS

Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP  
11th Floor PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC

Name of auditor signed: Hu Liang, Yeung Sheung Yuen

International auditor: PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

Name of auditor signed: Jimmy Leung Kwok Wai

## SPONSOR INSTITUTION OF DOMESTIC PREFERENCE SHARES

Guotai Junan Securities Co., Ltd.

5/F, China Financial Information Center, 18 Dongyuan Road, Pudong District, Shanghai

Name of sponsor representatives signed: Wu Guomei, Miao Tao

Period of continuous supervision: from 29 September 2016 to 31 December 2017

## AUTHORIZED REPRESENTATIVES

Yu Yali, Du Jianglong

## LEGAL ADVISORS

PRC legal advisor: Grandall Law Firm

Hong Kong legal advisor: DLA Piper Hong Kong

## SHARE REGISTER AND TRANSFER OFFICE

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

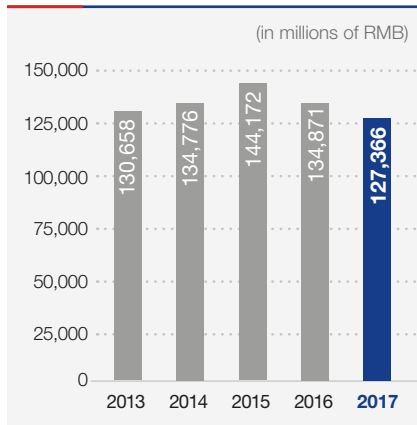
H Share: Computershare Hong Kong Investor Services Limited  
Flat 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong

## OTHER INFORMATION

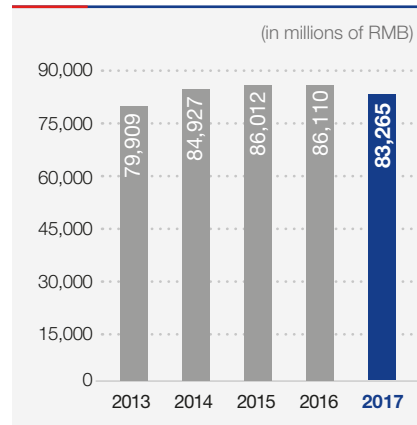
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# FINANCIAL HIGHLIGHTS

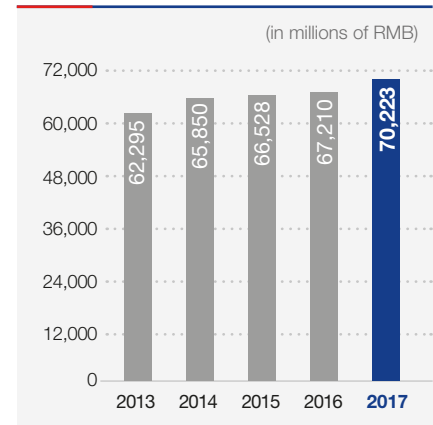
Net interest income



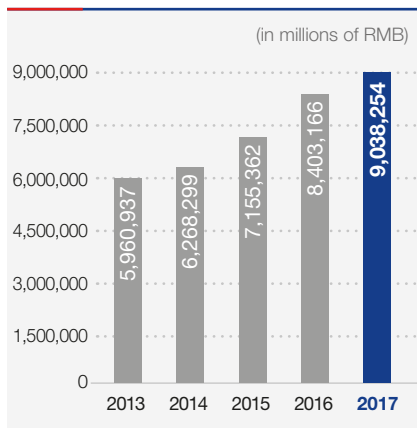
Profit before tax



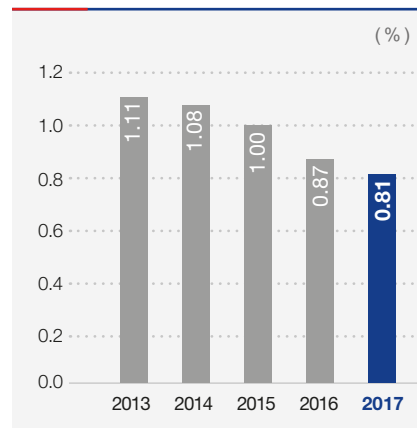
Net profit (attributable to shareholders of the Bank)



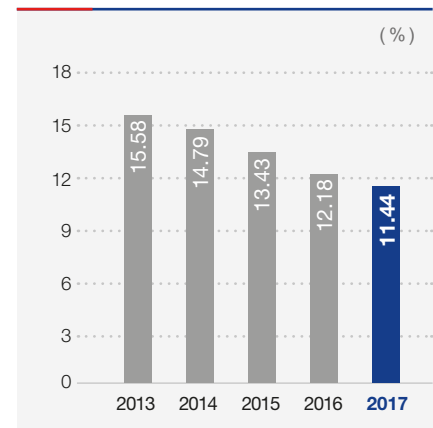
Total assets



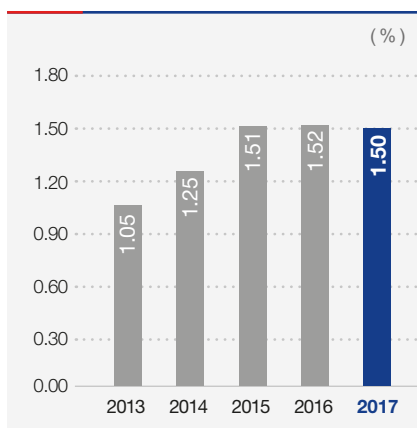
Return on average assets



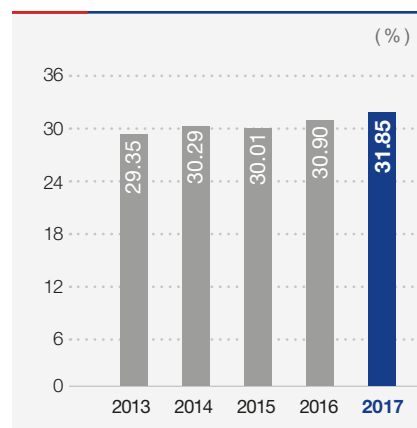
Return on average shareholders' equity



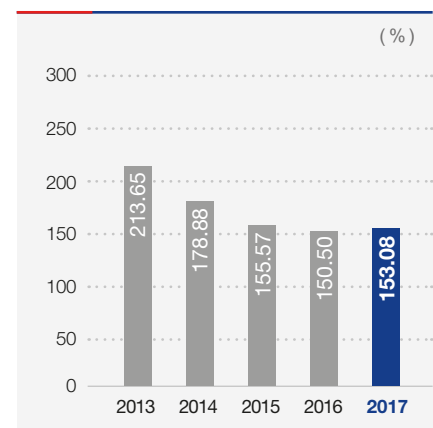
Impaired loan ratio



Cost-to-income ratio



Provision coverage of impaired loans





## FINANCIAL HIGHLIGHTS (CONTINUED)

### I. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

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

Description	2017	2016	2015	2014	2013
<b>Full year results</b>					<i>(in millions of RMB)</i>
Net interest income	<b>127,366</b>	134,871	144,172	134,776	130,658
Profit before tax	<b>83,265</b>	86,110	86,012	84,927	79,909
Net profit (attributable to shareholders of the Bank)	<b>70,223</b>	67,210	66,528	65,850	62,295
<b>As at the end of the Reporting Period</b>					<i>(in millions of RMB)</i>
Total assets	<b>9,038,254</b>	8,403,166	7,155,362	6,268,299	5,960,937
Including: Loans and advances to customers	<b>4,456,914</b>	4,102,959	3,722,006	3,431,735	3,266,368
Total liabilities	<b>8,361,983</b>	7,770,759	6,617,270	5,794,694	5,539,453
Including: Due to customers	<b>4,930,345</b>	4,728,589	4,484,814	4,029,668	4,157,833
Shareholders' equity (attributable to shareholders of the Bank)	<b>671,143</b>	629,142	534,885	471,055	419,561
<b>Per share</b>					<i>(in RMB)</i>
Earnings per share (attributable to shareholders of the Bank)	<b>0.91</b>	0.89	0.90	0.89	0.84
Net assets per share (attributable to shareholders of the Bank) <sup>1</sup>	<b>8.23</b>	7.67	7.00	6.34	5.65
<b>Key financial ratios</b>					<i>(%)</i>
Return on average assets	<b>0.81</b>	0.87	1.00	1.08	1.11
Return on average shareholders' equity	<b>11.44</b>	12.18	13.43	14.79	15.58
Cost-to-income ratio <sup>2</sup>	<b>31.85</b>	30.90	30.01	30.29	29.35
Impaired loans ratio	<b>1.50</b>	1.52	1.51	1.25	1.05
Provision coverage of impaired loans	<b>153.08</b>	150.50	155.57	178.88	213.65
<b>Capital adequacy Indicators</b>					<i>(in millions of RMB, unless otherwise stated)</i>
Net capital <sup>3</sup>	<b>790,381</b>	723,961	627,862	584,502	516,482
Including: Net Core Tier-1 Capital <sup>3</sup>	<b>609,454</b>	568,131	518,487	470,456	416,961
Other Tier-1 Capital <sup>3</sup>	<b>59,975</b>	59,920	14,943	10	4
Tier-2 Capital <sup>3</sup>	<b>120,952</b>	95,910	94,432	114,036	99,517
Risk weighted assets <sup>3</sup>	<b>5,646,313</b>	5,163,250	4,653,723	4,164,477	4,274,068
Capital adequacy ratio (%) <sup>3</sup>	<b>14.00</b>	14.02	13.49	14.04	12.08
Tier-1 Capital adequacy ratio (%) <sup>3</sup>	<b>11.86</b>	12.16	11.46	11.30	9.76
Core Tier-1 Capital adequacy ratio (%) <sup>3</sup>	<b>10.79</b>	11.00	11.14	11.30	9.76

Notes:

- Refers to Shareholders' equity attributable to shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares at the end of the Reporting Period.
- Calculated in accordance with China Accounting Standards for business and management fees divided by operating income net of other business costs, consistent with the financial report data compiled in accordance with China Accounting Standards.
- Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBRC. Upon the approval from regulatory authorities, the Group has used the Advanced Measurement Approach of Capital Management for the measurement of capital adequacy ratio since April 2014.

# STATEMENT FROM THE CHAIRMAN



The year of 2018 is not only the 110th anniversary of the establishment of BoCom, but also marks a new starting point of high quality development. BoCom has experienced the full range of China's financial history across two centuries. BoCom, as an inheritor of a national brand over a century and a pioneer of China's banking reform, has survived and adapted, witnessed the development of the national finance over a century, and contributed to the development of China's economy. BoCom thrived in reform, led the significant reform process of China's banking sector, and made outstanding achievements in the transformation of China's finance. The history of BoCom has fully demonstrated that the foundation of BoCom's steady growth is to adhere to long-term value and to reform and innovation.

**Peng Chun**

Chairman

## STATEMENT FROM THE CHAIRMAN (CONTINUED)

I am honored, with the confidence of the Board of Directors and support from our shareholders, to have succeeded Mr. Niu Ximing as the Chairman of BoCom from February 2018. After serving BoCom for decades, I look forward to my mission and fully appreciate the responsibility related to taking over the leadership of a century-old Chinese financial services brand with the longest history of any in China. It is not only the full recognition of BoCom all along, but also a great entrustment of responsibility to the reform and development of BoCom.

Mr. Niu is an experienced banker with keen strategic vision and rich experience in operations management. Under his leadership as the Chairman of BoCom, we rigorously applied the “BoCom Strategy” and proactively supported the transformative development of BoCom. Successful efforts were also made to refine our corporate governance and strengthen our enterprise-wide risk management, especially to plan, promote and deepen the reform and transformation of BoCom. The people of BoCom will miss Mr. Niu and wish him all the best in his new position. Representing all BoCom people, I sincerely appreciate Mr. Niu’s outstanding contributions to BoCom.

A number of members of the Board of Directors, and Senior Management also changed in 2017. Mr. Hu Huating, Mr. Liu Changshun and Mr. Peter Hugh Nolan retired from our Board. Mr. Wang Jiang resigned as an Executive Vice President. Mr. Song Guobin, Mr. He Zhaobin and Mr. Raymond Woo Chin Wan were appointed as new members of the Board of Directors. We are very grateful to Mr. Hu, Mr. Liu, Mr. Nolan and Mr. Wang for their diligence, conscientiousness, and tremendous contributions to BoCom. Mr. Song Guobin, Mr. He Zhaobin, and Mr. Raymond Woo Chin have rich experience in fields such as finance, corporate management, and financial audit. I believe that their joining to our Board of Directors will effectively contribute to enhancing our corporate governance and achieving BoCom’s ambitious reform and development strategy.

### 2017: Intensely improve ourselves, firmly move forward

In 2017, the operation and management of commercial banks were challenged by volatile market conditions and the policy environment. We seized the opportunity presented by the acceleration and transformation of China’s economy, decisively implemented strategies and effectively adapted to change. In addition, we continuously promoted the steady growth of our business, enhanced profit margin through multiple channels, strengthened our risk management and controls, and achieved stable performance with good momentum for growth.

By the end of 2017, the total assets of BoCom Group exceeded RMB9 trillion, reaching RMB9,038.254 billion, which increased by 7.56% from the beginning of the year. Net profit for the year (attributable to shareholders of the Bank) was RMB70.223 billion and increased by 4.48% on a year-on-year basis. The capital adequacy ratio and core Tier-1 Capital adequacy ratio were 14.00% and 10.79% respectively, which remained at relatively high levels. Supported by the stable growth of our business, BoCom continued to improve its market position, brand image and social reputation. The Group was honored in *FORTUNE*’s ‘Fortune Global 500’ for nine consecutive years with the revenue ranking No. 171. The Bank was ranked No. 11 among the global top 1,000 banks in terms of Tier-1 Capital by *The Banker*, which set a new record in our history. The Bank was ranked top 20 in global banks for four consecutive years.

This year, we explored the corporate governance model of large commercial banks with Chinese characteristics, and effectively integrated the core leadership of the Communist Party of China with modern corporate governance practices. The fundamental goal of corporate governance is not governance itself, but to achieve a clear allocation of responsibility to each operating unit, proper segregation of duties and effective coordination, which will enable our Bank to more effectively serve the real economy, forestall financial risks, and deepen the financial reform. We clarified the legal status of the Party organization in our corporate governance structure in our Articles of Association. The resolution “Adoption of Party building into Articles of Association” was unanimously

## STATEMENT FROM THE CHAIRMAN (CONTINUED)

approved by the Board of Directors and the Board of Supervisors. Supported by a majority of shareholders, the resolution was also adopted at Shareholders' General Meeting with a vote of 97.39%. BoCom optimized the corporate governance framework of large commercial banks with Chinese characteristics through the "core leadership of Communist Party, strategic decision of the Board of Directors, delegation to Senior Management, and law-based supervision of the Board of Supervisors". Furthermore, we explored the development of a three-level authorization approach, covering the entire Bank. We also proactively expanded our enhanced corporate governance to areas such as strategy, capital, credit, risk, internal controls, inclusive finance, and social responsibility.

This year, we intensely engaged the real economy and reinforced the foundation of our business. The high quality transformation of China's economy has established a solid underpinning for the further development of the banking sector. We deeply explored business opportunities, while proactively supporting the growth of China's economy in response to the State's major strategic objectives. In 2017, total loans and advances to customers increased by RMB353.955 billion from the beginning of the year, representing an increase of 8.63%. We strictly implemented the nation's industrial policy. We thoroughly implemented five major tasks of "de-capacity, de-stocking, de-leveraging, cost reduction, and weakness remediation", and continued to improve asset quality. Loan balances of industries with serious overcapacity continued to decrease in 2017. The credit facilities extended to customers involved with activities such as low-carbon emission, environmental protection, and comprehensive use of resources, increased by 14.89%. We actively implemented the State's strategies to support small and micro enterprises, as well as inclusive financial services, in order to provide equal development assistance to all levels of society. The balance of loans to small and micro enterprises increased by 12.69% from the beginning of the year, which is higher than the growth rate of the total loans

by 4 percentage points. We continued to expand our customer base and have been committed to providing customers with more professional, convenient and efficient services. In 2017, the total number of domestic corporate customers and individual customers increased by 9.31% and 18.19% from the beginning of the year, respectively. We achieved full coverage of cooperation between head-office level banking customers and other major financial sector customers.

This year, we maintained our focus on transformation. Pursuing the "BoCom Strategy" has resulted in remarkable accomplishments. BoCom established a development strategy of "becoming a first class listed comprehensive banking group focusing on international expansion and specializing in wealth management" ("BoCom Strategy") in 2008, and has been adhering to this strategy in the Group's development and transformation. In the past decade, we have consistently demonstrated the leadership position of our strategy. The contribution of overseas banking and non-banking businesses increased continuously. The advantages of internationalization and diversification achieved fruitful outcomes. In 2017, the total assets of overseas banking institutions and subsidiaries increased by 15.38% from the beginning of the year, accounting for 14.18% of the total assets of the Group; the net profits of overseas banking institutions and subsidiaries increased by 3.52% on a year-on-year basis, accounting for 13.27% of the total net profits of the Group. Our internationalization took bold steps into the new era over the past 30 years of development, including the regulatory approval to establish our Johannesburg Branch and the completion of spin-off of our Hong Kong Subsidiary from the Hong Kong Branch. While steadily developing the Bank's main business, our already broad operating environment continued to expand. BoCom Investment was successfully incorporated and became a new pioneer in comprehensive development. BoCom International was listed on the Main Board of the Hong Kong Stock Exchange and became the first Chinese funded securities trader listed in Hong Kong. As one of the first five pilot financial leasing companies approved

## STATEMENT FROM THE CHAIRMAN (CONTINUED)

by the State, all core business of BoCom Leasing was in the leading position in that sector. We are especially delighted that we demonstrated our strength in the wealth management business, resulting in the growth of the intermediary business of BoCom, despite continued narrowing of net interest margin. The intermediary business became an important engine for the steady growth of profit. Net fee and commission income for the year amounted to RMB40.551 billion, representing an increase of 10.21% on a year-on-year basis, which ranked top level among the banks.

This year, we maintained a prudent and stable risk appetite, which provided a strong base to achieve sustainable development of value for shareholders. Properly calibrating risk appetite and managing asset quality are core competencies of a modern commercial bank. The substance of a bank's operation is to undertake and manage risks. It is imperative for bank management, using their experience and the bank's risk management process, to find the optimal point of balancing between risk and return. Benefiting from our consistently applied and prudent risk tolerance, comprehensive and advanced management processes, and technology tools, the Board of Directors and Senior Management demonstrated a high level sensitivity and forward looking perspective to effectively addressing the risks facing us. We have effectively forestalled a broad range of risks through timely identification and planning. Confronted with tightened market liquidity during the first half of the year, we worked diligently to precisely match the levels of capital and liquidity with the corporate governance, business model and structure of assets and liabilities by adjusting our business processes with great agility and efficiency. After continuous efforts, our asset quality indicated stable performance with good momentum for growth. In 2017, the balance of impaired loans to total loans and advances of the Group continued to decline. The impaired loans ratio slightly decreased by 0.02 percentage points from the beginning of the year to 1.50%. Generally speaking, no significant incident occurred and we have no meaningful operational

burden in the current higher risk operating environment. Moreover, we were not subject to the additional burdens of balance sheet reduction, including asset disposal, as compared to other banks. We demonstrated that BoCom's core competencies made us more resilient than many.

This year, we inherited the rich experience of financial reform, acting as a "pilot" and "pioneer". We continued to deepen reform and release energy. BoCom was the first national joint-stock commercial bank in China and the first state-owned large commercial bank to complete its financial restructuring, including the introduction of foreign capital and completing its initial public offering. BoCom has the most experience in reform and innovation. In 2015, chosen as the pilot for deepening reform approved by the State Council, under Mr. Niu Ximing's leadership, we focused on reform and innovation, and have been demonstrated a number strategic breakthroughs in reform and innovation. We successfully set up a number of business division profit centers and the development approach of "two engines comprising divisions and branches" were established. In 2017, the profit before tax provision of the six major business division profit centers, which are custody, credit card, marketing, asset management, precious metals and bills, increased by 14.88% on a year-on-year basis, which became an important profit growth area of the Group. Credit card business is key to the transformation and development. The profit and non-interest income increased by 17% and 42% on a year-on-year basis, respectively. New credit holders exceeded over ten millions during the year and positioned at the top of market. We precisely connect the development needs and expectation from the basic level, promote the positive interaction of the top level design and basic level exploration, proactively develop operations. The deepening reform of BoCom achieved remarkable results, which was acknowledged by the industry and the market. The reform became a shining banner of BoCom and began to generate positive effects.



## STATEMENT FROM THE CHAIRMAN (CONTINUED)

This year, we accelerated the strategy of promoting Fintech and innovated the “online + offline” collaborative service model. Facing with the opportunities and challenges of Fintech, we relied on high quality and efficient traditional offline channels, via the innovation of Fintech, by integrating the “online + offline” and developing full channel and smart new service mode. We continuously constructed “Trinity” network including the physical outlets, e-banking and relationship managers, created an online Fintech platform and applied big data, mobile internet and artificial intelligence to target the market and develop the business. BoCom was the first bank introducing the online live finance programs via mobile banking and the operating function was at the advanced level among the banks. The advantages of “online + offline” integration became prominent. BoCom, which firstly adopted “service” as a strategic development goal, is committed to “being the best bank in the finance industry”. BoCom service brand was the core competitiveness as the powerful support for serving the real economy and customers. In the selection of Top 100 Outlets held by *China Banking Association* every two years, the number of BoCom’s selected outlets was ranked first in the industry for three consecutive years.

### 2018: Prepare for remarkable achievements

The year of 2018 is the 40th anniversary of China’s reform and opening up. It is a crucial stage for the economy to continue to achieve high quality development. We will be addressing a more complex and turbulent economic and financial situation. From a positive perspective, the global economy will continue to recover while the China’s economy will develop more quickly with its momentum, which provides a good macro-economic environment for the Bank’s development and performance in crucial period. At the same time, with continuing pockets of financial de-leveraging and aggressive risk management, credit risk in some areas and companies is further increasing. In addition, liquidity in capital markets remains tight and there is increasing uncertainty regarding interest rate and foreign exchange risk. There is significant pressure to effectively manage liquidity and liabilities, which further strains net interest margin and profit. The Bank will confidently address these challenges during this crucial time.

The year of 2018 is not only the 110th anniversary of the establishment of BoCom, but also marks a new starting point of high quality development. BoCom has experienced the full range of China’s financial history across two centuries. BoCom, as an inheritor of a national brand over a century and a pioneer of China’s banking reform, has survived and adapted, witnessed the development of the national finance over a century, and contributed to the development of China’s economy. BoCom thrived in reform, led the significant reform process of China’s banking sector, and made outstanding achievements in the transformation of China’s finance. The history of BoCom has fully demonstrated that the foundation of BoCom’s steady growth is to adhere to long-term value and to reform and innovation.

In 2018, we will focus on high quality development under the direction and management of “increasing active customers, increasing core liabilities, increasing income from transformation, reducing cost of risk, reducing cost of capital, and reducing operating costs”. In addition, we will continue to promote reform and development of BoCom firmly, and strive to become a first-class public shareholding bank.

Stick to the foundation and root in the real economy. The customer is the foundation and liabilities are our resource of our business. We will be deeply rooted in the real economy and further strengthen our customer base. Hence, we will optimize our business structure based on the solid growth of the customer base. We will reinforce the foundation of business development and profit growth. While we steadily grow in scale, we will manage the cost of liabilities.

Steadily operate our Bank and strictly manage asset quality. Risk management is the tool and quality is the foundation. We will exploit our economic position and direction, prioritize risk management and cost reduction, and actively promote the “loss reduction and profit increase”. We will maximize the overall value in long term and enable us to go through the challenge of a complete economic cycle.

## STATEMENT FROM THE CHAIRMAN (CONTINUED)

Embrace changes, firmly reform and transform. Transformation is our direction and reform generates energy. We will continue to transform the development philosophy and innovate development model. We are determined to promote business transformation and innovation in Fintech application. We plan to develop competitive advantage of differentiation in order to solve difficult issues in development, increase development advantages and maximize development strengthens by reducing the risk, capital consumption and operating cost through transformation.

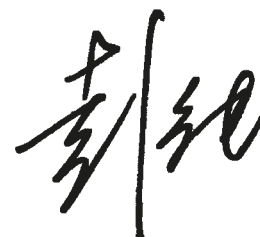
People-oriented, enhance employees' value. Employees create BoCom's business and, therefore, are treasured by BoCom. We will commit to building the BoCom as a big family for our staff's career and development. We will also commit to help our staff grow together with BoCom, share our common value with BoCom staff. We will enhance the staff's satisfaction, recognition, the sense of belonging and dedication, which would fully inspire the staff's creativity, innovation and energy.

At the beginning of 2018, we use "He110" as our major slogan and introduced the marketing theme of 110th anniversary of the establishment of BoCom. This is our new starting point as well as a greeting and a statement of BoCom in the new era. With the support and trust of investors, shareholders and customers, all the colleagues of BoCom uniting together in good faith, let's work on the new chapter of reform and development, and build a glory business of BoCom together.

He110, 2018!

He110, BoCom will continue to move forward to benefit from our past and continue our transformation.

*Chairman*

A handwritten signature in black ink, consisting of stylized Chinese characters, likely representing the Chairman's name.

# STATEMENT FROM THE CHAIRMAN OF THE BOARD OF SUPERVISORS



China's development enters into a new era. The economic structure is constantly optimized. Economic vitality and resilience are further enhanced. BoCom should seize this historic opportunity, grasp the characteristics and trends of economic development in the new era, deepen the promotion of reform, innovation and strategic transformation, and contribute to the high quality development of economy. At the same time, we prioritize the management of systematic risk, collectively promoting the major construction of risk management system and enhancing risk controls in key areas. We firmly believe that we will succeed in the battle of forestalling and defusing the financial risks.

## **Song Shuguang**

Chairman of the  
Board of Supervisors



## (I) DESCRIPTION OF PRIMARY BUSINESSES AND INDUSTRY

### 1. Primary Businesses

The Group's primary businesses include corporate banking, personal banking, treasury and other businesses. Corporate banking includes providing financial products and services for enterprises, government agencies and financial institutions, such as deposits and loans, value chain of financial product, cash management, international settlement and trade financing, investment banking, asset custody, wealth management and all kinds of intermediary businesses. Personal business includes services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Treasury mainly includes money market transactions, trading account businesses, banking account investments and precious metal businesses. Please see "Operating Results by Business Segments" on Page 52 for the information of net operating income and profit before tax of primary businesses. In addition, the Group involved businesses in fund, trust, financial leasing, insurance, overseas securities and debt-to-equity conversion through its subsidiaries, including BoCom Fund, BoCom International Trust, BoCom Leasing, BoCommLife Insurance, BoCom Insurance, BoCom International and BoCom Investment.

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

### 2. Industry overview

According to data published by the CBRC, as at the end of the Reporting Period, total domestic and overseas assets of financial institutions in China's banking sector denominated in Renminbi and foreign currencies increased by 8.68% on a year-on-year basis from the beginning of the year to RMB252.40 trillion, among which total assets of large-scale commercial banks increased by 7.18% on a year-on-year basis to RMB92.81 trillion, accounting for 36.77% of the total assets of financial institutions in China's banking sector. Total domestic and overseas liabilities of financial institutions in China's banking sector denominated in Renminbi and foreign currencies increased by 8.40% on a year-on-year basis to RMB232.87 trillion; among which total liabilities of large-scale commercial banks increased by 7.05% on a year-on-year basis to RMB85.56 trillion, accounting for 36.74% of the total liabilities of financial institutions in China's banking sector.

As one of the large-scale financial institutions in China's banking industry, as at the end of the Reporting Period, the Group's total assets increased by 7.56% from the beginning of the year to RMB9.04 trillion, and the total liabilities increased by 7.61% from the beginning of the year to RMB8.36 trillion.

## (II) ANALYSIS OF CORE COMPETITIVENESS

**– Organized and effective corporate governance system.** The Bank has committed to high-level corporate governance, and established the corporate governance mechanism with Chinese characteristics. The Bank adheres to "Party Committee's core leadership, strategic decisions of the Board of Directors, supervision of the Board of Supervisors, and full authority to Senior Management over business operations". The Bank's corporate governance has covered and extended to many areas such as the the development of the Party building, strategy management, authorized operation, risk and capital management, information disclosure and social responsibilities, fully safeguarding the legitimate interests and benefits of shareholders and other stakeholders. Party building, strategy management, authorized operation, risk and capital management, information disclosure and social responsibility, which effectively protects the legitimate rights of shareholders and other stakeholders. The Bank has stable ownership structure and a diversified, specialized and internationalized Board of Directors, whose members consist of experienced domestic and abroad bankers, well-known experts and scholars from different fields and lawyers, etc.

**– Profound history background and strong comprehensive capabilities.** This is the 110th anniversary of the Bank in 2018. As an existing national financial brand with the longest history, BoCom enjoys high recognition and reputation, known as a "century-old bank". The total assets and net profits of the Group exceeded RMB9 trillion and RMB70 billion, respectively. The Bank was honored 'Top 500 Global Companies' for nine consecutive years by *FORTUNE*. It was also ranked at a top place in terms of Tier-1 Capital (No.11 among the global top 1,000 banks rated by *The Banker*), with strong comprehensive capabilities.

## BUSINESS PROFILE (CONTINUED)

– **Mega bank with spirit of reformation.** The Bank has always been a pioneer of reformation in banking sector since reorganization, which provides the advantage in reformation and innovation. The Bank is the first national joint-stock commercial bank in China, the first integrated commercial bank to carry out banking, insurance and securities businesses, and the first domestic large-scale commercial bank to successfully bring in foreign capital and list overseas. In 2015, the Bank took the initiatives to be responsible for the financial pilot reform in China once again after the *BoCom's Plan to Strengthen Reformation* approved by the State Council. The Bank steadily implemented the key project “20+20+21” for three consecutive years. The Bank deepened the reform at the basic level, promoted the reform of special authorization, appraisal and the reform of employees’ remuneration, according to the principle of “delegation, regulation, service”<sup>1</sup>. Therefore, the Bank achieved significant progress in divisional structure reform, and established development pattern of “two engines” of divisions and branches.

– **Constant enhancement of global service ability.** The Bank was committed to becoming a first-class international bank with remarkable advantages in international businesses and delivering of global financial services. The Bank is one of the most internationalized domestic banks in China. The overseas banking institution “Asia-Pacific as basis and Europe and America as two wings to expand the global landscape” has taken shape initially. The Bank set up 20 overseas banking institutions and 65 overseas banking outlets in total (excluding the representative offices) in over 16 countries and regions. Total asset of overseas banking institutions almost reached RMB1 trillion. At the same time, the Bank built agency relationships with 1,580 banks among 142 countries and regions, which provides cross-border Renminbi clearing service for 36 countries and regions.

– **Continuous improvement of integrated financial service.** The Bank was committed to becoming an integrated financial service group focusing on banking industry to serve the real economy through multiple channels and across the regions. Currently, the Bank ranked first-class in integration among all commercial banks. Besides the commercial banking businesses, the Bank extends its business to many areas such as trust, financial leasing, fund management, insurance, securities and debt-to-equity conversion, etc. The wholly-owned subsidiaries of the Bank include BoCom Leasing, BoCom International and BoCom Insurance, and subsidiaries controlled by the Bank include BoCom International, BoCom Fund, BoCom International Trust and BoCommLife Insurance. Additionally, BoCom International has listed on Hong Kong Stock Exchange in May 2017, becoming the first Chinese funded securities trader and listed in Hong Kong. As at the end of the Reporting Period, the total assets of BoCom Leasing came the top place in the industry, becoming the first domestic financial leasing company which had leasing assets of the on-balance sheet exceeded 200 billion.

– **Progressive wealth management characteristics.** The Bank initiated the concept of wealth management services among the banks in the industry at an earlier period of time. The brand and characteristics of wealth management become more and more prominent by continuous development of the wealth management service system. A tiered customer service brand system covering both high-end and mid-end customers and ordinary customers has been established in personal banking business. The core service brand “Win to Fortune” for high-end and mid-end customers reflected increasing market reputation. As at the end of the Reporting Period, asset under management (“AUM”) amounted to RMB2.88 trillion. With regard to corporate business, brand building of “Win to Fortune” has achieved initial success, coupled with the growing influence of key products including “Win to Fortune” account and “Win to Fortune” industrial chain. The Bank was awarded the ‘China Best Service Provider – Cash Management’ by *Treasurer*, and ‘Best Supply Chain Financing Bank in China’ by *Asia Money* in 2017.

– **Established all-rounded “Full service” structure.** The Bank is among the earliest banks that developed strategy oriented objective of enhancing services, and committed to “being the best bank in the finance industry” in 2013. The Bank persists in focusing on serving the real economy and constantly enhancing the ability and standard to serve the real economy. As at the end of the Reporting Period, the balance of loan of the Group reached RMB4,456.914 billion, with an increase of RMB353.955 billion from the beginning of the year, which effectively supports the development of the real economy. The Bank continued to promote standards and principles of service, innovate service model, and solve “problems” of customer experience. Moreover, the Bank accelerated the promotion of intelligent outlets, innovation and transform of service model and enhancement of convenient services. The Bank constantly improved the service channels of “Trinity” network (including physical outlets, e-banking, relationship manager) in order to create synergy effect combining online and offline services, and the all-rounded “Full service” is established progressively. Our advantage and characteristic provide excellent services. The Bank ranked No.1 of ‘Top 100 Model Entities’ by *China Banking Association* for a third time in 6 consecutive years. For 2017 assessment of customer right protection (banking sector) by the CBRC, the Bank is the only one that was awarded as first-class bank among national banking financial entities.

<sup>1</sup> Streamlining administration and delegating power to lower-level department, improving regulation, and improving service.

**– Fully embraced financial technology development trend.** The Bank takes a serious view on financial innovation. The Bank set up Product Innovation and Promotion Committee in 2010, continuously promoted businesses and product innovation on strategic level, established “531” project and innovation lab, and built a Fintech platform for financial businesses solution, artificial intelligence, biotechnology, blockchain, big data, and cloud computing etc., which provides a concrete technical foundation for exploring Fintech innovation. In order to adapt the trend of digitalization, the Bank set up Internet Financial Center, Online Financial Business Center, to promote the technology application such as big data, mobile communication and artificial intelligence. Furthermore, the Bank accelerated the construction of online channel, by focusing on development of mobile banking APP and Go Pay APP, which were top of the industry in terms of market influence and number of active clients. Meanwhile, the Bank accelerated the promotion of intelligent service outlets and lightening outlets via intelligent machines by introducing biotechnologies such as face and fingerprint recognition and remote smart service, in order to enhance customer service experience. In addition, the Bank established profound cooperation with Internet companies across industries. We strategically cooperated with Suning and Vipshop, exploring a win-win situation for finance and technology.

**– Sound and effective comprehensive risk management system.** The Bank has always adhered to the principle of steady operation, and fully implemented each requirement of comprehensive risk management system by the Central Committee. We have always upheld steady and cautious risk preference through operating management, and continuously improved the comprehensive risk management system of “full coverage, whole process, accountability and risk management culture”. During the Reporting Period, the Bank continued to reinforce risk management in key areas. Total high risk loans disposed or with additional credit risk instigation during the year amounted to RMB89.204 billion, in order to approve the ability to resolve and release risks. Prudential style of risk management constituted the Bank’s advantage of asset quality. As at the end of Reporting Period, the impaired loan ratio was 1.50%, decreasing by 2 basis points from the beginning of the year, lower than the average impaired loan ratio of Chinese commercial bank. Five of the six major asset quality indicators decreased while one increased compared to the beginning of the year. Thereinto the provision coverage ratio of impaired loans increased by 2.58 percentage points from the beginning of the year. Impaired loan rate decreased by 0.02 percentage points from the beginning of the year. The balances of overdue loan and overdue loan for over 90 days decreased by RMB9.426 billion and RMB10.359 billion respectively, compared with the beginning of the year; the ratio of overdue loan and overdue loan for more than 90 days decreased by 0.42 and 0.41 percentage points respectively from the beginning of the year. At the same time, there is no major risk event for years, and no significant issues were noted under various supervision and inspections. Compliance management of oversea institutions was well-recognized by the local supervising authority, and multiple oversea entities remained the best of regulatory rating among the local Chinese-funded banks.

**– Fruitful strategic cooperation with HSBC.** In 2004, the Bank entered into a strategic cooperation agreement with HSBC. Over the past decades, BoCom and HSBC have stable cooperation, and HSBC increased the share holdings of BoCom for several times. As at the end of the Reporting Period, HSBC was the second largest shareholder (19.03% of the total shares) of the Bank, who had two seats in the Board of Directors. Thereinto Mr. Peter Wong Tung Shun, held the post of Non-executive Vice Chairman of the Bank. Senior Management and business team from both sides kept closely communication and exercised each advantage, creating BoCom and HSBC “1 + 1” service brand. Cooperation continued to expand in areas such as international businesses, cooperate businesses, personal businesses, custody businesses, achieving mutual benefits and win-win results. The comprehensive strategic cooperation of BoCom and HSBC has been a model of success of cooperation to domestic and foreign banks.

During the Reporting Period, the Group’s core competitiveness had no significant change.

# RANKING AND REWARDS

## People Rewards

**Best Corporate Social Responsibility of the Year, Financial People of the Year – Peng Chun**  
The Paper

## Comprehensive Ranking

**Top 1000 World Banks 2017 (ranked 11)**  
The Banker (UK)

**Fortune Global 500 – 2017 (ranked 171)**  
Fortune (USA)

## Brand Rewards

**Caixin ESG Excellent 50 Index Winner**  
Caixin

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

**Best Financial Institution of the Year, Most Reliable Banking Brand of the Year**  
hexun.com

**The Most Influential Banking Brand of the Year, Excellent Credit Card Bank of the Year**  
Wallstreetcn

**Most Reliable Bank**  
Financial World



**Business Rewards**

**2017 Top 10 News: Mobile-based Credit Card**  
Financial Computerizing

**2017 Premier Platinum Credit Card**  
21st Century Media

**Best Wealth Management Bank of the Year**  
Financial Times

**Best Green Financial Institution**  
CBN

**“Jin Li Cai” Outstanding Award of Wealth Management Bank of the Year, “Jin Li Cai” Outstanding Award of Personal Bank of the Year**  
Shanghai Securities News

**Financial Innovation Award in China**  
The Banker

**State-owned Commercial Bank with Excellent Competitiveness and Wealth Management Bank with Excellent Competitiveness**  
China Business Journal

**“Jin Chan” Award of Wealth Management Bank of the Year (the 11th Session)**  
China Times

**Best Supply Chain Financing Bank**  
Euromoney

**Best Wealth Management Bank of the Year, Highest Investment Value of Bank of the Year**  
sina.com

**Best Integrated Bank of the Year, Best Bank of Trustees of the Year, Best Credit Card Product of the Year (BoCom WALMART Card)**  
eastmoney.com





# MANAGEMENT DISCUSSION AND ANALYSIS

Hello 1908-2018 2018

110<sup>th</sup> Anniversary of  
Bank of Communications



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2017, the overall recovery of developed economies led to an improvement in global demand. Emerging economies had a rapid growth. The prices of bulk commodity have increased. And international trading market re-energizes. However, trading protectionism was emphasized and there are geopolitics risks sometimes. China adhered to the overall strategy, made progress and maintained stability through adopting proactive fiscal policy and prudential monetary policy to promote structural optimization, power conversion and quality improvement under the supply-side structural reform. National economy registered a stable performance with good momentum for growth. Gross domestic product (“GDP”) in 2017 reached RMB82.7 trillion and increased by 6.9% on a year-on-year basis. The growth of the tertiary industry accounted for 58.8% of the GDP, representing a year-on-year increase of 1.3 percentage points. Consumption is the main motivation of economic growth. Final consumption expenditure contributed 58.8% to the GDP, which was higher than total capital formation by 26.7 percentage points. There was a gradual upturn in rapid growth in industrial production and profit of the above-scaled industrial enterprises increased by 6.6% from the prior year. Corporate profits relatively grew rapidly. Profits of the above-scale industrial enterprises were increased by 21%. Investment structure optimized continuously. Annual fixed capital investment raised by 7.2% than last year. Among them, the fixed capital investment of high-tech manufacturing industry grew by 17%. The scale of import and export expanded continuously, which increased by 14.2% than last year, among which the scale of export and import value increased by 10.8% and 18.7% respectively. Price level had a steady increase. Consumer price index and producer price index increased by 1.6% and 6.3% respectively. Green development was stably enhanced. Energy consumption per unit of GDP dropped by 3.7% over the previous year.

The monetary credit and social financing maintained a stable growth. By the end of 2017, the balance of M2 (broad monetary aggregates) increased by 8.2% on a year-on-year basis. The balance of Renminbi loans increased by 12.7% on a year-on-year basis, representing an increase of RMB13.8 trillion from the beginning of the year. The stock of social financing during the whole year had a year-on-year increase of 12%. The People’s Bank of China (PBOC) implemented prudential currency policy to improve fine-tuning and the communication with the market, utilized reverse-repurchase comprehensively and the convenient tools of interim leasing, and improved the macroeconomic prudential policy. The mobility of banking sector was medium and the credibility of currency as well as scale of social financing had a steady growth, which created favorable monetary and financial environment for stabilizing growth, promoting reform, de-leverage, bubble control and risk control.

### II. BUSINESS REVIEW

In 2017, the Group actively dealt with challenges of external environment change, grasped the chances of transformational development, set “BoCom Strategy” as the principle of development. Involved in serving the real economy, continuously and comprehensively deepened reform, strictly prevented and controlled various risks, the Group achieved a steady improvement in its operating performance. As at the end of the Reporting Period, the Group’s total assets exceeds RMB9 trillion, increasing by 7.56% from the beginning of the year to RMB9,038.254 billion. During the Reporting Period, the net profit of the Group (attributable to shareholders of the Bank) increased by 4.48% on a year-on-year basis to RMB70.223 billion. The Group was honored with the ‘Top 500 Global Companies’ for nine consecutive years by *FORTUNE*, ranked No.171 in terms of operating income. It was also ranked at No.11 among the global top 1,000 banks rated in terms of Tier-1 Capital by *The Banker*, which hit the record high and ranked as top 20 in this award for four consecutive years.

**Persistently served the real economy, contributed to transforming and adjusting structure.** The Group actively responded to the State's strategic development and provided effective financing support to the real economy. As at the end of the Reporting Period, the balance of loans and advances to customers (before allowances, if not specially stated, same applies hereinafter) increased by RMB353.955 billion or 8.63% from the beginning of the year to RMB4,456.914 billion. The Group continually optimized the credit structure, assisted in economic restructuring and upgrading, supported the supply-side structural reform and five major tasks of "de-capacity, de-stocking, de-leveraging, cost reduction, and weakness remediation". As at the end of the Reporting Period, the loan balance of infrastructure and city construction fields, including transportation, water conservancy, environmental and other public utilities, and services, increased by RMB140.3 billion from the beginning of the year. The loan balance of livelihood protection, including electricity, gas and water, education, science, culture and public health, increased by RMB16.9 billion from the beginning of the year. The percentage of loan in seriously excess capacity industry, such as steel and coal, decreased continuously. The Bank improved the construction of the inclusive finance structure, reduced fee which benefited inclusive finance. As at the end of the Reporting Period, the loan balance of domestic small and micro enterprises increased by 12.69% from the beginning of the year, which was higher than the average growth rate of all loans.

**Consolidated the strategic advantages, demonstrated district characteristics of the "BoCom Strategy".** The "BoCom Strategy" guided configuration management, resulting in enhancement of the Group's ability to cooperate and a steady increase in profit. During the Reporting Period, the net profit (attributable to shareholders of the Bank) increased by 4.48% on a year-on-year basis to RMB70.223 billion. The capability of globalization and integration were strengthened continuously. The service level of cross-border, cross-industry and cross-market continuously improved. The total asset value of overseas banking institutions and subsidiaries increased by 15.38% from the beginning of the year, equivalent to 14.18% in the total asset of the Group. The net profit increased by 3.52% on a year-on-year basis, equivalent to 13.27% in net profit of the Group. During the Reporting Period, the establishment of Johannesburg Branch was approved by supervision authority and the completion and spin-off of Hong Kong Subsidiary were successfully executed; BoCom Investment was established successfully; BoCom International was the first Chinese funded securities trader which successfully operated on the Main Board of Hong Kong Stock Exchange. The rapid development of business in bank cards and asset custody led to a significant growth in non-interest income and an improvement of the operation characteristic of wealth management. During the Reporting Period, the net fee and commission income of the Group increased by 10.21% on a year-on-year basis to RMB40.551 billion. The proportion of net fee and commission income increased by 1.67 percentage points to 20.63%, among which the net fee and commission income of personal banking businesses increased by 19.59% on a year-on-year basis; and the fee income of bank cards, management and payment settlement fee increased by 34.83%, 19.56% and 9.41% on a year-on-year basis respectively.

**Deepened reform and innovation, "two engines" promoted development.** The Group deepened the reform of "one-stop" service, as well as the divisional system and mechanism of marketing management, and the development of "two engines" of "branch operation and divisional structure operation" increased both in speed and efficiency. During the Reporting Period, the profit before tax provision of the six major business divisions increased by 14.88% on a year-to-year basis, prominently contributed to the profit of the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group strengthened the integrated management of provincial branches, promoted branches managed by provinces to transform into retail business as the main reform. The online financial center started smoothly and developed new integrated channels for both online and offline markets. The Group also deepened the application of innovative finance and technology, and promoted the key innovative products such as mobile banking and Interbank platform. As at the end of the Reporting Period, the number of registered customers of mobile banking reached 61.06 million, increased by 21.73% from the beginning of the year; the number of cooperating clients of Interbank platform increased by 204 from the beginning of the year to 533. The Group firstly implemented “mobile-based credit card”, and achieved the “quick approval, quick utilization” credit service of issuance and use, resulting in 3 million issuance within a year.

### **Adhered to the bottom line of compliance, managed the business and controlled risk prudently.**

The Group strengthened risk management and control in the key areas, strengthened cases and compliance management, and tightened the fences of risk prevention and control, effectively preventing large risk exposures and resisting external risk shocks. The domestic and overseas compliance risks were under control in general and a number of overseas institutions continuously maintained the best level among local Chinese-funded banks. The assets quality improved smoothly and five of the six major asset quality indicators decreased while one increased compared to the beginning of the year. The Group’s provision coverage ratio was 153.08%, representing an increase of 2.58 percentage points from the beginning of the year; impaired loan ratio was 1.50%, decreased by 0.02 percentage points from the beginning of the year; the balance of overdue loans and the balance of overdue loan for more than 90 days decreased by RMB9.426 billion and RMB10.359 billion from the beginning of the year respectively, which represented a decrease of 0.42 percentage points and a decrease of 0.41 percentage points from the beginning of the year, respectively.

**Strengthened the customer base, further enhanced the brand image.** As at the end of the Reporting Period, the total number of domestic corporate customers increased by 9.31% from the beginning of the year, of which the number of core companies in the industrial chain and the number of cash management companies increased by 14.97% and 11.87% respectively from the beginning of the year; the total number of individual customers increased by 18.19% from the beginning of the year, among which the number of customers of BoCom fortune, OTO Fortune, and private banks increased by 2.73%, 9.23%, and 6.21% respectively from the beginning of the year. The Group increased the cooperating channels of the industry to basically achieve the full cooperation of customers in the head office-level banking industry and other major financial industries. The Group continuously enhanced customer experience, and provided customers with more convenient and efficient services. The Group was ranked No.1 in the industry for four consecutive years in the China Retail Banking Satisfaction Study; 20 outlets were rated as top 100 model units by the China Banking Association, the number of which ranked No.1 in the industry for three consecutive years. It was recognized as the only national bank appraised by the CBRC for the recognition of consumer rights protection, consolidating the advantage of service brand.

### (l) Corporate Banking Businesses

- **During the Reporting Period, the Group's profit before tax from corporate banking businesses amounted to RMB35.6 billion and net fee and commission income amounted to RMB16.034 billion; the total number of corporate customers of domestic banks increased by 9.31% from the beginning of the year.**
- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 4.47% from the beginning of the year to RMB3,349.617 billion; corporate loan balance increased by 4.47% from the beginning of the year to RMB3,047.032 billion.**
- **As at the end of the Reporting Period, the Group's corporate impaired loan balance was RMB51.004 billion and the impaired loans ratio was 1.67%.**

Adhering to the major national and regional strategies, the Group accelerated the transformation and innovation of the company's business system and mechanisms as well as business model, and satisfied customers' comprehensive financing requirements using products portfolio, such as credit, bonds, funds, leasing, trust, asset management, insurance, and investments. The Group continuously improved the ability to serve the real economy, and established a good brand in areas including cash management, supply chain of finance, investment banking and cross-border finance.

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

The Group increased the support for infrastructure construction, strategic emerging industries, and modern service industries to upgrade the structured economic transformation. The Group relied on business divisions of Head Office and branches, the associate business divisions and the "BoCom-HSBC" 1+1 integrated system, and signed comprehensive strategic cooperation agreements with global and national key group customers, achieving great breakthroughs in various major fund projects such as debt-to-equity conversion and equity investments. The Group also focused on customers' needs, increased innovation, had experimental projects led jointly by Head Office and branches reached 17, as well as promoted the solutions of scenarios and industrial services. Among them, since the "Court Case Loan Management" went online, the flow of funds reached RMB19 billion. The financial services product "Bank-Connected-Hospital" linked 280 hospitals, and the "Bank-Connected-School" covered 31 provincial branches, with a total of 169 schools coming online.

#### **2. Small and micro enterprise businesses**

The Group successfully operated the Inclusive Finance Development Committee. It deepened the reform of the service system and mechanisms and promoted the sustainable development of the inclusive finance. The Group perfected the product system, innovated service models, and increased support on key areas of inclusive finance and key customer groups, including micro and small enterprises, "agriculture, rural areas and farmers", poverty alleviation and "Popular Entrepreneurship Innovation". The Group strengthened the management of small and micro investment as well, optimized the structure of small and micro customers, and improved the whole process of risk control measures, in order to develop small and micro businesses and risk management. As at the end of the Reporting Period, the domestic bank's balance of loans for small and micro enterprises meeting the standards of the national four ministries amounted to RMB770.719 billion, representing an increase of 12.69% from the beginning of the year, which was higher than the average growth

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

rate of all loans; the number of loans for small and micro enterprises was 155,309, representing an increase of 10,921 from the beginning of the year. The rate of obtaining loans from small and micro enterprises was 94%, representing an increase of 1.41 percentage points from the beginning of the year.

### **3. Industrial value chain of financial services featured by “One Branch Offering Nationwide Services”**

Relying on “Internet+” and information technology, the Group updated the system platforms such as electronic supply chain and smart cars, developed online financial products covering payment settlement and trade financing, and accelerated the promotion of key products in industrial chain, including “Express Bill Discounting”, “Express Receivable Collector”, “Express Pay”, “Win to Fortune E Chain”, and “Automobile Finance”. The Group cooperated with key customers in the fields of construction, medical and health care, petrochemicals, and automobile. Focusing on industrial value chain, the Group launched small and micro lending business, strengthened business cooperation with financial companies to jointly serve the upstream and downstream member companies of financial companies. The Bank was rewarded as the ‘Best Supply Chain Financing Bank’ for 2017 in *Asian Currency*. As at the end of the Reporting Period, the total number of standardized industrial chain networks exceeded 2,600, and the number of companies reaching the standard chain exceeded 40,000.

### **4. Cash management businesses**

The treasury management system of financial companies was launched to meet the needs of the integration of the operation, risk control and compliance of large-scale enterprise groups. The Group optimized the payment function of the e-commerce settlement platform and enhanced the risk supervision and control of trading funds, with the trend of “Internet+”. The internal billing function of the bill pool was introduced to enhance the centralized management capability of the Head Office of the Group and its members. Combining the needs of multi-scenario applications, the Group accelerated the promotion of C2B collection services and constantly optimized the payment experience. As at the end of the Reporting Period, there were more than 20,000 group customers in the cash management of the “Win to Fortune” account, which involved more than 300,000 cash management accounts.

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

Actively connected with the strategy of “Belt and Road”, the Group provided enterprises with “Going Global” with diversified cross-border settlement and support on trade financing. The Group promoted cross-border financial products and innovative process, expanded the application of financial technology, and optimized customer experience. During the Reporting Period, the domestic banks handled international settlements of RMB4,322.489 billion; international trade financing amounted to RMB90.434 billion.

### **6. Investment banking businesses**

The Group successfully entered into the list of lead underwriters’ Central Huijin credit bonds and was selected as the bond underwriter at the first round. The Group actively promoted the “Bond Connect” (integrated cooperating system of Hong Kong and mainland bond markets) business and was the main underwriter of the nation’s first batch of “Bond Connect” projects. Strongly supporting the demand for enterprises’ cross-border bond issuance, the Group had overseas bonds of approximately USD70 billion. The Group successfully served as the

main joint underwriter, book runner and financial agent of USD sovereign bond in China. The Group successfully issued overseas green bonds of the China Development Bank amounted to EUR1 billion, issued “Jiao Yuan” securities backed by credit and installment assets. The Group enjoyed the advantages of internationalization and integration, provided one-stop financial services for companies with Hong Kong IPOs, and conducted comprehensive financing advisory services for mergers and acquisitions. The Group was rewarded as the ‘Jun Ding Award of 2017 Chinese Comprehensive Investment Bank’ by *Securities Times*, ‘2017 International Pioneering Investment Bank’ by *International Finance News*, and other awards. During the Reporting Period, the Group achieved an income of RMB4.518 billion in investment banking businesses, accounting for 10.25% of the Group’s total fee and commission income. The domestic banks cumulatively underwrote 265 bonds (excluding local government bonds), and the issuance amount of underwriting (excluding local government bonds) amounted to RMB410.2 billion.

### 7. Asset custody businesses

The Group grasped the market opportunities, followed up the customers’ needs, did a good job of connecting products and services, and actively promoted asset custody business to an integrated and diversified development. The Group won the bid for the “Asian Investment Fund” custody business and became the only custody bank and central financial fund and trust supervision institution of the fund. Moreover, the Group completed the upgrade and transformation of a new custody business system, improved operational service capabilities, and ensured the security of custody assets. As at the end of the Reporting Period, the total custody assets increased by 17.38% from the beginning of the year to RMB8,227.824 billion.

#### (II) Personal Banking Businesses

- **During the Reporting Period, the Group’s profit before tax from personal banking businesses sector increased by 23.74% on a year-on-year basis to RMB25.377 billion; net fee and commission income increased by 19.59% on a year-on-year basis to RMB20.229 billion; the total number of individual customers in domestic branches increased by 18.19% from the beginning of the year.**
- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 3.93% from the beginning of the year to RMB1,577.273 billion. The balance of personal loans of the Group increased by 18.86% from the beginning of the year to RMB1,409.882 billion.**
- **As at the end of the Reporting Period, the balance of personal impaired loans was RMB15.898 billion and the personal impaired loans ratio was 1.13%.**

Adhering to the “core-centered” principle, the Group provided customers with professional and comprehensive wealth management services, actively responded to the challenges of internet finance, accelerated the transformation of online and offline integration, increased the innovative application of new technologies such as mobile internet, big data and artificial intelligence, and promoted the rapid and steady development of personal financial services.

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

The Group innovated the development model of individual deposit business, based on big data analysis, realized scientific management of the sales service behavior of customer managers across all the banking outlets, focused on accurate marketing to salary payment to customers, new customers, and new funds, and continuously promoted the development of personal savings deposits businesses.

The Group had reasonable arrangements for the placement of mortgage loans, and actively supported residents to purchase their own house. The Group also accelerated product and service innovation, launched loans for parking space, personal housing mortgages and consumer loan business, innovated housing mortgage loan and second-hand housing transaction funds custody business. The Group actively expanded the credit consumer loan business, and launched “Salary Loan” products targeting at high-end and mid-to-high-end customers. Through the methods of online applications and centralized approvals, “quick approval, quick loan” was realized. As at the end of the Reporting Period, the balance of personal residential mortgage loans increased by 16.49% from the beginning of the year to RMB897.264 billion.

### **2. Wealth management businesses**

The Group deepened the wealth management business and continuously enriched the goal of “Your Wealth Management Bank”. Focusing on the needs of customers, the Group met the needs of different customers in differentiated wealth management and comprehensively promoted the customer lifecycle and product lifecycle with dual-cycle customer management. The Group enjoyed the advantages of online channels, and launched live-streaming programs such as online live broadcasts and air asset management office, and conducted visual and non-face-to-face communication with customers. Organizing the “OTO Fortune” square dance competition, the Group achieved a good market reputation and effectively increased brand influence. The Group took the advantages of globalization and integration, and continuously improved its professional services in providing global asset allocation to private banking customers.

As at the end of the Reporting Period, the amount of individual financial assets under management (AUM) increased by 6.44% from the beginning of the year to RMB2,881.546 billion. The number of customers of BoCom fortune, OTO Fortune and private banks increased by 2.73%, 9.23% and 6.21% respectively from the beginning of the year, and the customers of wealth management with assets above 50,000 per day in a quarter increased by 6.7% from the beginning of the year.

### **3. Bank card businesses**

#### **Credit card businesses**

Vigorously promoting the application and innovation of internet financial technology, the Group firstly issued “mobile-based credit card” in the industry, achieving “quick approval, quick utilization” service from issuance to use. The annual issuance amount nearly reached 3 million cards, receiving industry attention and appreciation. The Group optimized the “Go Pay” App function, with cumulative customers exceeding 38 million, ranking the forefront of the industry. The Group improved exploration of traditional consumer credit products, and innovatively implemented the consumer credit services called “Good Commercial Credit” for customers with large consumption demand and the consumer credit services called “Good Cash Credit” for customers with large cash demand business. The annual transaction volume increased by 55% on a year-on-year basis.





2017 "Super Red Friday".

As at the end of the Reporting Period, the number of domestic cards (including quasi-credit cards) amounted to 62.43 million, representing a net increase of 12 million from the beginning of the year; the accumulated annual consumption amounted to RMB2,271.15 billion, representing a year-on-year increase of 23.52%; the Group's credit card overdraft balance increased by 29.61% from the beginning of the year to RMB399.004 billion; the credit card overdraft impairment rate was 1.84%, which was a decrease of 0.11 percentage points from the beginning of the year.

### Debit card businesses

Relying on the mobile internet, the Group promoted business innovation, introduced electronic debit card products such as "Security Pay", cards without medium, and reshaped the personal account service process to provide customers with more convenient services. Continuously promoting the construction of QR code payment system, the Group promoted C2B and C2C scan code payment, and relied on NFC technology to fully promote mobile payment such as Apple Pay, Huawei Pay, Mi Pay, Samsung Pay, Meizu Pay, Smartisan Pay and HCE. The full coverage of mobile devices of mainstream brand provided customers with more secure and convenient mobile payment services.

As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 131.68 million, representing a net increase of 11.51 million from the beginning of the year; the accumulated annual consumption increased by 5.41% to RMB937.4 billion on a year-on-year basis.

The Group realized the consumption discount of "Super Red Friday", and created an online and offline linked "Super Red Payday", to increase the influence of brand activities. The Group also optimized the customer structure and increased the number of newly added credit card customers which exceeded 10 million users over the year. The Group continuously optimized service procedures and enhanced customer satisfaction. The number of external complaints on the cards decreased by 42.20% on a year-on-year basis.

As at the end of the Reporting Period, the number



First show of video customer service of BoCom credit card on 17 May 2017.

### (III) Interbank and Treasury Businesses

- **During the Reporting Period, profit before tax of treasury businesses of financial market was RMB19.274 billion.**
- **As at the end of the Reporting Period, the Group's investments in securities amounted to RMB2,474.348 billion with an increase of 9.85% from the beginning of the year.**

The Group adheres to the principle that the finance should return to its origin, focused on serving the main business of the real economy, continuously improved customer service methods, strengthened risk prevention in key areas, and continuously promoted stable operations and compliance development of the interbank and market businesses.

#### **1. Institutional financial services**

The Group solidified the foundation of cooperation among customers in the interbank, basically achieved full coverage of customer cooperation in major financial industries such as domestic policy banks, large-scale commercial banks, joint-equity commercial banks, securities, insurance, and futures, and the cooperation coverage of small and medium bank customers exceeded 40%. The Group deepened the cooperation of customers in financial market, obtained the qualifications of domestic bond makers of "Bond Connect", overseas global custody bank and Hong Kong clearing bank; obtained the qualifications for brokerage depository banks for domestic and foreign customers of Shanghai International Energy Center, and the number of brokerage accounts opened for futures companies ranked No.1 in the market. During the Reporting Period, the average balance of demand deposits among 13 major national financial markets exceeded RMB100 billion.

The Group strengthened innovation of Interbank platform corporation. There were 533 customers on the Interbank platform, increased by 204 from the beginning of the year. The interbank wealth management platform "Interbank Smart Platform" achieved online trading of interbank deposits and up to 230 customers of online banking. The scientific and technological output, training output, and research output for small and medium-sized banks have been launched in upgrading the cooperation from "financing" to "smart financing". The Group developed "capital chain" finance and improved the ability of clearing services in the direct financing market. The number of cooperative securities companies in businesses of third-party custody, financing, securities clearing, and stock options settlement reached 100, 86, and 64 respectively, and the cooperative coverage rate reached 100%, 91.49%, and 76.19%, respectively. There were 145 futures companies with bank transfer business, with a cooperation coverage rate of 97%. The brokerage deposit of futures companies had a balance of RMB70.994 billion, maintaining its leading position in the market. The Group promoted the standardized development of interbank wealth management services and the number of interbank financial management customers reached 1,305.

### **2. Trading account businesses**

The Group actively responded to price fluctuations in the bond market and foreign exchange market, flexibly adjusted trading strategies, strengthened product innovation, and promoted the steady development of transactional businesses. The Group was one of the first batch of companies having “Bond Connect” business and had the first single transaction in the market. During the Reporting Period, a total of 73 “Bond Connect” transactions were reached, amounting to RMB18.936 billion, ranking the highest in the market. The Group vigorously developed the Renminbi bond lending business and signed new agreements for Renminbi bond lending business with 76 institutions. The Group actively innovated foreign exchange capital products and fully performed the foreign exchange market maker and intermediate price quotation. During the Reporting Period, the transaction volume of domestic branches in respect of Renminbi-denominated bonds reached RMB2.57 trillion and the volume of interbank foreign currency transactions reached USD1,559.007 billion.

### **3. Banking book investments**

Studying marketing research, the Group laid out the scale of various products in each quarter, optimized the structure of bond, and reasonably arranged the duration of the portfolio. As at the end of the Reporting Period, the Group’s investments in securities amounted to RMB2,474.348 billion, representing an increase of 9.85% from the beginning of the year. The securities investment yield was 3.60%.

### **4. Precious metal businesses**

Cooperating with the Shanghai Gold Exchange to launch the third edition self-operated and agency trading platform, the Group was ranked as the top place of “Shanghai Gold” centralized pricing transaction, becoming one of the 3 Chinese-funded banks participating in the transaction under the mode of central clearing transactions for price setting of London Bullion. During the Reporting Period, the domestic branches achieved RMB147.248 billion in terms of volume of precious metal brokerage transactions. The sales of real precious metals products businesses amounted to RMB1.966 billion, and the accumulated gold trading accounted to 5,871.34 tons. The gold trading volume of the Shanghai Gold Exchange ranked the top three in the market, and continuously maintained its active banking status in the market.

### **5. Asset management businesses**

The Group continuously promoted the innovation of off-balance sheet wealth management products, accelerated the transformation of net worth products, and met the increasingly diversified investment needs of investors. The Group launched an net worth product of open quasi-money fund with flexible subscription and redemption to serve customers’ needs in cash management; promoted the long-term limited net worth products and served customers’ needs for medium-term or long-term value-preserving and value-added investments; The Group also launched a theme investment net worth product line to serve customers’ needs in personalized investment. As at the end of the Reporting Period, the size of net worth products increased by 2.6 times from the beginning of the year, and ranked top in the market. In the evaluation of Wealth Management Banking Issuance Institution of *China Banking Association*, the Group won the ‘Best Integrated Financial Management Award’ for three consecutive years and won ‘Best Earnings Award’, ‘Best Innovation Award’ and ‘Best Compliance Award’, etc.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the Bank issued a total of 11,271 wealth management products, raised funds of RMB24.01 trillion, and achieved revenue of more than RMB60 billion for customers. As at the end of the Reporting Period, the scale of on-and-off-balance sheet asset management of the Renminbi increased by 12.19% from the beginning of the year to RMB1.6 trillion, and continued to rank among the top peers in the industry.

### (IV) “Trinity” Network Construction

- **During the Reporting Period, the profit per person of the Group amounted to RMB769,700, representing an increase of 5.99% on a year-on-year basis. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 7.02% from the beginning of the year to RMB1.844 billion.**
- **As at the end of the Reporting Period, the total amount of domestic banking branch outlets decreased by 15 from the beginning of the year to 3,270, of which 71 were newly opened and 86 low-yield ones were closed down.**
- **As at the end of the Reporting Period, the ratio of self-service banks to traditional branch outlets amounted to 1.23:1. The diversion rate of e-channels increased by 3.12 percentage points from the beginning of the year to 94.54%.**
- **As at the end of the Reporting Period, the number of relationship managers in domestic branches was 23,726 in total, the proportion of relationship managers reached 30.59%.**



*The operating department of Liao Cheng Branch in Shandong Province.*



*The operating department of Luo Yang Branch in Henan Province – serving a disabled customer.*

The Group focused on “model innovation, cost reduction, efficiency enhancement and multiple channels” to create new model of omni-channel intelligent services. The Group accelerated innovation of e-channels and products such as mobile banking, WeChat banking, online banking and self-service banking, which improved customers’ experience effectively. The Group strengthened the construction of relationship manager team and further enhanced the construction and development of “Trinity” network of physical outlets, e-banking and relationship manager.

### **1. Physical outlets**

The Bank further promoted the transformation development of low-yield outlets. The Bank increased adjustments of the cross-city, cross-district and cross-county levels in existing outlets, and promoted the integration and transformation of low-yield and inefficient outlets. As at the end of the Reporting Period, the total number of domestic outlets decreased by 15 from the beginning of the year to 3,270, of which 71 were newly opened, 86 were integrated with low-yield outlets. The Bank's network covered 239 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities increasing by 0.90 percentage points from the beginning of the year to 71.56%. In particular, the coverage ratio in Western China was 45.97%.

The Bank promoted the light construction of outlets and reduced unused area of basic-level outlets, counter services and operating staff. As at the end of the Reporting Period, the number of comprehensive outlets in the Bank increased by 3 from the beginning of the year to 577. The Bank continued to improve the inclusive financial system. At as the end of the Reporting Period, 662 inclusive outlets were opened, with an increase of 57 from the beginning of the year.

### **2. E-banking**

The Bank put emphasis on the integration of multi-channel platform and continued to improve the integration and collaborative management capabilities of electronic channel services. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 6.473 billion with transaction amounts over RMB224.58 trillion. The diversion rate of e-channels increased by 3.12 percentage points from the beginning of the year to 94.54%.

**Self-service banking.** As at the end of the Reporting Period, the number of self-service machines in domestic branches was 25,100 and the number of self-service banks was 3,182. The ratio of self-service banks to traditional branches was 1.23:1. The transaction number of self-service banking was 451 million with transaction amounts about RMB2.13 trillion.

**Online banking.** The Group promoted overseas smart financial construction and successively launched online banking on 6 overseas companies in Toronto and Tokyo, provided convenient financial settlement channels for the implementation of "Belt and Road" strategy. Keeping up with market hotspots, the Group promoted online settlement product innovation and iterative development, and optimized the delivery of new type of settlement products called "Delivery and Guarantee". As at the end of the Reporting Period, the number of corporate e-banking customers increased by 14.46% from the beginning of the year to over 700,000, and the number of corporate e-banking transactions increased by 22.96% on a year-on-year basis to 1.098 billion. The number of personal e-banking customers increased by 10.77% from the beginning of the year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased by 44.17% on a year-on-year basis to 4.615 billion.

**Mobile banking.** The Group created an online financial service platform to improve various functions of mobile banking, including the new enlarged deposit receipts, brokerage collective wealth management, structural wealth management, insurance malls, salary loans, pledge loans, and other functions to meet customers' needs in all aspects. The Group revised comprehensive financial services sector, reconstructed display pages of products, optimized transaction processes, and enhanced customer experience. The Group increased

the living payment scenario and added the “pay via code” payment function. As at the end of the Reporting Period, the number of the Group’s mobile banking registered customers reached 61.06 million, representing an increase of 21.73% from the beginning of the year. During the Reporting Period, the number of mobile banking transactions reached 304 million, representing an increase of 10.95% on a year-on-year basis; the transaction amount increased by 12.01% to RMB7.65 trillion on a year-on-year basis.

### **Financial Technology Leads Innovation and Rapid Development of Online Business**

The Bank followed the trend of network and informatized economic development, actively responded to the needs of market competition in the “Internet+”, applied technologies such as big data, mobile internet and artificial intelligence to precision marketing and business development, and promoted the in-depth integration of technology and finance. With the establishment of an online financial business center, the Bank accelerated the development of online business and focused on building a financial technology platform for online financial centers.

Relied on the “five special systems” (i.e. special teams, special policies, special resources, special authorizations, and special assessments) of major mobile banking projects, mobile banking maintained a rapid update every two weeks. During the Reporting Period, 31 versions were updated and more than 820 functions were added or optimized, covering all types of financial services and transaction scenarios. A relatively completed living payment scenario covering payment, consumption, and value-added services was initially established. The business functions were comparable to the advanced level of the industry. The monthly active customers of electronic channels (mobile and online banking) reached a high record of 13.77 million, and the annual electronic channel increased its transaction volume by 41.6% over the previous year.

The Bank focused on the comprehensive management of customers and the maximization of customer value. The accurate marketing was conducted for specific customers such as salary payment to customers, wealth management maturity, break-even assets, and square dance to drive data development. Taking full advantage of big data analysis, the Bank launched a “Salary Loan” for small-credit consumer loan targeting high-quality payroll customers. The product has advantages such as pre-authorizing credit for high quality employees on white list, online self-service application, and automatic real-time system approval. The Bank innovated online marketing communication methods and launched live-streaming programs such as online live broadcasts and air finance offices, enjoyed the advantages of intelligent and interconnected online channels, and provided visual and non-face-to-face communication services.

### **3. Relationship Manager**

The Group continued to promote the setup of its relationship manager team, optimized the management mechanism of relationship managers, broadened the room for development for relationship managers and enhanced the education and training of relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic branches reached 23,726, equivalent to 30.59%, among which the number of corporate relationship managers reached 10,829 and the number of retail relationship managers reached 12,897.

### Implementing “Return to Origin” of Banking Industry with “Full Service” Concept



The Bank is the first bank to use “service” as its strategic development goal. In the initial restructuring period of 1987, the Bank took “first-class service quality” as its development goal; in 2013, it proposed “being the best bank for financial services”. During the past four years, the Bank based on the origin of serving the real economy, and its service level steadily increased. It sticks to the concept of “Full service”, which means that the total behavior of basis services, middle and back offices, and front desk. Service

specifications, service channels, business operations, IT systems, risk management and other aspects are covered in all-round, full-process, and full-person, to serve customers by the whole Bank.

**“Full service” realizing “big leap”.** The service work was steadily upgraded. The Bank was a top place in “Top 1000” and “Top 100” web commentary leaders for many years. In the 2013, 2015, and 2017 China Banking Association “Top 100” demonstration unit elections, 20 outlets were rated as “Top 100”, ranking the No.1 in the industry for three consecutive sessions. In 2016, a total of 140 outlets were rated as “Top 1000” demonstration units, and they were rated as the new highest record and ranked No.1 in the industry. In the evaluation of banking consumer protection of the CBRC, the Bank was ranked as Tier-1 and No.1 among national banks.

**“Full service” highlighting “personalization”.** Adhering to the development concept of “One BoCom for One Customer”, the Bank embedded financial services into the customer service ecosystem and integrated financial services into customer life. The Bank firstly launched the smart lobby manager “Jiao Jiao” in China, which can fully interact with users and answer enquiries. The self-service machines such as “Smart Communication”, were promoted, which can be used for common business, including application for cards, authentication and collection, investment and wealth management. The process of card registration was reduced to 2 minutes, and the service efficiency of outlets improved by more than 70%, which greatly saved the business processing time for customers.

**“Full service” matching “big strategy”.** The Bank insisted on serving the real economy, focused on the structured side of the supply-side reforms, and implemented the 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 for infrastructure such as transportation, water conservancy and environmental protection, public facilities management, service industries, and urban construction services increased by RMB140.3 billion from the beginning of the year. The balance of loans for the people’s livelihood guarantee and consumption upgrading such as electricity, gas and water, science, education, culture and public health increased by RMB16.9 billion from the beginning of the year; the proportion of loans with serious overcapacity industries such as steel and coal continued to decline. The Bank provided credit support for the “Belt and Road” strategic key projects through internal guarantee loans, overseas syndicated loans, and bilateral loans. In February 2018, BoCom Investment officially started its operation, and a batch of debt-to-equity conversion projects were ready, which were expected to make new contributions to “de-leverage”.

**“Full service” supporting “small businesses”.** The Inclusive Finance Development Committee was established to achieve continuous innovation for organizational structure and business products. It provided tailor-made products for small and micro enterprises, and implemented a differentiated, accurate, and dynamic financing authorization for small and micro enterprises. As at the end of the Reporting Period, domestic bank loans with the national four ministries amounted to RMB770.719 billion, representing an increase of 12.69% from the beginning of the year, which was higher than the average growth rate of all loans.

### (V) Internationalization and Integrated Operation

#### 1. *Internationalization strategy*

- **During the Reporting Period, net profits of the Group’s overseas banking institutions decreased by 4.22% on a year-on-year basis to RMB5.124 billion, accounting for 7.30% of the Group’s total net profits, representing a decrease of 0.66 percentage points on a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the Group’s overseas banking institutions increased by 12.71% from the beginning of the year to RMB964.67 billion, accounting for 10.67% of the Group’s total assets, representing an increase of 0.48 percentage points from the beginning of the year.**
- **As at the end of the Reporting Period, the impaired loan balances of the Group’s overseas banking institutions was RMB728 million, and the impaired loan ratio was 0.17%.**



*Mr. Peng Chun, the former President of the Bank, carried out research and guidance in BoCom Leasing, Ireland Subsidiary in May 2017.*

The Group made full use of the internal linkage and synergy advantages of the Group and promoted the internationalization strategy. The Group improved the layout of overseas institutions along the “Belt and Road” strategy, following the pace of “Going Global” of Chinese-funded enterprises, actively adapting the business needs of countries and regions along the roads, and continuously improving cross-border financial service capabilities.



### **Overseas service network**

The landscape of overseas service network was making a steady progress. As at the end of the Reporting Period, the Group set up 21 overseas subsidiaries, branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco, Taipei, Toronto, Brisbane, Luxembourg, Paris, Roman and Rio de Janeiro with a total of 65 overseas operating outlets (excluding the representative offices). The Bank established agency relationship with 1,580 banks in over 142 countries and regions, set up 241 cross-border Renminbi interbank accounts for 126 overseas agent banks in 36 countries and regions, and opened 83 foreign currency settlement accounts in 26 currencies with 64 banking institutions in over 31 countries and regions.

### **Domestic and overseas synergetic businesses**

Relying on the global service layout and through the “Trinity” network of domestic and foreign funds, products, and markets, the Bank served the multi-level cross-border financial needs of enterprises and helped “Going Global” companies to enhance cross-border and cross-market competitiveness. During the Reporting Period, the total transaction amount of the synergetic businesses was USD51.708 billion, and its accumulated revenue reached RMB4.337 billion.

### **Cross-border Renminbi transactions**

The Bank continuously expanded international use of the Renminbi, took the initiative to connect with key strategies such as the “Belt and Road” and the Free Trade Zone, and increased support for the real economy through products such as RMB cross-border settlement and cross-border financing. The Bank continued to promote the development of the RMB clearing bank. The scale of liquidation and the rate of direct mailings continued to increase. The Bank was rewarded as the ‘Special Contribution Award for Clearing Business’ by the *Ministry of Strategy and Finance of South Korea* for three consecutive years. During the Reporting Period, the transaction amount of the cross-border Renminbi settlements by domestic and overseas banking institutions amounted over RMB2 trillion.

### **Offshore services**

The Bank created innovative products such as “Offshore Global Wage Payment”, “Baihuitong” and “Offshore Communication” and absorbed overseas low-cost funds through multiple channels. The Bank strengthened the adjustment of business structure, consolidated the offshore customer base, and achieved rapid growth in cross-border financing and substantial loans. As at the end of the Reporting Period, the total amount of offshore assets was USD17.164 billion, and the loan balance was USD13.027 billion, and deposit balance was USD10.509 billion.

### 2. *Integrated operation*

- **During the Reporting Period, net profits attributable to shareholders of the Bank from the subsidiaries (excluding UK Subsidiary, Luxembourg Subsidiary and Banco Bocom BBM S.A.) amounted to RMB4.194 billion, representing a year-on-year increase of 14.87%, the proportion of which to the net profit of the Group increased by 0.54 percentage points to 5.97% on a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the subsidiaries (excluding UK Subsidiary, Luxembourg Subsidiary and Banco Bocom BBM S.A.) increased by 24.34% from the beginning of the year to RMB317.01 billion, the proportion of which to the total assets of the Group increased by 0.48 percentage points to 3.51% from the beginning of the year.**

The Group stuck to deepen reforms and continued to expand its integrated businesses to enhance the integrated competitiveness of its subsidiaries. Relying on the Group's resources, each subsidiary speeded up the development of its main business, and highlighted its operating characteristics, with an aim to enhance their market competitiveness and drive the implementation of the integrated strategy of the Group.

BoCom Leasing maintained its leading development trend in the financial lease industry. It led eight financial leasing companies with asset size over hundreds of billions to set up a "financial leasing service strategic in alliance with the Yangtze River Economic Belt", and actively connected high-quality projects in all provinces and cities within the Yangtze River Economic Belt. The Group continued to expand its market share, and led the industry in terms of asset size, profitability and asset quality. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB200.002 billion, representing an increase of 20.44% from the beginning of the year.

BoCom International Trust took full advantage of the benefits of trust business, and actively promoted the development of key businesses such as Buyout funds, shantytown transformation, asset securitization, and other innovative businesses such as trust-based and contractual funds. The Bank rated as A Grade in the China Trust Association for two consecutive years, and won the 'Excellent Risk Control Trust Company Award' by *Securities Times* and other awards. As at the end of the Reporting Period, its AUM increased by 35.31% from the beginning of the year to RMB976.429 billion.

The public funds under BoCom Fund achieved outstanding performance. BoCom Stable Fund, BoCom New Vitality Fund and BoCom Strategy Fund were ranked top 5% among funds. BoCom Stable Fund was ranked third place with 55.26% return rate among 545 funds. As at the end of the Reporting Period, its AUM amounted RMB471.127 billion (including two subsidiaries).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BoCommLife Insurance created a special service brand, provided customers with professional health services, accelerated the development of transformation services, actively enhanced investment capabilities, strengthened risk prevention and control systems, and innovated service models. During the Reporting Period, the realized original premium income increased by 35.32% on a year-on-year basis to RMB13.131 billion. The development of quality business was rapid. Its bancassurance businesses with premium paid by instalment increased by 76% on a year-on-year basis.

BoCom International was listed on the Main Board of the Hong Kong Stock Exchange on 19 May 2017, becoming the first Chinese-funded securities trader listed in Hong Kong.

BoCom Insurance adhered to the principle of “being professional and specialized”. Both the gross premium growth rate and the net compensation ratio were better than the average of Hong Kong interbank market, achieving steady development and outstanding performance in the market.



Mr. Niu Ximing the former Chairman, and Ms. Yu Yali the Executive Vice President, attended the listing ceremony of BoCom International in May 2017.

### III. FINANCIAL STATEMENT ANALYSIS

#### (I) Analysis on Key Income Statement Items

##### 1. Profit Before Tax

During the Reporting Period, the Group's profit before tax decreased by RMB2.845 billion, to RMB83.265 billion, equivalent to 3.30% decrease on a year-on-year basis. Profit before tax was mainly derived from net interest income and net fee and commission income.

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

	<i>(in millions of RMB)</i>	
	<b>2017</b>	2016
Net interest income	<b>127,366</b>	134,871
Net fee and commission income	<b>40,551</b>	36,795
Impairment losses on loans	<b>(29,787)</b>	(28,480)
Profit Before Tax	<b>83,265</b>	86,110



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Net interest income

During the Reporting Period, the Group's net interest income decreased by RMB7.505 billion on a year-on-year basis to RMB127.366 billion, accounting for 64.81% of the Group's net operating income, becoming a major component of the Group's income.

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

*(in millions of RMB unless otherwise stated)*

	For the twelve months ended 31 December 2017			For the twelve months ended 31 December 2016		
	Average balance	Interest income/ (expenses) <sup>5</sup>	Annualized average rate of return/ (cost)(%)	Average balance	Interest income/ (expenses) <sup>5</sup>	Annualized average rate of return/ (cost)(%)
<b>Assets</b>						
Cash and balances with Central Bank	946,071	13,570	1.43	940,872	13,701	1.46
Due from banks and other financial institutions	737,709	20,528	2.78	613,166	15,026	2.45
Loans and advances to customers and receivables	4,361,925	200,207	4.59	4,003,174	189,973	4.75
Including: Corporate loans and receivables	2,959,565	126,900	4.29	2,786,556	125,458	4.50
Individual loans	1,266,575	67,746	5.35	1,058,139	59,442	5.62
Discounted bills	135,785	5,561	4.10	158,479	5,073	3.20
Securities Investments	2,312,613	83,213	3.60	1,917,494	71,144	3.71
Interest-bearing assets	8,081,751 <sup>3</sup>	309,615 <sup>3</sup>	3.83	7,170,237 <sup>3</sup>	281,197 <sup>3</sup>	3.92
Non-interest-bearing assets	448,296			347,839		
<b>Total assets</b>	<b>8,530,047<sup>3</sup></b>			<b>7,518,076<sup>3</sup></b>		
<b>Liabilities and Shareholders' Equity</b>						
Due to customers	4,799,236	89,337	1.86	4,645,472	86,392	1.86
Including: Corporate deposits	3,257,639	57,537	1.77	3,174,125	56,434	1.78
Individual deposits	1,541,597	31,800	2.06	1,471,347	29,958	2.04
Due to banks and other financial institutions	2,410,448	77,576	3.22	1,989,295	55,720	2.80
Debt securities issued and others	702,404	23,239	3.31	397,461	12,861	3.24
Interest-bearing liabilities	7,635,521 <sup>3</sup>	182,249 <sup>3</sup>	2.39	6,727,759 <sup>3</sup>	146,326 <sup>3</sup>	2.17
Shareholders' equity and non-interest-bearing liabilities	894,526			790,317		
<b>Total Liabilities and Shareholders' Equity</b>	<b>8,530,047<sup>3</sup></b>			<b>7,518,076<sup>3</sup></b>		
<b>Net interest income</b>		<b>127,366</b>			<b>134,871</b>	
<b>Net interest spread<sup>1</sup></b>			<b>1.44<sup>3</sup></b>			<b>1.75<sup>3</sup></b>
<b>Net interest margin<sup>2</sup></b>			<b>1.58<sup>3</sup></b>			<b>1.88<sup>3</sup></b>
<b>Net interest spread<sup>1</sup></b>			<b>1.60<sup>4</sup></b>			<b>1.89<sup>4</sup></b>
<b>Net interest margin<sup>2</sup></b>			<b>1.73<sup>4</sup></b>			<b>2.02<sup>4</sup></b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

1. Representing the difference between the average rate of return on total average interest-bearing assets and the average cost of total average interest-bearing liabilities.
2. Representing the net interest income to total average interest-bearing assets.
3. Excluding the impact of brokerage wealth management products.
4. Excluding the impact of brokerage wealth management products and taking into account the tax exemption on the interest income from bond investments.
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.

During the Reporting Period, the Group's net interest income decreased by 5.56% on a year-on-year basis. The net interest spread and net interest margin decreased by 31 and 30 basis points on a year-on-year basis to 1.44% and 1.58%, respectively. The net interest spread and net interest margin in the fourth quarter both increased by 1 basis point as compared to those in the third quarter, respectively. Excluding the impact from "VAT" on the presentation basis of interest income, the net interest spread and net interest margin decreased by 28 and 27 basis points on a year-on-year basis to 1.58% and 1.72% respectively.

The table below shows the net interest spreads and net interest margin of the Group for each quarter of the period indicated. Net interest spreads and net interest margin steadily increased.

Item (%)	2017			
	January – March	April – June	July – September	October – December
<b>Net interest spreads<sup>1</sup></b>	<b>1.44</b>	<b>1.43</b>	<b>1.44</b>	<b>1.45</b>
<b>Net interest margin<sup>1</sup></b>	<b>1.57</b>	<b>1.57</b>	<b>1.58</b>	<b>1.59</b>
<b>Net interest spreads<sup>2</sup></b>	<b>1.59</b>	<b>1.59</b>	<b>1.61</b>	<b>1.62</b>
<b>Net interest margin<sup>2</sup></b>	<b>1.72</b>	<b>1.72</b>	<b>1.74</b>	<b>1.75</b>

Notes:

1. Excluding the impact of brokerage wealth management products.
2. Excluding the impact of brokerage wealth management products, and taking into account the tax exemption of interest income from bond investments.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

(in millions of RMB)

	Comparison between 2017 and 2016		
	Increase/(decrease) due to		Net
	Amount	Interest rate <sup>Note</sup>	increase/(decrease)
<b>Interest-bearing assets</b>			
Cash and balances with Central Bank	76	(207)	(131)
Due from banks and other financial institutions	3,051	2,451	5,502
Loans and advances to customers and receivables	17,041	(6,807)	10,234
Securities Investments	14,659	(2,590)	12,069
Changes in interest income	34,827	(7,153)	27,674
<b>Interest-bearing liabilities</b>			
Due to customers	2,860	85	2,945
Due to banks and other financial institutions	11,792	10,064	21,856
Debt securities issued and others	9,880	498	10,378
Changes in interest expenses	24,532	10,647	35,179
<b>Changes in net interest income</b>	<b>10,295</b>	<b>(17,800)</b>	<b>(7,505)</b>

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

During the Reporting Period, the Group's net interest income decreased by RMB7.505 billion on a year-on-year basis, of which the increase of RMB10.295 billion was due to changes in the average balances of assets and liabilities and the decrease of RMB17.8 billion was due to changes in the average rate of return and average cost ratio.

### (1) Interest income

During the Reporting Period, the Group's interest income increased by RMB27.674 billion or 9.55% on a year-on-year basis to RMB317.518 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 RMB10.234 billion or 5.39% on a year-on-year basis to RMB200.207 billion, which was largely due to the impact on the average balance of loans and advances to customers and receivables increased by RMB358.751 billion on a year-on-year basis.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### B. Interest income from securities investments

During the Reporting Period, interest income from securities investments increased by RMB12.069 billion or 16.96% on a year-on-year basis to RMB83.213 billion, which was largely due to the year-on-year increase in the average balance of securities investments of RMB395.119 billion.

### C. Interest income from cash and balances with Central Bank

The balances with Central Bank mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, the average balances with the Central Bank decreased by RMB131 million or 0.96% on a year-on-year basis to RMB13.57 billion, which was largely due to that the average rate of return from the balances in Central Bank decreased by 3 basis points on a year-on-year basis.

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

During the Reporting Period, the interest income from balances due from banks and other financial institutions increased by RMB5.502 billion or 36.62% on a year-on-year basis to RMB20.528 billion. This was largely due to the year-on-year increase in the average rate of return due from banks and other financial institutions of 33 basis points, and a year-on-year increase in the average balance of RMB124.543 billion.

## (2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB35.179 billion or 22.70% on a year-on-year basis to RMB190.152 billion.

### A. Interest expenses of customer deposits

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expenses of customer deposits increased by RMB2.945 billion or 3.41% on a year-on-year basis to RMB89.337 billion, accounting for 46.98% of total interest expenses. The increase in interest expenses of customer deposits was largely due to a year-on-year increase in the average balance of customer deposits of RMB153.764 billion.

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

During the Reporting Period, interest expenses on balances due to banks and other financial institutions increased by RMB21.856 billion or 39.22% on a year-on-year basis to RMB77.576 billion. This was largely due to a year-on-year increase in the average balance due to banks and other financial institutions of RMB421.153 billion, as well as an increase of 42 basis points of average cost ratio.

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

During the Reporting Period, interest expenses on bonds payable and other interest-bearing liabilities increased by RMB10.378 billion or 80.69% on a year-on-year basis to RMB23.239 billion. This was largely due to a year-on-year increase in average balance of bonds payable and other interest-bearing liabilities of RMB304.943 billion.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 3. Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continued facilitating the transformation of its profit-making mode and moved towards a business mode with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB3.756 billion or 10.21% on a year-on-year basis to RMB40.551 billion. Bank cards and management services were the main drivers of the Group's intermediary businesses. The table below illustrates the major components of the Group's net fee and commission income for the periods indicated:

	<i>(in millions of RMB)</i>	
	<b>2017</b>	2016
Bank cards	<b>16,267</b>	12,065
Management services	<b>14,948</b>	12,502
Investment banking	<b>4,518</b>	5,306
Brokerage services	<b>3,216</b>	4,636
Guarantees and commitments	<b>2,554</b>	2,962
Settlement services	<b>1,884</b>	1,722
Others	<b>673</b>	691
<b>Total fee and commission income</b>	<b>44,060</b>	39,884
<b>Less: Fee and commission expenses</b>	<b>(3,509)</b>	(3,089)
<b>Net fee and commission income</b>	<b>40,551</b>	36,795

Fee income from bank card services increased by RMB4.202 billion or 34.83% on a year-on-year basis to RMB16.267 billion, which was mainly due to an increase of issued volume and card business.

Fee income from management services increased by RMB2.446 billion or 19.56% on a year-on-year basis to RMB14.948 billion, which was mainly driven by the increase in the fee income from asset management and brokerage wealth management services.

Fee income from investment banking decreased by RMB788 million or 14.85% on a year-on-year basis to RMB4.518 billion, which was mainly due to a decrease of consulting services.

Fee income from brokerage services decreased by RMB1.42 billion or 30.63% on a year-on-year basis to RMB3.216 billion, which was mainly due to a decrease in the fee income from insurance brokerage services.

Fee income from guarantee and commitment services decreased by RMB408 million or 13.77% on a year-on-year basis to RMB2.554 billion, which was mainly due to a decrease of bill risk exposure management fee.

Fee income from settlement services increased by RMB162 million or 9.41% on a year-on-year basis to RMB1.884 billion, which was mainly due to an increase in income of settlement fee for overseas banking operations.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 4. Operating costs

During the Reporting Period, the Group's operating costs increased by RMB2.002 billion or 3.43% on a year-on-year basis to RMB60.405 billion. Cost-to-income ratio was 31.85%, representing a year-on-year increase of 0.95 percentage points. Excluding the impact from VAT on the presentation basis of net operating income and operating costs, the Group's cost-to-income ratio was 30.04%, representing a year-on-year increase of 0.27 percentage points.

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

	<i>(in millions of RMB)</i>	
	<b>2017</b>	2016
Staff costs and welfare	<b>27,942</b>	26,040
Operating expenses	<b>26,585</b>	26,310
Depreciation and amortization	<b>5,878</b>	6,053
<b>Total operating costs</b>	<b>60,405</b>	58,403

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

During the Reporting Period, the Group's impairment losses on loans and advances to customers increased by RMB1.307 billion or 4.59% on a year-on-year basis to RMB29.787 billion. The increase comprised (1) collective assessment increased by RMB5.221 billion on a year-on-year basis to RMB14.66 billion; and (2) individual assessment decreased by RMB3.914 billion on a year-on-year basis to RMB15.127 billion. During the Reporting Period, credit cost ratio decreased by 0.02 percentage points on a year-on-year basis to 0.67%.

### 6. Income tax

During the Reporting Period, the Group's income tax expenses decreased by RMB5.885 billion or 31.88% on a year-on-year basis to RMB12.574 billion. The effective tax rate of 15.10% is lower than the statutory tax rate of 25%, which was largely due to the tax exemption on interest income from government bonds and local government bonds held by the Group, as promulgated in relevant tax provisions.

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

	<i>(in millions of RMB)</i>	
	<b>2017</b>	2016
Current income tax	<b>14,836</b>	14,814
Deferred income tax	<b>(2,262)</b>	3,645



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (II) Analysis on Key Balance Sheet Items

#### 1. Assets

As at the end of the Reporting Period, the Group's total assets were RMB9,038.254 billion, representing an increase of RMB635.088 billion, equivalent to an increase of 7.56% from the beginning of the year.

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

*(in millions of RMB unless otherwise stated)*

	31 December 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Loan and advances	4,354,499	48.18	4,009,046	47.71
Securities Investments	2,474,348	27.38	2,252,392	26.80
Cash and balances with Central Bank	938,571	10.38	991,435	11.80
Lendings to Banks and Other Financial Institutions	782,468	8.66	715,787	8.52
<b>Total Assets</b>	<b>9,038,254</b>		<b>8,403,166</b>	

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

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit. As at the end of the Reporting Period, the Group's total loans and advances to customers were RMB4,456.914 billion, representing an increase of RMB353.955 billion or 8.63% from the beginning of the year, among which the increase in Renminbi loans from domestic branches increased by RMB307.878 billion or 8.78% 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 the real economy, as well as promoted the optimization of its own business structure.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

*(in millions of RMB unless otherwise stated)*

	31 December 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	109,215	2.45	107,787	2.63
Manufacturing				
– Petroleum and chemical	106,999	2.40	106,514	2.60
– Electronics	76,261	1.71	59,942	1.46
– Steel	34,893	0.78	36,841	0.90
– Machinery	96,092	2.16	118,200	2.88
– Textile and clothing	30,043	0.67	33,714	0.82
– Other manufacturing	224,368	5.04	224,455	5.47
Electricity, gas and water production and supply	162,821	3.65	147,141	3.59
Construction	106,679	2.39	99,487	2.42
Transportation, storage and postal services	523,339	11.74	495,427	12.07
Telecommunication, IT services and software	25,769	0.58	20,594	0.51
Wholesale and retail	281,689	6.32	319,579	7.79
Accommodation and catering	35,143	0.79	34,489	0.84
Financial institutions	117,923	2.65	94,464	2.30
Real estate	186,784	4.19	204,111	4.97
Services	353,325	7.93	300,929	7.33
Water conservancy, environmental and other public utilities	248,641	5.58	188,622	4.60
Education, science, culture and public health	81,812	1.84	80,597	1.96
Others	106,278	2.38	117,290	2.86
Discounted bills	138,958	3.12	126,589	3.09
<b>Total corporate loans</b>	<b>3,047,032</b>	<b>68.37</b>	2,916,772	71.09
Mortgage loans	897,264	20.13	770,280	18.78
Credit card overdraft	399,004	8.95	307,857	7.50
Others	113,614	2.55	108,050	2.63
<b>Total individual loans</b>	<b>1,409,882</b>	<b>31.63</b>	1,186,187	28.91
<b>Gross amount of loans and advances to customers before impairment allowances</b>	<b>4,456,914</b>	<b>100.00</b>	4,102,959	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB130.26 billion or 4.47% from the beginning of the year to RMB3,047.032 billion. Among them, the four most concentrated industries were manufacturing, transportation, storage and postal services, services, as well as wholesale and retail services, which accounted for 56.68% of total corporate loans.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB223.695 billion or 18.86% from the beginning of the year to RMB1,409.882 billion. The proportion of personal loans to total loans and advances to customers increased by 2.72 percentage points from the beginning of the year to 31.63%.

### 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 2.63% of the Group's net capital, and the total loans of Top 10 customers accounted for 12.90% of the Group's net capital, which were in compliance with the regulatory requirements.

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

*(in millions of RMB unless otherwise stated)*

	31 December 2017		
	Type of industry	Loan balances	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	20,770	0.47
Customer B	Transportation, storage and postal service	16,976	0.38
Customer C	Transportation, storage and postal service	12,302	0.28
Customer D	Transportation, storage and postal service	9,983	0.22
Customer E	Transportation, storage and postal service	9,105	0.20
Customer F	Transportation, storage and postal service	7,184	0.16
Customer G	Wholesale and retail	6,740	0.15
Customer H	Manufacturing – other manufacturing	6,500	0.15
Customer I	Transportation, storage and postal service	6,286	0.14
Customer J	Transportation, storage and postal service	6,122	0.14
<b>Total of Top Ten Customers</b>		<b>101,968</b>	<b>2.29</b>

### Loan concentration by geography

The Group's credit customers were mainly located in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 31.77%, 17.02% and 7.90%, respectively, with an increase of 8.94%, 3.43% and 10.56%, respectively from the beginning of the year.

### Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.50%, representing a decrease of 0.02 percentage points from the beginning of the year. The provision coverage ratio of impaired loans increased by 2.58 percentage points from the beginning of the year to 153.08%.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

(in millions of RMB unless otherwise stated)

	<b>31 December 2017</b>	31 December 2016
Impaired loans	<b>66,902</b>	62,400
Overdue loans for more than 90 days	<b>76,423</b>	86,782
Percentage of impaired loans to gross amount of loans and advances to customers (%)	<b>1.50</b>	1.52

### (2) Securities investments

As at the end of the Reporting Period, the Group's net balance of securities investments increased by RMB221.956 billion or 9.85% from the beginning of the year to RMB2,474.348 billion. Return on securities investments reached 3.60%. In the future, the Group's securities investments in bond varieties will be based on interest rate bonds and AAA and AA+ rated credit bonds as the main configuration types in the current credit-diverse market environment, to minimize the investment of bonds with AA grade and below, and to prevent default risk and valuation risk; In the bond duration, we will continue to pay high attention to changes in the macroeconomic situation and monetary policy, and timely adjust bond portfolio duration to maintain continuity and stability.

Breakdown of the Group's securities investments

The table below illustrates the breakdown of the Group's securities investments 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)

	<b>31 December 2017</b>		31 December 2016	
	<b>Balance</b>	<b>Proportion (%)</b>	Balance	Proportion (%)
Financial assets at fair value through profit or loss	<b>173,102</b>	<b>7.00</b>	117,168	5.20
Securities investments – loans and receivables	<b>387,733</b>	<b>15.67</b>	385,020	17.09
Securities investments – available-for-sale	<b>402,138</b>	<b>16.25</b>	342,755	15.22
Securities investments – held-to-maturity	<b>1,511,375</b>	<b>61.08</b>	1,407,449	62.49
<b>Total</b>	<b>2,474,348</b>	<b>100.00</b>	2,252,392	100.00

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

– By issuers

(in millions of RMB unless otherwise stated)

	31 December 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Government and Central Bank	1,306,610	52.80	1,132,581	50.28
Public sector entities	35,663	1.44	33,451	1.49
Banks and other financial institutions	730,088	29.51	652,835	28.98
Corporate entities	401,987	16.25	433,525	19.25
<b>Total</b>	<b>2,474,348</b>	<b>100.00</b>	2,252,392	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to RMB730.088 billion, including bonds of policy banks of RMB303.794 billion and bonds of banks and non-bank financial institutions of RMB426.294 billion, which accounted for 41.61% and 58.39% of the total bonds, respectively.

### Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond Name	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2015 banks and non-bank financial institutions bond	5,910	4.95	19/01/2018	–
2015 policy bank bond	5,860	3.74	10/09/2025	–
2017 banks and non-bank financial institutions bond	4,400	4.45	08/11/2027	–
2017 banks and non-bank financial institutions bond	4,400	4.20	17/04/2020	–
2016 policy bank bond	4,050	2.72	03/03/2019	–
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	3,280	3.33	22/02/2026	–

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB591.224 billion or 7.61% from the beginning of the year to RM8,361.983 billion. Customer deposits increased by RMB201.756 billion or 4.27% from the beginning of the year, which accounted for 58.96% of total liabilities and represented a decrease of 1.89 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB151.684 billion or 6.80% from the beginning of the year, which accounted for 28.49% of total liabilities and represented a decrease of 0.22 percentage points 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 RMB201.756 billion or 4.27% from the beginning of the year to RMB4,930.345 billion. In terms of the Group's customer structure, the proportion of corporate customer deposits accounted for 67.94%, representing an increase of 0.13 percentage points from the beginning of the year. The proportion of individual deposits was 31.99%, representing a decrease of 0.10 percentage points from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits decreased by 1.10 percentage points from the beginning of the year to 50.67%, while the proportion of time deposits increased by 1.13 percentage points from the beginning of the year to 49.26%. The table below illustrates the Group's corporate and individual deposits as of the dates indicated:

	<i>(in millions of RMB)</i>	
	<b>31 December 2017</b>	31 December 2016
<b>Corporate deposits</b>	<b>3,349,617</b>	3,206,241
Including: Corporate demand deposits	<b>1,842,317</b>	1,725,948
Corporate time deposits	<b>1,507,300</b>	1,480,293
<b>Individual deposits</b>	<b>1,577,273</b>	1,517,560
Including: Individual demand deposits	<b>655,559</b>	722,225
Individual time deposits	<b>921,714</b>	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 RMB87.477 billion from the beginning of the year to RMB228.919 billion.

The net cash inflows from operating activities decreased by RMB474.339 billion on a year-on-year basis to RMB10.727 billion, which was mainly due to a year-on-year decrease in the net increase in financial assets borrowed from and sold back to the Central Bank.

The net cash outflows from investing activities decreased by RMB461.986 billion on a year-on-year basis to RMB122.959 billion, which was mainly due to a year-on-year decrease in net cash outflows related to securities investment activities.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The net cash inflows from financing activities decreased by RMB47.383 billion on a year-on-year basis to RMB30.482 billion, which was mainly due to a year-on-year decrease in the cash inflows related to the issuance of preference shares during the current year.

### (IV) Segment Analysis

#### 1. Operating results by geographical segments

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

	2017		2016	
	Profit before tax	Operating income <sup>1</sup>	Profit before tax	Operating income <sup>1</sup>
Northern China	13,468	22,748	12,439	22,202
North Eastern China	2,457	7,340	4,015	7,881
Eastern China	26,091	73,501	26,296	68,109
Central and Southern China	21,408	35,881	19,782	33,983
Western China	7,772	16,603	9,320	17,320
Overseas	6,909	11,410	6,085	10,518
Head Office	5,160	26,556	8,173	28,087
<b>Total<sup>2</sup></b>	<b>83,265</b>	<b>194,039</b>	86,110	188,100

(in millions of RMB)

#### Notes:

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

*(in millions of RMB)*

	31 December 2017		31 December 2016	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	755,865	588,224	703,472	568,598
North Eastern China	254,035	207,142	250,716	202,216
Eastern China	1,754,618	1,506,194	1,751,799	1,441,942
Central and Southern China	1,148,975	851,780	1,067,991	761,294
Western China	610,080	447,924	593,674	417,904
Overseas	402,687	421,901	358,061	384,396
Head Office	4,085	433,749	2,876	326,609
<b>Total</b>	<b>4,930,345</b>	<b>4,456,914</b>	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 businesses and other businesses. The corporate banking segment formed as the primary source of profit for the Group, accounting for 42.76% of the Group's profit before tax.

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

*(in millions of RMB)*

	2017		2016	
	Profit before tax	Net operating income	Profit before tax	Net operating income
Corporate banking	35,600	88,134	42,989	90,570
Personal banking	25,377	65,239	20,508	60,604
Treasury business	19,274	21,891	20,034	22,752
Other businesses	3,014	18,775	2,579	14,174
<b>Total</b>	<b>83,265</b>	<b>194,039</b>	86,110	188,100

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (V) Capital Adequacy Ratio

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

As at the end of the Reporting Period, the Group's capital adequacy ratio was 14.00%, Tier-1 Capital adequacy ratio was 11.86%, and Core Tier-1 Capital adequacy ratio was 10.79%, which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

**Pursuant to the *Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBRC in calculation of relevant ratio** <sup>Notes</sup>

Item	The Group	The Bank
Net Core Tier-1 Capital	609,454	562,697
Net Tier-1 Capital	669,429	622,573
Net Capital	790,381	743,119
Core Tier-1 Capital adequacy ratio (%)	10.79	10.39
Tier-1 Capital adequacy ratio (%)	11.86	11.49
Capital adequacy ratio (%)	14.00	13.72

Notes:

- (1) Pursuant to the *Measures for the Capital Management of Commercial Banks (Trial Implementation)*, the above calculation excluded BoCom Insurance and BoCommLife Insurance.
- (2) According to capital adequacy ratio calculated by adopting the Advanced Measurement Approach of Capital Management, the credit risk was assessed by the internal rating-based approach, the market risk by the internal model-based approach, and the operational risk by the standardized approach.

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

Item	The Group	The Bank
Core Capital Adequacy Ratio (%)	10.51	10.33
Capital Adequacy Ratio (%)	13.72	13.44

For further information on the Group's capital measurement, please refer to the *2017 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd.* at the website of Shanghai Stock Exchange, the website of Hong Kong Stock Exchange or the official website of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBRC in January 2015. As at the end of the Reporting Period, the Group's leverage ratio was 6.88%, which met the regulatory requirements.

#### The Group

(in millions of RMB unless otherwise stated)

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

Item	31 December 2017
Net Tier-1 Capital	669,429
Balance of adjusted on-and-off-balance sheet assets	9,731,368
Leverage ratio (%)	6.88

**Information disclosed according to the requirements of the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)***

**Difference of Items between Regulatory Consolidation and Accounting Consolidation**

(in millions of RMB)

Serial Number	Item	31 December 2017
1	Total consolidated assets	9,038,254
2	Adjusted items of consolidation	(18,885)
3	Adjusted items of customer's assets	-
4	Adjusted items of derivatives	31,114
5	Adjusted items of securities financing transactions	3,418
6	Adjusted items of off-balance sheet items	681,117
7	Other adjusted items	(3,650)
8	Balance of adjusted on-and-off-balance sheet assets	9,731,368

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Information relating to Leverage Ratio

*(in millions of RMB unless otherwise stated)*

Serial Number	Item	31 December 2017
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,834,567
2	Less: deduction of Tier-1 Capital	(3,650)
<b>3</b>	<b>Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)</b>	<b>8,830,917</b>
4	Replacement costs of derivatives (less eligible margin)	33,995
5	Potential risk exposure of derivatives	31,114
6	Sum of collaterals that have been deducted from the balance sheet	–
7	Less: assets receivable from providing eligible margin	–
8	Less: asset balance of derivatives from transactions with central counterparties in providing clearing services for customers	–
9	Notional principal of sold credit derivatives	–
10	Less: balance of deductible sold credit derivatives	–
<b>11</b>	<b>Balance of derivatives</b>	<b>65,109</b>
12	Accounting asset balance of securities financing transactions	150,807
13	Less: balance of deductible securities financing transaction assets	–
14	Counterparty credit risk exposure of securities financing transactions	3,418
15	Balance of securities financing transaction assets from acting for securities financing transactions	–
<b>16</b>	<b>Asset balance of securities financing transactions</b>	<b>154,225</b>
17	Balance of off-balance sheet items	1,622,588
18	Less: balance of off-balance sheet items from reduction of credit transfer	(941,471)
<b>19</b>	<b>Balance of adjusted off-balance sheet items</b>	<b>681,117</b>
20	Net Tier-1 Capital	669,429
21	Balance of adjusted on-and-off-balance sheet items	9,731,368
<b>22</b>	<b>Leverage ratio (%)</b>	<b>6.88</b>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (VII) Liquidity Coverage Ratio

Pursuant to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks*, starting from 2017, the seasonal daily average of liquidity coverage ratio of commercial banks should be disclosed. The liquidity coverage ratio for the fourth quarter reached 110.20% (the seasonal daily average rate means the simple average calculation of daily data in a quarter, 92 daily data for such average calculation), which increased 0.32 percentage points from the last quarter. This was mainly because of the impacts of the increase in the qualified high-quality liquid assets. The table below illustrates the liquidity coverage ratio and average of each detailed item in the fourth quarter.

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
<b>The qualified high-quality liquid assets</b>			
1	The qualified high-quality liquid assets		<b>1,341,303</b>
<b>Cash Outflow</b>			
2	Retail deposits, small business deposits, including:	<b>1,425,925</b>	<b>133,501</b>
3	Stable deposit	<b>178,937</b>	<b>8,802</b>
4	Less stable deposit	<b>1,246,988</b>	<b>124,699</b>
5	Unsecured wholesale funding, including:	<b>3,760,115</b>	<b>1,605,529</b>
6	Business relationship deposit (excluding agency business)	<b>2,347,088</b>	<b>584,847</b>
7	Non-business relationship deposit (including all counterparties)	<b>1,407,442</b>	<b>1,015,097</b>
8	Unsecured wholesale funding	<b>5,585</b>	<b>5,585</b>
9	Secured funding		<b>25,567</b>
10	Other items, including:	<b>1,420,401</b>	<b>676,015</b>
11	Cash outflow relates to derivatives and other derivatives and collateral/pledged assets	<b>644,198</b>	<b>632,547</b>
12	Cash outflow relates to loss of funding on asset-blocked securities	<b>66</b>	<b>66</b>
13	Committed credit and liquidity facilities	<b>776,137</b>	<b>43,402</b>
14	Other contractual obligation to extend funds	<b>49,584</b>	<b>49,584</b>
15	Contingent funding obligations	<b>1,047,636</b>	<b>24,692</b>
16	Total expected cash outflow		<b>2,514,888</b>
<b>Cash Inflow</b>			
17	Secured lending, including reverse repos and securities borrowing	<b>63,736</b>	<b>58,480</b>
18	Committed facilities	<b>796,018</b>	<b>587,807</b>
19	Other cash inflow	<b>663,881</b>	<b>648,319</b>
20	Total expected cash inflow	<b>1,523,635</b>	<b>1,294,606</b>
<b>Amount after adjustment</b>			
21	The qualified high-quality liquid assets		<b>1,341,303</b>
22	Net cash outflow		<b>1,220,282</b>
23	Liquidity Coverage Ratio (%)		<b>110.20</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (VIII) Other Financial Information

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

#### 1. Fair value measurement related items

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

The table below illustrates the items of fair value measurement of the Group during the Reporting Period:

(in millions of RMB)

Item	Opening balance	Gains/ (Losses) on changes in fair value for the year	Cumulative fair value gains/ (losses) recognized in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
<b>Financial assets</b>					
1. Financial assets at fair value through profit or loss	179,221	(745)	-	-	227,030
2. Derivative financial assets	37,223	(2,930)	57	-	34,007
3. Available-for-sale financial assets	342,755	(348)	(3,449)	(412)	402,138
<b>Total financial assets</b>	<b>559,199</b>	<b>(4,023)</b>	<b>(3,392)</b>	<b>(412)</b>	<b>663,175</b>
Investment properties	8,762	192	-	-	8,217
<b>Total</b>	<b>567,961</b>	<b>(3,831)</b>	<b>(3,392)</b>	<b>(412)</b>	<b>671,392</b>
<b>Financial liabilities</b> <sup>Note</sup>	<b>(104,934)</b>	<b>3,630</b>	<b>(51)</b>	<b>-</b>	<b>(78,355)</b>

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

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 2. Commitments and contingencies

(in millions of RMB)

	<b>31 December 2017</b>	31 December 2016
Credit commitments and financial guarantees	<b>1,412,703</b>	1,252,469
Including: Loan commitments	<b>70,306</b>	86,125
Credit card commitments	<b>742,011</b>	528,199
Letters of credit commitments	<b>131,280</b>	126,885
Letters of guarantee	<b>272,981</b>	279,694
Acceptances bills	<b>196,125</b>	231,566
Operating lease commitments	<b>13,806</b>	13,593
Capital expenditure commitments	<b>70,236</b>	66,570

### 3. Restructured loans and overdue loans

(in millions of RMB unless otherwise stated)

	<b>31 December 2017</b>	31 December 2016	Increase or decrease from the beginning of the year (%)
Restructured loans	<b>10,843</b>	15,464	(29.88)
Overdue loans	<b>98,757</b>	108,183	(8.71)

### 4. Others

- (1) Overall analysis in external equity investments. As at the end of the Reporting Period, the long term equity investments of the Group increased by RMB2.643 billion from the beginning of the year to RMB3.357 billion. Please refer to Note 22 for the details of the change in the equity investments of the Group.
- (2) During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures.
- (3) The Group's assets pledged were mainly collateral under repurchase agreements and loans from banks and other financial institutions. Save as disclosed above, there were no other significant assets pledged to be disclosed during the Reporting Period.
- (4) The information of the structure entities such as wealth management businesses controlled by the Group, and unconsolidated custody and trust is set out in Notes 41, and the Bank's asset securitization is set out in Notes 42.3 to the financial statements.
- (5) As at the end of the Reporting Period, there is no restriction on any material assets of the Group.
- (6) The Bank's talent training and talent reserve are set out in the section "Directors, Supervisors, Senior Management and Human Resource Management".

### IV. BUSINESS INNOVATION AND NEW PRODUCTS

During the Reporting Period, based on the Outline of the “13th Five-Year Plan” for product innovation and 2017 Action Plan, the Group innovatively developed core business in three business fields including the company, retail and industry, and was rewarded as ‘Best Finance Innovation Award 2017’ by *The Banker*.

#### (I) Consummated business innovation institutional mechanisms

**First**, the Group reformed the promotion process of huge innovation projects and developed seasonal special evaluation mechanism. There were 7 huge innovation projects gaining a phased success, such as mobile banking, treasury management and Interbank platform.

**Second**, the Group improved the project mechanism of innovative experiments cooperated between the Head Office and branches. During the Reporting Period, 18 projects of innovative experiments have started due to the need of branches.

**Third**, the Group improved the proactivity of innovation of branches. During the Reporting Period, each branch vigorously carried out innovative research and development and promotion sharing based on the needs of domestic market and customers, and promoted the construction of 45 projects of innovative experiments throughout the year.

#### (II) With regard to corporate businesses, product innovation and improvement in various fields, including cash management, industrial value chain of financial products, investment banks, international businesses, and small and micro enterprise, were started.

**First**, the Group improved the service of cash management. The Group innovated the cash management system service for financial companies and tailor-made core business system for the banking-level financial companies, firstly launched the centralized receipts and payments of foreign exchange funds and net settlement system with leading position in the market. The Group also promoted the plan of several multi-scene payment application service like Payment to Party Committee, promoted the calculation function for bank notes pool, to enhance the control of central bill management of the Group’s business.

**Second**, the Group improved industrial value chain of financial products. The Group promoted “online discounting” and the annual business value exceeded 65 billion. Additionally, the Group implemented the innovative service “Express Pay”, which served for large enterprise payments and express financing of small and medium-sized enterprises, integrated packaging and upgraded the products for payment settlement and trade financing, which faced the industrial value chain, and launched the “Win to Fortune E Chain” service brand.

**Third**, the Group continuously promoted new investment banking products and businesses. During the Reporting Period, the Group implemented innovative products such as poverty alleviation bonds, innovation bonds and green bonds, as well as new businesses such as Bond Connect, China-US currency sovereign debt, overseas debt of South America, and underwriting of debt financing programs; the Group promoted market-based debt-to-equity conversion; the Group also promoted businesses of assets securitization and asset-backed medium-term notes, and firstly issued securities backed by trust beneficial rights in the interbank market.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Fourth**, the Group improved cross-border financial businesses. The Group increased corporate settlement of foreign exchange and remittance business of United Arab Emirates Dirham (AED), which caused that the number of currencies of foreign exchange treasury operations reached 23, and the number of currencies of cross-border remittance transactions reached 17, further expanding the cross-border payment service sector. The Group launched services such as Global Payment Innovation (GPI), batch remittances, and online delivery of orders. The Group introduced cross-currency swaps (CCS) and overseas commodity hedging services. The Group expanded 15 new varieties of new commodity transactions and launched Bank-Connected-Enterprise. The Group introduced businesses and had the first local transaction in the Free Trade Zones, such as Liaoning, Chongqing, Hena, Sichuan, etc., and promoted structural deposit in Shanghai Free Trade Zone.

**Fifth**, the Group increased the support of the inclusive finance. The Group promoted a strong guarantee plus credit combination loan program to effectively alleviate the problem of “difficult financing and expensive financing” of small and micro enterprises.

(III) With regard to retail businesses, the Group strengthened the product innovation in credit card, wealth management, payment, credit loan and other products, to promote integrated and comprehensive channel construction.

**First**, the Group strengthened the innovation of credit card and consumption credit service in the industry. During the Reporting Period, the Bank firstly implemented the mobile-based credit card service system in the industry, released the “Mobile-based Phone Credit Card White Paper”, implemented the business model of “Register then Use” of credit cards, and led the industry to open the “era of no card” and the era of instant service experience of credit card. The project was honored as One of the Ten Major Events in 2017 Financial Informatization and the 2017 Shanghai Banking Innovation Award. The Group deepened the scenes construction of “Go Pay”, living service, and cooperated with industry giants such as “ele.me” “Yiguo.com”, to provide customers with quality and comprehensive living service scenarios. In the fields of autos, decoration, and study abroad, the Group launched a new product “Good Commercial Credit” for designated consumer credit use, and a large amount of cash loan products “Good Cash Credit”, to enrich the ways of enjoying consumer credit. The Group issued the “China Railway Network Credit Card of Bank of Communications”, promoted the reduction in the price of ticket purchase which can enjoy 5 times bonus points, to provide multiple discounts to customers. Platinum Card 2.0 was upgraded, becoming the pioneer in the industry for compensation for flight delay in seconds. The Group’s Platinum Card was selected as the Best Platinum Credit Card of the Year by a number of professional and independent institutions, such as the 21st Century Media and Blueberry Assessment.

**Second**, the Group strengthened innovation of wealth management products. The Group innovatively launched precious metal wallets and upgraded physical gold picking. For the salary payments to customers, the Group launched the product “Salary Pay” to realize the automatic purchase of on-balance-sheet wealth management. For private banking customers, a variety of cash management products, net-return-based wealth management products and a variety of high-end insurance products were introduced.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Third**, the Group strengthened innovation of payment products. Relying on the mobile internet, the Group launched a small secure electronic account for opening online account, insurance protection, and special payment for quick payment – “Security Pay”, to provide customers with a safer mobile payment experience.

**Fourth**, the Group strengthened innovation of credit business. The Group launched a consumer loan product based on mobile internet and big data technology – salary loan. The Group launched a personal mobile platform to facilitate customer applications.

**Fifth**, the Group improved the channel construction. During the Reporting Period, the Bank set up a cash-coupon-for-reward system for retail customer to expand the coverage of financial transactions; it established a BoCom live platform in online mobile banking, to create a 7\*24-hour intimate service of “out of the store but still in the bank”; it also strengthened the integrated transactions function of “smart device”, and deepened the innovation of customer service in stores. Online services (registration, application for account, transaction processing, smart customer service, and network reservation) were connected with the account managers to realize the integration of comprehensive online and offline services. The Group optimized the model of customer service of credit card business and innovatively introduced intelligent service projects of man-machine collaboration, which significantly increased operational efficiency and reduced operating costs. The Group carried out large-scale events such as public square dance competitions and group purchase financing to enhance the effectiveness of customer integrated services.

(IV) With regard to interbank business, the Group actively promoted business and product innovation around transactional business and wealth management.

**First**, the Group obtained a number of business qualifications and promoted the construction of transactional banks. During the Reporting Period, the Bank obtained the qualifications of “Bond Connect” of domestic market makers, overseas global custodian banks and Hong Kong clearing banks, and got the first single transaction in the market; and the Group obtained the bank qualifications of domestic and foreign client deposit guarantee of the Shanghai International Energy Exchange. As at the end of the Reporting Period, the number of guaranty accounts of the futures companies of the Group ranked first in the market. At the same time, the Group also obtained the first batch of comprehensive clearing membership qualifications for the credit default swap of Shanghai Clearing House, and had the comprehensive clearing qualification for all the businesses of Shanghai Clearing House; successfully launched the Group’s first interest rate swap business for clients, the first currency exchange business for clients and the first commodity hedging transactions for clients.

**Second**, the Group insisted on service innovation and created an interbank cooperation platform. “Interbank Smart Platform”-an interbank wealth management platform- achieved online trading of deposits in the same industry; launched interbank cooperation in third-party custody, consignment and wealth management as well as wallet mobile app function of precious metal brokerage transactions; fully started technology, training and research output, and upgraded interbank cooperation from “financing” to “smart financing”.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Third**, the Group accelerated product innovation and promoted the standardized development of wealth management services. The Group launched the first T+0 net returned currency products, the first net-value product with the “minimum holding period” as the highlight; the Group launched the currency swap US dollar financial products, and issued “Golden Sun D” and the “Golden Moon Jade Plate” standardized interbank wealth management products. The “Golden Sun” series of interbank wealth management products won the ‘2017 Jun Ding Award of Wealth Management Product of China Open Bank’ in *Securities Times*.

### V. RISK MANAGEMENT

In 2017, the Group’s credit structure matched with the State’s significant strategic implementation and the position of serving the real economy, which achieved an active success in risk management and control. The asset quality is stable with good momentum for growth, thus effectively refraining from exposing in the huge business risks, safeguarding against external risks and upholding the bottom line of risk. As at the end of the Reporting Period, five of the six major asset quality indicators decreased while one increased compared to the beginning of the year. Among them, the provision coverage rate was 153.08%, an increase of 2.58 percentage points from the beginning of the year; the non-performing rate was 1.50%, which was a decrease of 0.02 percentage points from the beginning of the year; the balance of overdue loan and the balance of overdue loan for over 90 days decreased by RMB9.426 billion and RMB10.359 billion from the beginning of the year, respectively, representing a decrease of 0.42 and 0.41 percentage points from the beginning of the year. There were no material cases and risk events throughout the year.

#### (I) Risk Appetite

The Board of Directors of the Bank established the overall risk appetite of “Stability, Balance, Compliance and Innovation” for the whole Bank, defined its four-dimensional risk tolerance in the form of return, capital, quality and risk rating. The Board of Directors further set 20 detailed risk limits indicators against eight major risk areas including credit, market, operation, liquidity, interest rate of banking book, information technology and country (economic entity) risk and reputation, in order to control the overall risk changes on a regular basis.

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

#### (II) Risk Management Framework

The Board of Directors of the Bank assumes the ultimate responsibility and serves the highest function of decision-making for the Bank’s risk management and controls the Bank’s risk management through its Risk Management Committee. The Senior Management established a “1+3+2” Risk Management Committee, where three sub-committees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, and Operational Risk Management and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit Review/Noncredit Review Committee and High-risk Asset Review Committee were also established and performed their respective duties.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Each Tier-1 branch, overseas branch, subsidiary and directly operating institutions correspondingly established simplified and practical Risk Management Committees referring to the above mentioned framework. The Group ensured the full implementation of risk management requirements through the mechanism of “Leadership and Execution, Supervision and Reporting” between Risk Management Committee and sub-committees, and between committees of Head Office and branches, forming a unified and coordinated risk management system. In 2017, Comprehensive Risk Management Committee and Special Risk Management Committee of Head Office held 16 meetings, and 64 proposals were considered and approved.

During the Reporting Period, the Group’s comprehensive level and categorized risk management policy system has become stronger. It fulfilled the regulation of the State’s financial risk management, announced eighteen financial risk prevention rules and attached more importance on the financial risk prevention and cases. The Group implemented comprehensive risk management policy to ensure the unity of various types of risk management and the consistency of regulations and procedures of different risk management and comprehensive risk management.

### (III) Risk Management Tool

The Group laid great importance to the establishment and application of risk management tools, information systems and econometric models. During the Reporting Period, through innovative data mining, the ability of information consolidation was strengthened and the controls of risk management of assets was enhanced. The Group proactively upgraded the risk monitoring approaches, and achieved the expansion from current dominant equity investment relationship to hidden control relationship, guarantee relationship and funding relationship. The Group implemented comprehensive monitoring from top to bottom, based on the new recognition principle of iteration developing system with new risk characteristic, in order to upgrade the accuracy of risk detection, sensitivity of risk alarm and speed in reaction to emergency. The Group enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk, improved the application of risk management tool in business management, and strengthened real time control over operating risk, fraud risk and money laundering risk through types of information system so as to continuously improve the effectiveness of risk management.

The Group established a complete system in implementation of Advanced Measurement Approach of Capital Management covering areas such as policy procedure building, module developing and management, data accumulation and specification, system design and implementation, business management and assessment application, independent verification and audit and professional training. With the approval from regulatory authorities, the Group adopted primary internal rating-based approach for enterprise risk exposures, internal rating-based approach for retail risk exposures, internal model-based approach for market risk and standard approach for operational risk to measure capital requirements. During the Reporting Period, the Group continued to optimize the econometric models and management systems which covered credit risk, market risk, operational risk, liquidity risk, interest rate risk of banking book and other risks. The Group consistently implemented operation model in monitoring and analysis, optimized the model and steadily expanded the implementation scope of advanced methods and carried out the research and development of new measuring tools. The Group widely applied measuring results extensively in customer access, quota management, risk monitoring and control as well as performance appraisal.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (IV) Credit Risk Management

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

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

Emphasized on risk control in key areas: carried out the inspection of over-production industry, maintained the targeted customers, implemented specific risk management controls; monitored bank bill business risk seasonally, recognized suspicious customers that insisted invoice by data system, decreased the new cash advance rate; inspected credit default risk and formed the debt list of potential risk quarterly, utilized risk management of bond investment and annuity credit debt for the Group and each department. The Group also started the inspection and monitoring in corporate customer's cluster risk, new business risks of small entrepreneur and Internet and illegal fund raising, thus correspondingly enlisting potential customers to implement flexible management and raising the accuracy of risk management.

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

Put effort to the disposal of risks. Firstly, the Group focused on disposal of high risk loans and credit mitigation on high risk loans. Total high risk loans disposed or with additional credit risk mitigation during the year amounted to RMB89.204 billion. Secondly, the Group proactively made a use of different disposal strategies to resolute the risk timely, and the total amount of disposal of non-performing loans was RMB44.674 billion. Thirdly, the Group also conducted the securitization of non-performing assets, of which the first issuance was successfully completed in the small and micro enterprise. The amount of issuance was RMB570 million and the amount of non-performing loan was RMB1.13 billion.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

According to the regulatory requirements stated in the CBRC *Guidance for the Risk-based Loan Categorization*, the Group classified credit assets into five categories (pass, special mention, sub-standard, doubtful and loss) based on their risk level, which refers to the possibility of timely and full repayment of the principal and interest of credit assets, in which the last three categories are regarded as non-performing loans. In relation to corporate credit assets, the Group specified the risk attributes and measurements of the fore-mentioned five categories, with reference to internal ratings and provisions for each loan. 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 breakdown of the Group's five categories of loan classification stipulated by the CBRC is as follows:

*(in millions of RMB unless otherwise stated)*

Categories	31 December 2017		31 December 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass loan	4,259,345	95.57	3,916,818	95.46	3,547,697	95.32
Special mention loan	130,667	2.93	123,741	3.02	118,103	3.17
<b>Total performing loan balance</b>	<b>4,390,012</b>	<b>98.50</b>	<b>4,040,559</b>	<b>98.48</b>	<b>3,665,800</b>	<b>98.49</b>
Sub-standard loan	17,120	0.38	17,513	0.42	22,953	0.62
Doubtful loan	24,865	0.56	26,950	0.66	22,521	0.61
Loss loan	24,917	0.56	17,937	0.44	10,732	0.28
<b>Total non-performing loan balance</b>	<b>66,902</b>	<b>1.50</b>	<b>62,400</b>	<b>1.52</b>	<b>56,206</b>	<b>1.51</b>
<b>Total</b>	<b>4,456,914</b>	<b>100.00</b>	<b>4,102,959</b>	<b>100.00</b>	<b>3,722,006</b>	<b>100.00</b>

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

Loan migration rates (%)	2017	2016	2015
Pass loan	2.09	2.80	2.52
Special mention loan	21.62	24.60	27.32
Sub-standard loan	53.59	50.04	32.14
Doubtful loan	26.86	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.

In 2018, with the impact of economic downturn and de-capacity, the Group is still under pressure. The risk management and control environment is expected to be severe.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (V) Market Risk Management

Market risk refers to the risk of losses of on-and-off-balance sheet businesses of the Group arising from unfavorable changes in market prices (such as interest rate, exchange rate, commodity price, and share price). Interest rate risk and exchange rate risk, including gold, are the major market risk encountered by the Group.

The exchange rate risk and general interest rate risk of trading book were assessed with the use of the internal model-based approach by the Group, while the market risk not covered by the internal model-based approach was assessed under the standardized approach. In terms of the internal model-based approach, historical simulation method was adopted to calculate value at risk (“VaR”) and stressed value at risk (“SVaR”), which had a historical observation period of 1 year, a holding period of 10 working days and a 99% confidence interval.

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

During the Reporting Period, the Group kept improving its market risk management system by setting up the administrative measures for the market risk in overseas group and strengthening oversea market risk management. The Group also put effort in optimizing the market risk information system by constructing overseas funds product management system. The Group established new valuation models, parameters and market data for new businesses and products. In addition, the risk management models and configurations were constantly updated, in which the newly established models were tested independently and the data quality was reviewed on a regular basis.

The Group continued to promote the application of the results derived from market risk measurement into management’s practice. Daily capital transaction positions of the whole Bank and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, 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, using the historical simulation method. The results were also applied to capital measurement using the internal model-based approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results of 2017 revealed that the market risk measurement model was able to the changes in financial market in a timely manner and objectively reflected 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, timely provided comments and recommendations.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (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 have sufficient fund to carry out its normal operations and meet its debt and other obligations when they are due, under both normal or under stress business environment. The governance structure of liquidity risk management of the Group consists of a decision-making body comprised the Board of Directors and its subordinate Risk Management and Related Transactions Control Committee, Senior Management and its subordinate Market and Liquidity Risk Management Committee. A supervisory body, comprised the Board of Supervisors and Audit Supervision Bureau, was also established. Furthermore, an executive body comprised Asset and Liability Management Department, Treasury Business Center, Risk Management Department, Asset Management Center, Operations Management Department, branches, subsidiaries and Head Office's departments in charge of each business, was set up.

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

During the Reporting Period, the Group implemented the *Rules on Liquidity Risk Management of Commercial Groups (Trial Implementation)* issued by the CBRC. The Group also constantly improved and strengthened liquidity risk management, which enabled the Group to effectively achieve a balance among security, liquidity and profitability.

During the Reporting Period, the businesses of the Group were developed in a coordinative manner under a stable liquidity risk condition, with satisfactory liquidity indicators under regulatory requirements. The Group strengthened on-and off-balance sheet liquidity risk management in accordance with the requirements of the regulatory authorities and industrial reformation. First, the Group revised specifications such as *Management of BoCom Domestic Branch Renminbi Liquidity Indicators* and *Opinions on Comprehensive Improvement Liquidity Risk Management in Overseas Branches in 2017*, all of which further improved the liquidity management framework. Second, the Group constantly strengthened predictions on macroeconomic situation, monetary policies, market interest rate trend and liquidity gap. The Group also reinforced the coordination and integration of liquidity risk management. Third, the Group launched regular stress testing for liquidity risk in a prudent manner, in which the stressed scenarios were established under the consideration of the correlation between different risks and liquidity risk, and the impacts of market liquidity on the Group's liquidity. Fourth, based on changes in macroeconomic situation and business characteristics, the Group organized emergency drills for liquidity risk, which further clarified and optimized emergency procedures and measures. The speed of response of related units and capability of coping with liquidity risk were increased.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### (VII) Operational Risk Management

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

During the Reporting Period, the Group improved operational risk management system, amended and improved the basic system to concrete management foundation. Focusing on business operational risk control and recognition, the Group strengthened the application of output of assessment and detection using the operational risk management tools. Moreover, the Group set up and improved tracking system and helped to continuously concrete the internal management foundation. Additionally, the Group standardized the business outsourcing management and strengthened inspection and assessment in outsourcing business of information technology risk. The Group also started specialized risk assessments for oversea branches (and subsidiaries) information system, internet information security controls, to strengthen the risk management in the field of information technology. Furthermore, the Group amended the business continuing management policy, improved comprehensive emergency drills of city disasters, analyzed the impact of important businesses, sorted out and improved the key business contingency plans and business continuing plans.

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

The Group continued to improve the legal compliance management mechanism, strengthened the capacity in legal compliance management, enhanced the initiative and effectiveness of legal compliance management and strived for realizing the whole-process management mechanism of the monitoring and identification, inspection and supervision, resolution and disposal, rectification and improvement of compliance risk. The Group constantly improved the compliance management mechanism and the initiative and effectiveness of the legal control ability. The "reform and innovation, transformation and development" of the Group is strongly supported and responsible by this mechanism.

During the Reporting Period, the Group adhered to the operational concept of compliance first and continuously improved the domestic and overseas long-term management strategy. In 2017, the Group well managed and controlled overseas compliance risks, the management of compliance operates smoothly and orderly, and a number of overseas institutions kept the best among local Chinese-funded banks in the regulatory rating. The Group continued to improve the domestic legal compliance management, further standardized the whole-process management of policies and procedures which was organized across the Group, and developed into a scientific system. The Group further tested the non-financing special authorization, stimulated trading environment, started simplifying seal management, and developed the seal digitalization.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group continued to strengthen the anti-money laundering management. According to the requirement of the People's Bank of China, the Group seriously planned and implemented the related works of *Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions (Order No.3)*. In addition, the Group strengthened identification of customers and continuously improved the quality of the report of huge and suspicious trading. The Group seriously screened risks and provided assistance in anti-terrorism funding investigation, which received compliment letter from the People's Bank of China and the Ministry of Public Security.

### (IX) Reputational Risk

The Group established and improved the reputational risk management framework. Risks of negative comments from various stakeholders during the Group's operation, management, any other behaviors or external events were well prevented. Myriad reputational risk events were appropriately handled. The Group continued to improve reputational risk management system and mechanism. The Group intensified the identification, warning, assessment and monitoring of reputational risk, tracked and monitored the occurrence and changes of reputational risk factors in real time, and promptly adjusted corresponding strategy and measures. During the Reporting Period, negative public opinions were actively responded and the reputational risk was under control.

In 2017, the Group was elected as Reputation Risk Management Committee of the 4th Session of Standing Committee of China Banking Association, and rewarded 'Special Contribution Prize' and 'Unit Contribution Prize'.

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

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

During the Reporting Period, the Group issued *Opinions on Further Strengthening Risk Management of Overseas Institutions under the New Situation*, thus improving the overseas institutions risk management. The Group maintained a system of the Group's risk report, information sharing, risk inspection, business controls and risk management cooperation. The Group continued to promote domestic and overseas institutions to develop recovery and disposal plan, based on the requirements of local and the industry's regulatory authorities and the Group's plan framework. The Group also promoted overseas institutions to effectively cope with various requirements of regulatory authorities with flexibility in the course of cross-industry and cross-border operations, and improve the management and control of consolidation risk.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group enhanced the country risk management and continued to carry out in-depth assessment on the country risk of key countries practicing “Going Global” and countries alongside the “Belt and Road”. The Group improved country risk rating and analysis reporting system and continuously intensified management and control over country risk tolerance.

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

### VI. OVERVIEW OF MAJOR SUBSIDIARIES

#### (I) BoCom Fund

BoCom Fund was set up in August 2005 with a registered capital of RMB200 million, jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The primary businesses include the fund raising and management of publicly offered securities investment fund and asset management services for specific clients, investment management, asset management, industrial investment, investment advisory and other services approved by the CSRC and other regulatory authorities. As at the end of the Reporting Period, BoCom Fund’s total assets, net assets and net profits for the year were RMB3.563 billion, RMB2.562 billion, and RMB538 million respectively.

As at the end of the Reporting Period, BoCom Fund (including two subsidiaries) had a total of 321 employees, among which over 205 hold a Master’s degree or higher and 104 hold a Bachelor’s degree and 12 bachelor diploma or below. The BoCom Fund has 4 internal departments including investment research, marketing, supervision and auditing and back-office support. The employee’s remuneration of BoCom Fund comprised basic salary and bonus. Basic salary was determined according to employees’ position as well as their knowledge and skill level, while bonus was a commendation and reward to recognize the contribution of employees to the company. The amount and distribution arrangement of bonus were determined based on company’s operation, remuneration system, policies, employees’ performance, as well as their current and future contribution to the company.

#### (II) BoCom International Trust

BoCom International Trust was set up in October 2007 with a registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd contributed 85% and 15% respectively. The business scope includes asset trust, investment and financing, mergers and acquisitions, corporate finance and financial advisory services. Furthermore, securities underwriting services entrusted by the State Council, intermediary services, consulting and due diligence services were also conducted by the company. It provides custody services and safety box services. It also carries out businesses of interbank deposits and withdrawals, loans, leasing, investments and guarantees with the use of own assets. As at the end of the Reporting Period, the balance of total own assets and trust assets was RMB10.8 billion and RMB965.63 billion, respectively. The amount of average trust assets for the year was RMB800.363 billion. The net profit for the year was RMB980 million.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of the Reporting Period, BoCom International Trust had a total of 218 employees, of which 60.8% were front-office personnel, and 98.6% hold a Bachelor's degree or higher. BoCom International Trust implemented an internally fair and externally attractive performance appraisal and remuneration system. In order to facilitate the strategic development and enhance the human resource quality of the company, BoCom International Trust developed and implemented a training system that applies to all of the staff at different levels, facilitating the development of BoCom International Trust and enabling individuals to achieve their career goals. The sound training system strengthens the growth of BoCom International Trust and the development of talents.

### (III) BoCom Leasing

BoCom Leasing, the Bank's wholly-owned subsidiary, was set up in December 2007 with a registered capital of RMB8.5 billion. The business scope includes financial leasing businesses, taking deposits of finance ease from lessees, investment in fixed-income securities, the transfer and acquisition of assets under finance leases, taking in time deposits with maturity of 3 months or longer from non-bank shareholders, interbank lending and borrowing, loans to financial institutions, overseas foreign currency loans, sales and handling of leaseholds, and economic consulting. Furthermore, BoCom Leasing established project companies in domestic bonded zones to carry out financial leasing businesses. It also provides guarantees for the external financing of its controlling subsidiaries and project companies. As at the end of the Reporting Period, BoCom Leasing's total assets, net assets and net profits for the year were RMB207.243 billion, RMB18.83 billion and RMB2.41 billion respectively.

As at the end of the Reporting Period, BoCom Leasing had a total of 214 employees, of which 5 were senior executives, 31 were middle management personnel, 97 were front-office personnel, and 81 were middle- and back-office personnel. The number of employees holding a Master's degree is 85, accounting for 40%; the number of employees holding a Bachelor's degree is 113, accounting for 53%; and the number of employees holding Bachelor diploma or below is 16, accounting for 7%. The employees' remuneration policy of BoCom Leasing is consistent with that of Bank. BoCom Leasing put great emphasis on staff training via case studies.

### (IV) BoCommLife Insurance

BoCommLife Insurance was set up in January 2010 with a registered capital of RMB2.1 billion, of which the Bank and the Commonwealth Bank of Australia contributed 62.5% and 37.50% respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances (excluding statutory insurance businesses) operated in the Shanghai administrative region, as well as counties, autonomous regions and municipalities where the branches of BoCommLife Insurance were established. As at the end of the Reporting Period, BoCommLife Insurance's total assets, net assets and net profits for the year were RMB33.275 billion, RMB1.885 billion and RMB253 million respectively. The premium income from the original policies amounted to RMB13.131 billion, among which the premium income from new policies amounted to RMB10.845 billion.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of the Reporting Period, BoCommLife Insurance had a total of 1,529 employees, including 744 sales personnel, 88 finance personnel, 479 technical personnel and 218 administrative personnel. For the education level of employees, 156 hold a Master's degree or higher, 966 hold a Bachelor's degree or higher, and 407 with a Bachelor diploma or below. BoCommLife Insurance sets the performance-based compensation level at 30%-50% of total compensation to motivate employees. During the Reporting Period, BoCommLife Insurance had more than 900 employees participated in more than 20 various types of training. The training involves professional training for company executives, middle managers, B-level and A-level employees, line training, Party's training and comprehensive training.

### (V) BoCom International

BoCom International was set up in May 2007 and listed on the main board of Hong Kong Stock Exchange in May 2017. As at the end of the Reporting Period, The Bank's shareholding in BoCom International was 73.14%. The main business of BoCom International is divided into four major sections, namely, securities brokerage and margin financing, corporate finance and underwriting, investment and loan, and asset management and consulting. For the performance and related information of BoCom International, please refer to the performance report of BoCom International released on the Hong Kong Stock Exchange on 27 March 2018.

### (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 HKD720 million, net assets were HKD558 million, and net profit for the year was HKD14.18 million.

As at the end of the Reporting Period, BoCom Insurance had a total of 40 employees (including 2 accredited staff from BoCom), of which 90% were front office employees, 55% of total employees hold a Bachelor's degree or above. The salary was paid once a month and the amount of bonus was determined based on performance.

### (VII) Four Rural Banks

#### **1. Dayi BoCom Xingmin Rural Bank**

It was set up in September 2008, with a registered capital of RMB60 million. It had a total of 49 employees, of which 65.31% hold a Bachelor's degree or above. The Bank holds 61% of its shares.

#### **2. Zhejiang Anji BoCom Rural Bank**

It was set up in April 2010, with registered capital RMB180 million. It had a total of 100 employees, of which 83% hold a Bachelor's degree or above. The Bank holds 51% of its shares.

### **3. Xinjiang Shihezi BoCom Rural Bank**

It was set up in May 2011, with a registered capital of RMB150 million. It had a total of 82 employees, of which 79% hold a Bachelor's degree or above. The Bank holds 51% of its shares.

### **4. Qingdao Laoshan BoCom Rural Bank**

It was set up in September 2012, with a registered capital of RMB150 million. It had a total of 70 employees, of which 91% hold a Bachelor's degree or above. The Bank holds 51% of its shares.

At the end of the Reporting Period, the assets of 4 rural banks amounted to RMB7.414 billion, net assets were RMB735 million, customer deposit balance was RMB6.109 billion, and customer loan balance was RMB4.644 billion.

## VII. OUTLOOK

Looking ahead to 2018, the global economy will continue its recovery. The China's economy will shift from high speed to high quality, structural reform on the supply side will be deepened, and new momentum for economic growth will be accelerated. This will provide a favorable macro-environment for the development of the banking industry and create new business opportunities. However, opportunities and challenges will exist at the same time, and some new trends and changes have also emerged in the operation of the economy and finance. Commercial banks need to pay attention and actively respond to the layout. They must grasp opportunities, take advantages, and face challenges.

On one hand, the macro-environment becomes stable and the effects of economic restructuring gradually appear, corporate profitability has improved, which are conducive to supporting the growth of the Bank's performance and the stabilization of asset quality; the national strategy of "Belt and Road" has been steadily promoted. The strategy of "entrepreneurship and innovation by the general public" continues to be promoted. New areas such as mid-end to high-end consumption, green and low carbon, sharing economy, modern supply chain, and modern service industry are flourishing, bringing new opportunities for the Bank to approach new customers and expand new business; the development of financial technology is fast-changing. Banking business, product and service innovations have provided greater motivation. On the other hand, under the background of financial de-leverage and risk prevention, the overall monetary policy is expected to be tight, the market funds will remain tight, the interest rate and exchange rate risk will increase uncertainly, and the development of liquidity management and liabilities will remain facing great pressure; the financial rectification continued to be strengthened, the requirements of operation and compliance continued to be stricter, the cross-industry unified financial supervision reform accelerated, and the banking industry development model, business structure and management structure all faced restructuring challenges.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2018 is the 40th anniversary of China's reform and opening up. It is a crucial year for the implementation of "13th Five Year Plan" and is also the 110th anniversary of the establishment of BoCom. As the successor of the hundred-year national financial brand and the pioneer of China's financial system reform, the Group will continuously adhere to "BoCom Strategy", serve the real economy, aiming to improve the strategy, and strongly promote the BoCom's spirit of "promoting development with unremitting effort, consolidate enterprise with absolute responsibility; transcend limitations with endless creativity". The Bank will strive to create a large-scale integrated service financial group with stable development, active innovation, distinctive characteristics and high quality of service. Specifically, the Group will focus on the following work:

**First**, focusing on serving the real economic and improving the quality and efficiency of financial services. The Group actively connects with the State's major strategic implementation and key engineering project construction, and continuously increases the full financing support relying on an internationalized and comprehensive business platform. In order to promote economic structure optimization adjustment, the Group grasps the policy direction and changing corporate needs, and focuses on supporting strategic emerging industries and key manufacturing sectors, deepening the reform of the Inclusive Finance Development Committee, promoting financial precision in poverty alleviation, increasing the support for "agriculture, rural areas and farmers", and increasing the ability of inclusive finance.

**Second**, adhering to the operating concept of stable management and risk management of financial risks. The Group strengthens risk responsibility, improves risk management organizational structure, and improves a comprehensive risk management system, deepens the application of financial technology tools and data mining technologies and strengthens risk monitoring and control in key areas. Additionally, the Group increases the overall resources allocation and continues to strengthen the management of liquidity risk and market risk, maintains the strategy against high risks, and to improve the internal control and compliance management system.

**Third**, adhering to the "BoCom Strategy" and accelerating the pace of transformation and development. The Group strengthens the overall balance sheet allocation management, optimizes resource integration, strengthens business linkage between domestic and overseas regions, domestic and foreign currencies, bank and non-banking business linkages, and improves the Group's ability to coordinate operations. The Group also strengthens the financial markets, asset management, brokerage transactions, bank cards and custody services, and wealth management characteristics. In 2018, it is expected that the Group's total assets will increase by no less than 5%<sup>1</sup>.

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<sup>1</sup> The business plan does not constitute performance commitment to investors, prompting investors to be reminded that the investors should have sufficient risk awareness to understand the difference between business plan and commitment.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Fourth**, deepening the reform of the management mechanism and continuously releasing the development momentum. The Group continuously improves the business structure and mode of the business department, and enhances the direct operation ability and professional service ability of the business department, promotes the development of two engines of divisions and branches. Additionally, the Group fully promotes the transformation and development of basis-level business organizations and the reform and promotion of branches, to further release their operating dynamism and improve their operating efficiency. The Group deepens the reform of salary distribution, promotes the professional manager system, establishes key ethnic group incentive mechanisms and strengthens risk responsibility regulations.

**Fifth**, promoting the application and innovation of finance and technology, and building new competitive development advantages. The Group optimizes the scientific and technological R&D system and strengthens the basic research of forward-looking financial technology to create an innovative product base for the Group. The Group makes a full use of core business systems in customer service, data analysis, fast product innovation and business transformation, which accelerates the transition from technological advantages to development and competitive advantages. Furthermore, the Group strengthens online and offline integration, resulting in supporting and improving customer services in all areas.

# BOCOM-HSBC STRATEGIC COOPERATION

The Bank has cooperated with HSBC for 14 years, continuously deepened a cooperation situation of mutual benefits and become a role model in the industry. During the Reporting Period, the two banks continued to aim at building a solid equity ties and actively grasped the cooperating opportunities of Chinese enterprises with strategies of “Going Global” and “Belt and Road”, fully utilizing the complementary advantages in service networks, customer resources, information channels, and management experiences. Cooperation potential of several fields, such as global businesses, technical exchanges, supervision seminars, social welfares will be deepened, as well as expanded the scope of cooperation, promoted effective collaboration, cooperation and win-win situation.

**Effective communication at Senior Management of the two banks.** Under the framework of the strategic cooperation and communication mechanism of two banks, the Senior Management of the two banks maintained a close and smooth communication, which concreted a foundation for promoting the cooperation of the two banks in all key areas using a top-down approach. During the Reporting Period, the two banks held one summit conference and one executive chairman regular meeting, adhering to the principle of “prioritized cooperation”, jointly agreed on the key cooperation projects and quantitative targets for 2017, and carried out a specify directions for the cooperation. In addition, the Senior Management of the two banks exchanged views and shared experiences on global economic and financial conditions, business development of the two banks, trends supervision in banking sector, risk and compliance management, through mutual visits, telephone calls, and letters.

**Proactive participation in managerial decision-making of the Bank.** During the Reporting Period, Mr. Peter Wong Tung Shun, the President of HSBC, was elected as Vice President and Non-executive Director of the Bank. Ms. Helen Wong Pik Kuen, the President of HSBC Greater China, also was elected as Non-executive Director of the Bank. They conscientiously and diligently performed their duties and actively participated in the decision-making of the Board of Directors of the Bank, leading the global vision, advanced concepts and practical experience of international senior bankers to promote the Bank’s continuous deepening reforms and business management.

**Effective global business cooperation.** Under the enforcement organized by the Consultant of BoCom-HSBC Strategic Cooperation, Mr. Wu Zhaoan, the two banks continuously improved the system of “Global Business and Technology Exchange and Cooperation”, regarding the potential cooperation opportunity and targeted business field. Two banks established “Belt and Road” business improvement system to serve the strategic cooperating opportunity of “Belt and Road”, deployed the potential of domestic and overseas network, customer fundamental support and information experience advantage, and started effective communication and cooperation. During the Reporting Period, two banks achieved a great success in “1+1” global financing cooperation, oversea syndicated loans and offshore bond issuance, and custodies and fund consignment.

— “1+1” Global financing cooperation. During the Reporting Period, two banks provided overseas bond issuance, club loan, domestic and overseas syndicate services, of which the project amounted to around USD7.5 billion.

— Overseas cooperation. The two banks cooperated in 15 syndicated loans and 34 bond issuances in Hong Kong, representing a year-on-year increase of 3 deals and 17 deals, respectively. The total amount reached USD73.5 billion, representing a year-on-year increase of 92%. Project in syndicated loans in Sydney, London and Singapore achieved great breakthrough with 9 syndicated loans in a total of USD9.85 billion.

— Cooperation in custodies and fund consignment. Through mutual referrals, both banks cooperated with 43 products (same as the beginning of the year) with a total amount of RMB66 billion. As at the end of the Reporting Period, the Bank succeeded in consignment of 18 HSBC Jintrust Fund products, representing an increase of 1 from the beginning of the year, amounted to RMB2.5 billion.

**Steady development of technical cooperation and exchange.** During the Reporting Period, the experts of the Bank held two training series about “sharing of experience in China market” for 85 managers from HSBC, to introduce the macroeconomic development in China and the risk management of the Bank. The Bank designated 50 managers and core staff to HSBC Group and HSBC Headquarters for training, regarding establishment of strategic mindset, management system and innovation, risk and suitable management. HSBC selected experts of risk management to work at the Bank, focusing the demand for the Bank’s business development and risk management. They provided suggestions and guidance to deal with clients of the Group, cross-border, cross-industry business risk management, and risk prediction, resulting in the improvement of team management ability of the Bank.

## BOCOM-HSBC STRATEGIC COOPERATION (CONTINUED)

**Well development of the mechanism of seminars on regulations.** The two banks continuously investigated in the regulatory requirement, including the protection of customer rights, green finance, total loss absorption capacity, liquidity risk, bank interest risk and effective risk statistic, to exchange compliance measures and experiences and deal with the challenges arising from changes in the global regulatory environment.

**Recognition of public service cooperation projects.** During the Reporting Period, the two banks launched of a cooperation project, namely “Century-old BoCom and HSBC serving the public hand-in-hand – BoCom-HSBC Shanghai Yi Le Action Plan”, establish 5 society fund to subsidize 112 senior citizen service projects in 5 streets and 76 estates in Shanghai. It benefited 50 thousand citizens, building up a reputation of civil society. This project was rewarded as ‘Outstanding Charity Project of the Year’ by *CBA* and ‘Best Social Enterprises Project’ in the 9th Session of Pudong Charitable Activities 2017.

Looking into the future, the Bank and HSBC will continue to communicate and cooperate closely and involve in high quality economic development in China, the construction of “Belt and Road”, and the potential cooperation opportunities of Renminbi globalization. The two banks will constantly consolidate cooperation foundation, expand the cooperation areas and deepen cooperation effectiveness, thus leading to a win-win situation.

# CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

Hello 1908-2018 2018

110<sup>th</sup> Anniversary of Bank of Communications



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

### I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

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

	31 December 2016		Changes (+/-) during the Reporting Period					31 December 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	-	-	-	-	-	-	-	-	-
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
<b>III. Total</b>	<b>74,262,726,645</b>	<b>100.00</b>	-	-	-	-	-	<b>74,262,726,645</b>	<b>100.00</b>

### II. ISSUANCE AND LISTING OF ORDINARY SHARES

During the Reporting Period, the Bank did not issue ordinary shares.

The Bank has no employee shares.

### III. SHAREHOLDERS OF ORDINARY SHARES

#### (I) Number of Ordinary Shareholders

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 355,540, of which 319,208 were shareholders of A shares and 36,332 were shareholders of H shares. On 28 February 2018, the total number of shareholders of ordinary shares of the Bank was 360,759, of which 325,123 were shareholders of A shares and 35,633 were shareholders of H shares.

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

(II) Shareholdings of Top 10 Holders of Ordinary Shares as at the end of the Reporting Period (According to the Bank's Register of Members Maintained at its Share Registrars)

Name of shareholders (Full name)	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Number of shares pledged or frozen <sup>1</sup>	Nature of shareholders
The Ministry of Finance of the People's Republic of China	-	15,148,693,829	20.40	A Share	Nil	The State
	-	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited	9,224,548	14,954,499,271	20.14	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited	-	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund	-	1,877,513,451	2.53	A Share	Nil	The State
	-	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	706,558,209	2,404,753,018	3.24	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:

- Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert as defined under *Provisional Measures on Equity Management of Commercial Banks*. The Bank is not aware of the existence of any associated relationship among other top ten shareholders or those acting in concert under *Provisional Measures on Equity Management of Commercial Banks*.
- 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.
- 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 filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial Ordinary 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.
- According to the Bank's register of members, as at the end of the Reporting Period, the National Council for Social Security Fund (the "SSF") held 1,877,513,451 A Shares and 1,405,555,555 H Shares. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, the SSF held additional 7,637,059,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 609,282,000 H shares were indirectly held by certain asset managers. As at the end of the Reporting Period, the SSF held a total of 10,920,128,783 A shares and H shares of the Bank, representing 14.70% of the Bank's total ordinary shares issued.



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

### (III) Controlling Shareholders/Actual Controllers

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

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

Name of institutional shareholders	Person in charge or Legal representative	Date of incorporation	Organization code/ Business registration No./Unified Social Credit Code	Registered capital	Main responsibilities or management activities
Ministry of Finance	Liu Kun	October 1949	00001318-6	N/A	Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies.
HSBC	Fan Ning	1865	00173611-000	N/A <sup>Note</sup>	Primarily provide local and international banking services, and related financial services in Asia-Pacific region.
SSF	Lou Jiwei	August 2000	12100000717800822N	RMB8 million	Under the management of Ministry of Finance and an independent legal entity responsible for managing and operating national social security fund.

Note: As at the end of the Reporting Period, HSBC issued ordinary share capital of HKD116.1025 billion, divided into 46.4410 billion ordinary shares. An issued preference share capital of USD7.198 billion comprised 5.953 billion non-cumulative irredeemable preference shares and 200 million cumulative irredeemable preference shares.

According to the regulation of *Provisional Measures on the Shareholdings Administration of Commercial Bank*, the overview of the controlling shareholders, actual controllers, parties acting in concert and ultimate beneficiary of the major shareholders as stated above as at the Reporting Period are as follows:

Name of Shareholders	Controlling Shareholder	Actual Controller	Parties acting in concert	Ultimate beneficiary
Ministry of Finance	N/A	N/A	Nil	N/A
HSBC	HSBC Asia Holdings BV	HSBC Holdings plc	Nil	HSBC Holdings plc
SSF	N/A	N/A	Nil	N/A

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

(V) Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the SFO

As at 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 <sup>1</sup>	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance	Beneficial owner	15,148,693,829 <sup>2</sup>	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451 <sup>3</sup>	Long position	4.78	2.53

Name of substantial shareholders	Capacity	Number of H shares	Nature of interests <sup>1</sup>	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	9,042,615,332 <sup>3</sup>	Long position	25.83	12.18
Ministry of Finance	Beneficial owner	4,553,999,999 <sup>2</sup>	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 <sup>4</sup>	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 <sup>5</sup>	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250 <sup>6</sup>	Long position	0.0002	0.0001
	Total:	9,075,250		0.03	0.01
HSBC Holdings plc	Interest of controlled corporations	14,147,386,095 <sup>7</sup>	Long position	40.41	19.05

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

### Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at 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 9,042,615,332 H shares and 1,877,513,451 A shares of the Bank, representing 12.18% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. HSBC holds 62.14% of equity interests in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited.  
Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
5. HSBC is wholly owned by HSBC Asia Holdings BV, which is wholly owned by HSBC Asia Holdings (UK) Limited. Furthermore, HSBC Asia Holdings (UK) Limited is wholly owned by HSBC Holdings BV, which is wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC.
6. HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, 94.90% of which is owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to own the interests associated with the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 4, 5 and 6, and the SFO, HSBC Holdings plc is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

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

# ISSUANCE OF PREFERENCE SHARES

## I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN THE LAST THREE YEARS

On 29 July 2015, the Bank completed the overseas non-public issuance of preference shares totalling USD2.45 billion. On 2 September 2016, the Bank completed the domestic non-public issuance of preference shares totalling RMB45 billion. The net raised funds were RMB14.924 billion and RMB44.952 billion respectively, net of issuance expenses, all of which were used to replenish other Tier-1 Capital of the Bank.

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

## II. NUMBER AND SHAREHOLDINGS OF PREFERENCE SHAREHOLDERS

### (I) Total Number of Preference Shareholders

As at the end of the Reporting Period, the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 43. On 28 February 2018, the total number of shareholders of overseas and domestic preference shares remained unchanged.

### (II) Overseas Preference Shareholders and their Shareholdings as at the end of the Reporting Period:

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	Nature of shareholder
1	DB Nominees (Hong Kong) Limited	-	122,500,000	100.00	Overseas preference share	Unknown	-	Foreign legal person

Notes:

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

## ISSUANCE OF PREFERENCE SHARES (CONTINUED)

### (III) Top Ten Domestic Preference Shareholders and their Shareholdings as at the end of the Reporting Period

Serial Number	Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Status of shares	Number of shares pledged or frozen	
							Number of shares	Nature of shareholders
1	China Mobile Communications Corporation	-	100,000,000	22.22	Domestic preference share	Unknown	-	State-owned legal person
2	AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	-	20,000,000	4.44	Domestic preference share	Unknown	-	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	Unknown	-	Others
4	Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	-	20,000,000	4.44	Domestic preference share	Unknown	-	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	Unknown	-	Others
6	Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	-	20,000,000	4.44	Domestic preference share	Unknown	-	Others
7	China Ping An Life Insurance Co., Ltd. – Self-owned capital	1,000,000	18,000,000	4.00	Domestic preference share	Unknown	-	Others
8	China National Tobacco Corporation – Henan Branch	-	15,000,000	3.33	Domestic preference share	Unknown	-	State-owned legal person
9	China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	-	15,000,000	3.33	Domestic preference share	Unknown	-	Others
10	China Citic Bank Corporation Limited – LeYing Series of CITIC Banking Service	5,000,000	14,000,000	3.11	Domestic preference share	Unknown	-	Others

Notes:

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

## ISSUANCE OF PREFERENCE SHARES (CONTINUED)

### III. DIVIDEND DISTRIBUTIONS OF PREFERENCE SHARES

The Bank will distribute dividends annually for the preference shares in cash. In the event that the Bank resolved to cancel part or all of the dividends of the preference shares, the difference in the amount of dividends not fully paid to the shareholders of preference shares in the current period will not accrue to the subsequent interest period. Preference shareholders will not participate in the distribution of the residual earnings with ordinary shareholders after receiving dividends as agreed.

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 8th meeting of the 8th Session of the Board of Directors of the Bank was held on 28 April 2017, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares were approved. The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the overseas preference shares. In addition, in accordance with relevant laws and regulations, 10% withholding tax of USD13,611,111 was withheld by the Bank on behalf of overseas preference shareholders. The above dividends were fully paid in cash on 31 July 2017. The total amount of domestic preference shares' dividend distributed by the Bank amounted to RMB1,755,000,000 with a face dividend rate of 3.9% and were fully paid in cash on 7 September 2017.

Please refer to the announcement published on the SSE website, the Hong Kong Stock Exchange website and the Bank's official website for the details of the dividend distribution of preference shares.

The dividend distributions of preference shares of the Bank's for the last three years are as follows:

<b>Preference Share Type</b>	<b>Date of dividend distribution</b>	<b>Total amount of dividend distributed (including tax)</b>	<b>Dividend Rate</b>
Domestic Preference Share	7 September 2017	RMB1,755,000,000	3.9%
Overseas Preference Share	31 July 2017	USD136,111,111	5.0%
Overseas Preference Share	29 July 2016	USD136,111,111	5.0%

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

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

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

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

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

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

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

## I. PROFILE OF DIRECTORS

The Bank currently has 17 Directors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Peng Chun	Chairman of the Board of Directors and Executive Director	Male	56	November 2013 – date of 2018 Annual General Meeting
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	Male	66	August 2005 – the same as above
Yu Yali	Executive Director and Executive Vice President	Female	60	August 2012 – the same as above
Hou Weidong	Executive Director and Executive Vice President	Male	58	October 2015 – the same as above
Wang Taiying	Non-executive Director	Male	53	August 2013 – the same as above
Song Guobin	Non-executive Director	Male	52	August 2017 – the same as above
He Zhaobin	Non-executive Director	Male	49	August 2017 – the same as above
Helen Wong Pik Kuen	Non-executive Director	Female	56	August 2016 – the same as above
Liu Hanxing	Non-executive Director	Male	44	August 2016 – the same as above
Luo Mingde	Non-executive Director	Male	53	October 2016 – the same as above
Liu Haoyang	Non-executive Director	Male	44	August 2016 – the same as above
Chen Zhiwu	Independent Non-executive Director	Male	55	November 2010 – date when qualification of the successor is approved
Yu Yongshun	Independent Non-executive Director	Male	67	August 2013 – date of 2018 Annual General Meeting
Li Jian	Independent Non-executive Director	Female	64	October 2014 – the same as above
Liu Li	Independent Non-executive Director	Male	62	September 2014 – the same as above
Jason Yeung Chi Wai	Independent Non-executive Director	Male	63	October 2016 – the same as above
Raymond Woo Chin Wan	Independent Non-executive Director	Male	63	November 2017 – the same as above

### Notes:

1. Due to job arrangement, Mr. Niu Ximing has no longer served as the Chairman and the Executive Director of the Bank since 1 February 2018.
2. Term of office of Directors begins from the date of appointment qualification approved by the CBRC.
3. Term of office of Mr. Peng Chun, Ms. Yu Yali, and Mr. Hou Weidong refers to their term of office as the Executive Directors of the Bank.
4. Term of office of Mr. Peter Wong Tung Shun refers to his term of office as the Non-executive Director of the Bank.
5. For the purpose of compliance with relevant requirement on the number of the Independent directors, the Independent Non-executive Directors of the Bank, Mr. Chen Zhiwu, will hold his office until the date when qualification of his successor is approved by the CBRC. On 1 March 2018, the 13th meeting of the 8th Session of the Board of Directors of the Bank reviewed and agreed to nominate Mr. Cai Haoyi as an Independent Non-executive Director of the Bank to the Annual General Meeting. After Mr. Cai Haoyi's qualifications were approved, Mr. Chen Zhiwu has no longer served as an Independent Non-executive Director of the Bank.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Peng Chun**



**Peter Wong Tung Shun**



**Yu Yali**



**Hou Weidong**

- **Mr. Peng Chun**, age 56, Chairman, Executive Director and Senior Accountant. Mr. Peng has been the Chairman of the Board of Directors and Executive Director of the Bank since February 2018. From November 2013 to February 2018, Mr. Peng was Vice Chairman of the Board of Directors and an Executive Director. Mr. Peng was the President of the Bank from October 2013 to January 2018. Mr. Peng previously served as Deputy General Manager of China Investment Corporation, and concurrently served as an Executive Director and General Manager of Central Huijin Investment Ltd. from April 2010 to September 2013. Mr. Peng served as the Executive Director and the Executive Vice President from August 2005 to April 2010, Executive Vice President from September 2004 to August 2005, Director and Assistant to the President of the Bank from June 2004 to September 2004, Assistant to the President of the Bank from September 2001 to June 2004, Deputy General Manager and General Manager of Urumqi Branch, General Manager of Nanning Branch and General Manager of Guangzhou Branch from 1994 to 2001. Mr. Peng obtained his Master's degree in Economics from School of Finance of People's Bank of China in 1986.

- **Mr. Peter Wong Tung Shun**, age 66, Vice Chairman and Non-executive Director. Mr. Wong has been the Vice Chairman of the Board of Directors since September 2016 and a Non-executive Director since August 2005. Mr. Wong currently served as the Deputy Chairman and Chief Executive of HSBC (the Bank's substantial shareholder), Group Managing Director and a member of the Group Management Board of HSBC Holdings plc, the Chairman and a Non-executive Director of HSBC Bank (China) Company Limited and a Non-independent Executive Director of HSBC Bank (Malaysia) Company Limited. Mr. Wong also serves as a Non-executive Director for Hang Seng Bank Limited as well as an Independent Non-executive Director of Cathay Pacific Airways Limited. Mr. Wong was the Chairman of the Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China included an Economic Consultant for the Governor in the International Consultation Conference on the Future Economic Development of Guangdong Province from 2013 to 2015, a member of the 12th Chinese People's Political Consultative Conference ("CPPCC"), an International Economics Consultant for the Mayor of Chongqing, a Council Member of the China

Banking Association Council, a member of the advisory committees of China (Guangdong) Pilot Free Trade Zone (Qianhai and Shekou area) and the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, and a Standing Council Member of the Red Cross Society of China. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Bachelor's and Master's degrees in Computer Science and MBA in Marketing and Finance from Indiana University in the United States in 1976 and 1979 respectively.

- **Ms. Yu Yali**, age 60, Executive Director, Executive Vice President and Senior Accountant. Ms. Yu has been an Executive Director since August 2012. Ms. Yu serves as Executive Vice President and Chief Financial Officer of the Bank since August 2007 (no longer served as Chief Financial Officer concurrently since April 2015). Ms. Yu served as Chief Financial Officer of the Bank from August 2004 to August 2007. Ms. Yu was General Manager of the Finance and Accounting Department and Financial Budget Department of the Bank from December 1999 to August 2004. Ms. Yu previously served as Head of Finance and Accounting Division, Deputy General Manager of the Bank's Zhengzhou Branch and Deputy General Manager of Finance and Accounting Department of the Head Office from February 1993 to December 1999. Ms. Yu obtained her MBA degree from Fudan University in 2006.
- **Mr. Hou Weidong**, age 58, Executive Director, Executive Vice President and Senior Engineer. Mr. Hou has been an Executive Director since October 2015. Mr. Hou serves as Executive Vice President and Chief Information Officer of the Bank since December 2010 (no longer served as Chief Information Officer concurrently since January 2017). He held the position of Chief Information Officer from August 2004 to December 2010, General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. He served as Deputy General Manager of Technology Security Department and General Manager of Data Center in ICBC from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Wang Taiyin**

**Song Guobin**

**He Zhaobin**

**Helen Wong Pik Kuen**

- Mr. Wang Taiyin**, age 53, Non-executive Director. Mr. Wang has been a Non-executive Director since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013 including Associate Officer and Second Officer of the Technical Expert Division of Human Resource Department and the Grass-root Level Service Department of the Ministry of Finance, First Officer of the Grass-root Level Service Division of Personnel and Education Department, First Officer of the Representative Agency of the Personnel and Education Department (during which served as governor's assistant of the Municipal Government in Chaoyang County, Liaoning Province from October 1995 to October 1996), Deputy Head, Inspector, Secretary of the Personnel Development Department (enjoy benefit package as Division Chief), Head of the Representative Agency of the Personnel Development Department and Associate Inspector of the Personnel Development Department. Mr. Wang graduated from Zhongnan University of Economics and Law with major in Political Science in 1986, and obtained his MBA degree from Arizona State University in the United States in 2015.
- Mr. Song Guobin**, age 52, Non-executive Director. Mr. Song has been a Non-executive Director since August 2017. Mr. Song previously held various positions from August 1988 to June 2017 including Associate Officer, Second Officer and First Officer of the Propaganda Department of the Party committee of the Ministry of Finance, First Officer of the Senior Care and the Unemployment of the Department of Social Security of the Ministry of Finance and the Senior Security Department, Deputy Director of the Senior Security Department and the Special Care and Relief Department, Inspector of the Special Care and Relief Department, Director of the System Actuarial Division and Employment Security Division, Deputy Commissioner of the Office of Commissioner of the Ministry of Finance in Jilin and Deputy Inspector and Discipline Leader, Deputy Director of Department of Assets Management in Ministry of Finance from August 1988 to June 2017. Mr. Song graduated from Zhongnan University of Economics and Law with major in Philosophy in 1988, and obtained his Master's degree in World Economics from the Party School of the Central Committee of CPC in 2008.
- Mr. He Zhaobin**, age 49, Non-executive Director, CICPA. Mr. He serves as a Non-executive Director of the Bank since August 2017. Mr. He was the Deputy Director of National Agricultural Comprehensive Development Office in Ministry of Finance from August 2014 to June 2017. He served as the Deputy Director of Reform Group of Agriculture Comprehensive Development Office of the State Council from December 2013 to August 2014. He served as Deputy Director of the Second Department of Supervision and Inspection of the Ministry of Finance and Director of the Third Department, and served as Cadres of Vice-ministerial from June 2000 to December 2013. During the period from November 2011 to November 2013, Mr. He was the Vice Mayor in Huangshi municipal people's government in Hubei Province. He worked in Supervision Division of Treasury Department in Ministry of Finance from August 1994 to June 2000. And he worked in Tax and Financial Price Inspection Office in the State Council from August 1990 to August 1994. Mr. He graduated from the Accounting Department of Shanghai University of Finance and Economics in 1990 with a Bachelor's Degree in Economics. In 2007, he obtained a Master's Degree in Public Administration in China National School of Administration and Peking University.
- Ms. Helen Wong Pik Kuen**, age 56, Non-executive Director. Ms. Wong has been a Non-executive Director since August 2016. Ms. Wong currently holds positions as Chief Executive of Greater China Region of HSBC (the Bank's substantial shareholder), Vice Chairman of the Board of Directors of HSBC Qianhai Founder Securities Co., Ltd. and Director of HSBC Canada. Ms. Wong served as Deputy Chief Executive, President and Chief Executive of the HSBC Bank (China) Company Limited from August 2009 to February 2015. She served as Manager of Syndicated Loans Division, Senior Manager of Capital Market Division, Dean of Debt Issuance Division of Greater China Region and Standing Director of Global Banking Division of Hong Kong from July 1992 to July 2009. She also served as Senior Manager of the Oesterreichische Nationalbank – Hong Kong Branch from February 1990 to June 1992, Manager of Credit and Market Development Division of the Development Bank of Singapore (Asia) Company Limited from May 1987 to January 1990, Manager of the China Department of the Hong Kong Branch of Bank of Tokyo from October 1986 to May 1987, and Manager of Hong Kong Branch of Oversea-Chinese Banking Corporation Limited from May 1984 to October 1986. Ms. Wong obtained her Bachelor's degree in Social Sciences from the University of Hong Kong in 1983.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Liu Hanxing**

**Luo Mingde**

**Liu Haoyang**

**Chen Zhiwu**

- **Mr. Liu Hanxing**, age 44, Non-executive Director, Economist. Mr. Liu has been a Non-executive Director since August 2016. Mr. Liu has been Director of Asset Allocation & Research Department of the National Council for Social Security Fund since March 2016. He served as Deputy Director and Director of the General Office of the National Council for Social Security Fund from April 2008 to March 2016. He served as Deputy Director and Division Chief of the General Office of Bank of Communications, Head of Market Development Department, Senior Manager of Corporate Business Department, Senior Manager of Operation Department of Beijing Branch of the Bank and Assistant to the President and Vice President of Beijing Branch of the Bank from July 2004 to April 2008. He served as Deputy Director of Non-Banking Department of the CBRC and Deputy Director of Information Center of the CBRC from September 2003 to July 2004. He served as Second Officer, Officer and Deputy Chief of Division of the General Office of the PBOC from August 1997 to September 2003. Mr. Liu obtained his Doctor's degree in Management from the Graduate School of Chinese Academy of Sciences in 2012.
- **Mr. Luo Mingde**, age 53, Non-executive Director and Senior Accountant. Mr. Luo has been a Non-executive Director since October 2016. Mr. Luo serves as Deputy Head, Head, Associate Inspector and Deputy Director of Accounting Department of Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration since February 2000 (he temporarily served as Member of Luzhou (Sichuan Province) Municipal Committee and its Standing Committee from January 2014 to December 2015). He served as Official of Finance and Commodity Prices Department, Associate, Associate Chief Officer and Chief Officer of Finance and Accounting Department of China National Tobacco Corporation from July 1986 to February 2000. Mr. Luo obtained his Bachelor's degree in Economics from the Finance Department of Shaanxi College of Finance and Economics in July 1986.
- **Mr. Liu Haoyang**, age 44, Non-executive Director and Accountant. Mr. Liu has been a Non-executive Director since August 2016. Mr. Liu has been Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Finance Co., Ltd. from October 2012 to November 2015, Financial Director of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Center from July 2001 to March 2005, and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.
- **Mr. Chen Zhiwu**, age 55, Independent Non-executive Director. Mr. Chen has been an Independent Non-executive Director since November 2010. Mr. Chen is currently Director of Asia Global Institute at the University of Hong Kong, Professor (Economics) of Victor Fung Kwok-king & William Fung Kwok-lun Fund, and previously served as Distinguished Professor of School of Economics of Peking University. He is also the International Advisor of the CSRC, member of China Minsheng Investment Corporation Global Advisory Committee and Independent Non-executive Director of Noah Holdings Limited. Mr. Chen was a Professor of Business and Finance at Management Department in Yale University from July 1999 to July 2017. Mr. Chen was an Assistant Professor and Associate Professor of Business and Finance at Ohio State University in the United States from July 1995 to July 1999. Mr. Chen obtained his Doctoral degree in Finance and Economics from Yale University in 1990.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Yu Yongshun**

**Li Jian**

**Liu Li**

**Jason Yeung Chi Wai**

- Mr. Yu Yongshun**, age 67, Independent Non-executive Director and Senior Economist. Mr. Yu serves as an Independent Non-executive Director since August 2013 and currently holds positions as an Independent Non-executive Director of the Board of Supervisors of Huaxin Trust and Shengjing Bank Co., Ltd. Mr. Yu served as General Manager of Internal Audit Department and Chief Audit Executive of CCB from April 1999 to December 2010. Mr. Yu held various positions including Deputy General Manager of Financial Planning Department, General Manager of Real Estate Credit Department, General Manager of Xinjiang Uygur Autonomous Region Branch and General Manager of the Second Division of Business Department of CCB from October 1990 to April 1999. Mr. Yu graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics) and majored in Infrastructure Financing in 1977. Mr. Yu graduated from Monetary Banking from the Department of Finance and Trade Economics of Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Yu receives special government allowances issued by the State Council.
- Ms. Li Jian**, age 64, Independent Non-executive Director. Ms. Li has been an Independent Non-executive Director since October 2014, currently serving as Doctoral Supervisor of Finance School and Supervisor of Post-doctoral Research Station in Central University of Finance and Economics. Ms. Li has been teaching in Central University of Finance and Economics since 1983 and was temporarily transferred to the Development Research Center of the State Council for consulting and research projects from 1986 to 1987. At present, Ms. Li also holds positions such as Deputy Head of Finance Teaching Steering Committee of the Ministry of Education, Member of China Society for Finance and Banking, Member of China International Finance Society, and Independent Non-executive Director of Bank of Beijing Co., Ltd., Minmetals Securities Co., Ltd., China Life Asset Management Company Limited. Ms. Li obtained her Doctoral degree in Economics from Xi'an Jiaotong University in 1997.
- Mr. Liu Li**, age 62, Independent Non-executive Director, CICPA. Mr. Liu has been an Independent Non-executive Director since September 2014, currently holding positions such as Professor in Guanghua School of Management of Peking University and Deputy Head and Doctoral Supervisor in Finance and Securities Research Center of Peking University. Mr. Liu teaches in Guanghua School of Management (formerly known as Business Management Department of Economic School) of Peking University since January 1986. He taught in Beijing University of Iron and Steel Technology from September 1984 to December 1985. At present, Mr. Liu also holds positions such as an Independent Director of China Machinery Engineering Corporation, China International Capital Corporation Limited, Shenzhen Success Electronics Ltd. and CNPC Capital Co., Ltd. Mr. Liu obtained his Master's degree in Physics from Peking University in 1984 and MBA from Catholic University of Louvain in Belgium in 1989.
- Mr. Jason Yeung Chi Wai**, age 63, Independent Non-executive Director, Lawyer. Mr. Yeung has been an Independent Non-executive Director since October 2016. Mr. Yeung serves as Supervisor and President of Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also holds positions such as Independent Director of AviChina Industry & Technology Company Limited and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Bank of China (Hong Kong) Limited and Secretary of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, the College of Law of England and Wales in 1985 and the Faculty of Law of University of Western Ontario in 1991, and obtained his MBA degree from University of Western Ontario in 2001.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



### Raymond Woo Chin Wan

- **Mr. Raymond Woo Chin Wan**, age 63, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Hu serves as an Independent Non-executive Director of the Bank from November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he has been Senior Associate, Manager, Senior Manager, Partner and Managing Partner. He served as Managing Partner of Ernst & Young Greater China from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Hu was also the member of Ernst & Young Greater China Management Committee from 1998 to 2015. Mr. Hu is currently an Independent Non-executive Director of Dah Chong Hong Holdings Limited and Great Wall Pan Asia Holdings Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

### II. MEMBERS OF THE BOARD OF SUPERVISORS

The Bank currently has 13 members of the Board of Supervisors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Song Shuguang	Chairman of the Board of Supervisors	Male	57	June 2014 – date of 2018 Annual General Meeting
Gu Huizhong	Shareholder Representative Supervisor	Male	61	August 2010 – the same as above
Zhao Yuguo	Shareholder Representative Supervisor	Male	55	June 2016 – the same as above
Liu Mingxing	Shareholder Representative Supervisor	Male	57	June 2016 – the same as above
Zhang Lili	Shareholder Representative Supervisor	Female	45	June 2016 – the same as above
Wang Xueqing	Shareholder Representative Supervisor	Male	50	June 2017 – the same as above
Tang Xinyu	External Supervisor	Female	64	June 2014 – the same as above
Xia Zhihua	External Supervisor	Female	63	June 2016 – the same as above
Li Yao	External Supervisor	Male	47	October 2017 – the same as above
Chen Qing	Employee Representative Supervisor	Female	57	November 2004 – the same as above
Du Yarong	Employee Representative Supervisor	Male	54	August 2010 – the same as above
Fan Jun	Employee Representative Supervisor	Male	59	June 2013 – the same as above
Xu Ming	Employee Representative Supervisor	Male	57	June 2016 – the same as above

Note: Term of office of supervisors begins from the date of election at General Meeting. Term of office of re-elected supervisors begins from the date of first election at General Meeting.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Song Shuguang**



**Gu Huizhong**



**Zhao Yuguo**



**Liu Mingxing**

- **Mr. Song Shuguang**, age 57, Chairman of Board of Supervisors. Mr. Song has been the Chairman of Board of Supervisors of the Bank since June 2014. Mr. Song served in China Taiping Insurance Group (formerly known as China Insurance Group) from 2000 to 2014, during which, he served as Vice Chairman and General Manager of China Taiping Insurance Group Ltd. (China Taiping Insurance (HK) Company Limited) from August 2008 to March 2014, as Vice Chairman of China Taiping Insurance Holdings Company Limited (CTIH, listed in Hong Kong) from November 2008, and as Vice Chairman and President of CTIH from April 2013 to March 2014, as Chairman of Taiping Life Insurance Co., Ltd. from November 2004 to November 2008 and from March 2010 to November 2011. Mr. Song served in State Planning Commission of the People's Republic of China from August 1985 to September 1993; in People's Insurance Company of China from October 1993 to October 1998, and as Chief Head of Finance and Accounting Department of China Insurance Regulatory Commission from November 1998 to April 2000. Mr. Song obtained his Master's degree in Economics in 1985 from Jilin University.
- **Mr. Gu Huizhong**, age 61, Shareholder Representative Supervisor. Mr. Gu has been a Supervisor of the Bank since August 2010. Mr. Gu held the position of Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China from August 2008 to January 2017. Mr. Gu was Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant starting from February 2005. He also served as Deputy Director of Finance Department of Technology and Industry Committee for National Defense from July 1998 to December 1998. Mr. Gu serves as an Independent Non-executive Director of China Southern Airlines Co., Ltd. since December 2017. Mr. Gu obtained his Master's degree in International Finance from the Peking University of Aeronautics and Astronautics in 2000 and his EMBA from Cheung Kong Graduate School of Business in 2008.
- **Mr. Zhao Yuguo**, age 55, Shareholder Representative Supervisor. Mr. Zhao has been a Supervisor of the Bank since June 2016. Mr. Zhao serves as General Counsel of China First Automotive Works Group ("FAW Group") Corporation since September 2017. Mr. Zhao served as General Counsel and Head of Legal Head Affairs Department of China FAW Group Corporation from April 2015 to September 2017. Mr. Zhao was General Counsel and Head of Legal Affairs Office of FAW Group from December 2007 to April 2015; and Deputy Head of Legal Affairs Office of FAW Group (in charge of overall management) from September 2002 to December 2007. He served as Head of Planning Department of FAW – Head Daewoo Automotive Engine Company Limited from November 1996 to September 2002, and Head of the Legal Group of Finance and Accounting Department of FAW Group from October 1994 to November 1996. He also served as Deputy Head of Legal Section of Economic Planning Department of FAW Group from October 1992 to October 1994, and a member of Legal Section of Economic Planning Department of FAW Group from August 1987 to October 1992. Mr. Zhao obtained his Bachelor's degree in Law from China University of Political Science and Law in 1987.
- **Mr. Liu Mingxing**, age 57, Shareholder Representative Supervisor. Mr. Liu has been a Supervisor of the Bank since June 2016. Mr. Liu served as the General Manager Assistant and Director of the Key Project Office of Luneng Group Co., Ltd. from June 2017. Mr. Liu served as General Manager Assistant, Head of Legal and Contract Department and Head of Key Project Office of Luneng Group Co., Ltd. from April 2016 to June 2017. He was General Manager Assistant and Head of Key Project Office of Luneng Group Co., Ltd. from January 2016 to April 2016, Deputy Chief Accountant and Head of Finance and Asset Management Department of Luneng Group Co., Ltd. from November 2014 to January 2016, and Head of Finance and Asset Management Department of Luneng Group Co., Ltd. from November 2012 to November 2014. Mr. Liu served as Head of Audit Department of Luneng Group Co., Ltd. from June 2009 to November 2012, and Deputy General Manager (in charge of overall management) and General Manager of Audit Department of Luneng Group Co., Ltd. from May 2008 to June 2009. He also served as Deputy General Manager of Shandong Luneng Heze Coal Power Development Co., Ltd. from October 2007 to May 2008, and Deputy General Manager and Chief Accountant of Shandong Luneng Heze Coal Power Development Co., Ltd. from January 2004 to October 2007. Furthermore, he was Accountant of Finance Department, Deputy Chief of Finance Section, Head of Finance Department, Deputy Chief Accountant and Head of Finance Department of Weifang Electric Power Bureau from July 1986 to January 2004. Mr. Liu obtained his Bachelor's degree in Economic Management from Party School of Central Committee of CPC.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Zhang Lili**



**Wang Xueqing**



**Tang Xinyu**



**Xia Zhihua**

- **Ms. Zhang Lili**, age 45, Shareholder Representative Supervisor. Ms. Zhang has been a Supervisor of the Bank since June 2016. Ms. Zhang is Chief Accountant of Huaneng Capital Service Co., Ltd. since May 2014. She was Chief Accountant and Manager of Planning and Finance Department of Huaneng Capital Service Co., Ltd. from October 2011 to May 2014, and served as Managerial Staff, Deputy Manager and Manager of Planning and Finance Department of Huaneng Capital Service Co., Ltd. from February 2004 to October 2011. She served as Managerial Staff and Deputy Manager of Planning Department of China Huaneng Finance Corporation Ltd. from December 2000 to February 2004. Ms. Zhang also serves as the Director of Huaneng Invesco WLR (Beijing) Investment Fund Management Company Ltd. since August 2017. Ms. Zhang obtained her EMBA degree from Shanghai Jiao Tong University in 2007 and was a Senior Accountant.
- **Mr. Wang Xueqing**, age 50, Shareholder Representative Supervisor. Mr. Wang has been a Supervisor of the Bank since June 2017. Mr. Wang has been the Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau), and the Director of Finance Department as well as Party committee member of Daqing Oilfield Co. Ltd. from October 2016. Mr. Wang served as the Director of Finance Department of Daqing Oilfield Company from October 2009 to October 2016. From July 2008 to October 2009, Mr. Wang was appointed as the Director of Financial Assets of the First Department in Daqing Oilfield Company. He was the Head, Chief Executive, First Deputy Director and Director of the Accounting Department (Center) of the Financial Assets Department in Daqing Oilfield Company from November 1999 to July 2008. At present, Mr. Wang also serves as the Director of Daqing Petroleum (Hong Kong) Co. Ltd., Daqing Energy (Hong Kong) Co. Ltd., Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd. At the same time, Mr. Wang is the Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PT INDOSPEC ENERGY etc. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in June 2002, majoring in Accounting. He is a Senior Accountant at professor level.
- **Ms. Tang Xinyu**, age 64, External Supervisor. Ms. Tang has been an External Supervisor of the Bank since June 2014. Ms. Tang served as President of Enterprise Annuity Council of Bank of China from January 2011 to July 2013; as Chairman of Bank of China International Securities Limited from February 2007 to January 2011; as General Manager of Head office Human Resource Department of Bank of China from October 2004 to September 2006; as Deputy Party Secretary, Commissioner of Discipline Inspection and Deputy General Manager of Bank of China Beijing Branch from February 2003 to October 2004; as Deputy General Manager of General Internal Audit Office and General Manager of Internal Audit Department of Bank of China from January 1998 to February 2003; as Senior Manager and Assistant General Manager successively of Economic Research Department of Hong Kong and Macao Management Office of Bank of China, National Commercial Bank, Hong Kong Branch and Bank of China, Hong Kong Branch from May 1988 to January 1998, and as Vice Researcher and Deputy Head (1986) of Information Division Head of International Financial Research Institute of Bank of China from 1981 to May 1988. Ms. Tang graduated from Western Language Department of Peking University, majored in English in 1977 and obtained her MBA degree from the Chinese University of Hong Kong in 1996.
- **Ms. Xia Zhihua**, age 63, External Supervisor. Ms. Xia has been an External Supervisor of the Bank since June 2016. Ms. Xia served as the Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor at Deputy Director General Level, Head of the General Office of the Board of Supervisors and Supervisor at Bureau Level of China Great Wall Asset Management Corporation, China Economic Development Trust and Investment Company, China Life Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Assistant Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Chief Director of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She also successively served as Principal Staff Member, Deputy Division Head and Division Head of Financial Department of Cultural and Educational Administrative Affairs and National Debt Management Department of the Ministry of Finance from December 1984 to June 1997. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984. At present, Ms. Xia serves as International Internal Auditor and Senior Economist, enjoying the special government allowance awarded by the State Council.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Li Yao**



**Chen Qing**



**Du Yarong**



**Fan Jun**

- Mr. Li Yao**, age 47, External Supervisor. Mr. Li has been an External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and served as Vice Professor and Professor. He has been Vice President of School of Finance from December 2014 to January 2018. From September 2002 to September 2003, Mr. Li served as a Vice Professor in visiting scholar (CCSEP) program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toronto Rotman. Mr. Li was appointed as the Professor in the management buyout and private equity research center of Nottingham University Business School from August 2009 to January 2010. Mr. Li also served as an Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li graduated from East China Normal University in International Finance with the title of Ph.D. in Economics in July 1998.
- Ms. Chen Qing**, age 57, Employee Representative Supervisor. Ms. Chen has been an Employee Representative Supervisor of the Bank since November 2004. Ms. Chen is Head of Audit Supervisory Bureau of the Bank since July 2016, Committee Member of the Commission for Discipline Inspection of the Bank since April 2016, Head of the Women Commission of the Labor Union of the Bank since June 2015 and Committee Member of the Discipline Inspection Commission of the Bank from November 2013 to December 2017. Ms. Chen served as Head of the General Office for the Board of Supervisors from March 2005 to July 2016. From November 2004, Ms. Chen served as Supervisor at Deputy Director General-Level of the Bank. Ms. Chen was Supervisor at Division Chief Level for the key state-owned financial institution – Agricultural Bank of China from August 2003 to October 2004. Ms. Chen served as Deputy Division Head, Division Head and Supervisor at Division Chief Level of Bank of China from July 2000 to August 2003. Ms. Chen served as Deputy Division Head of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen obtained her Bachelor's degree in Economics from Renmin University of China in 1984 and her MBA degree from Shanghai University of Finance and Economics in 2009, and she is a Senior Auditor.
- Mr. Du Yarong**, age 54, Employee Representative Supervisor. Mr. Du has been an Employee Representative Supervisor of the Bank since August 2010 and serves as Deputy Commissioner of Discipline Inspection, Head (General Manager) of Bureau of Supervision (Anti-fraud Department) of the Bank since January 2015. He served as Deputy Commissioner of Discipline Inspection and Head of the Office of Discipline Investigation and Supervision of the Bank from November 2009 to January 2015. He was Vice President in the Bank's Zhejiang Branch from January 2009 to November 2009 and served as Deputy General Manager in the Bank's Hangzhou Branch from October 2004 to January 2009. Mr. Du was Head of the General Office in the Bank's Hangzhou Branch from April 2004 to October 2004 and was General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004 (among which he was Deputy Head of the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004). Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office in the Bank's Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.
- Mr. Fan Jun**, age 59, Employee Representative Supervisor. Mr. Fan has been an Employee Representative Supervisor of the Bank since June 2013 and Head of the General Office for the Board of Supervisors since July 2016. He previously served as General Manager of Audit Supervisory Bureau (formerly known as General Manager of the Internal Audit Control Division and the General Manager of Audit Department) of the Bank from September 2004 to July 2016. Mr. Fan held several positions, including General Manager of Guangzhou Branch from September 2001 to September 2004; General Manager of Urumqi Branch from January 1998 to September 2001; Deputy General Manager of Urumqi Branch from December 1996 to January 1998 and Deputy Director and Director of International Banking Department in Urumqi Branch from June 1994 to December 1996. Mr. Fan served as Researcher at Deputy Director Level and Deputy Director of Comprehensive Analysis Department of National Party Policy in Xinjiang Uyghur Autonomous Region from April 1992 to June 1994. Mr. Fan currently served as Director of Changshu Rural Commercial Bank. Mr. Fan obtained his Master's degree in Economics and Politics from the Department of Economics of Sichuan University, and he is a Senior Economist.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



### Xu Ming

- **Mr. Xu Ming**, age 57, Employee Representative Supervisor. Mr. Xu has been an Employee Representative Supervisor of the Bank since June 2016. Mr. Xu is General Manager of Employee Department of the Bank since February 2016 and as Executive Vice Chairman of the Bank's Labor Union (since April 2016). He served as Chairman of the Board of Supervisors of BoCommLife Insurance Company Limited from March 2013 to February 2016, as General Manager in Huadong credit extension center of the Bank from July 2010 to March 2013, as Responsible Person of Jilin (Changchun) Branch from September 2005 to July 2010, as the person in charge and manager of Shaoxing Branch from November 2004 to September 2005 and as Deputy Manager and Manager of Jiaying Branch from October 1994 to November 2004. Mr. Xu graduated from Zhejiang Provincial Party School of the CPC with Master's degree in Economics in July 2002 and obtained his MBA degree from Fudan University in June 2008.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

### III. PROFILE OF SENIOR MANAGEMENT

The Bank currently has 8 Senior Managers as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Yu Yali	Executive Vice President	Female	60	August 2007 – June 2019
Shou Meisheng	Commissioner of Discipline Inspection	Male	61	Since June 2007
Hou Weidong	Executive Vice President	Male	58	December 2010 – October 2019
Shen Rujun	Executive Vice President	Male	54	August 2015 – August 2018
Wu Wei	Executive Vice President and Chief Financial Officer	Male	48	September 2017 – September 2020
Du Jianglong	Secretary of the Board of Directors	Male	47	September 2009 – August 2018
Guo Mang	Corporate Business Director	Male	55	February 2017 – February 2020
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	Male	64	March 2013 – March 2019

Notes:

1. Term of office of Senior Manager is effective from the approval appointment date by the CBRC.
2. Term of office of Ms. Yu Yali, Mr. Hou Weidong and Mr. Wu Wei refers to their terms of office as Executive Vice President of the Bank.
3. In October 2017, Mr. Du Jianglong resigned from the Secretary of the Board of Director, Company Secretary, and authorized representative of the Bank for personal reasons and held his office until the date when qualification of his successor was approved from the appointment of the successor appointed by the Board of Directors. In March 2018, the Board of Directors of the Bank agreed to appoint Mr. Gu Sheng as the Secretary of the Board of Directors and the Company Secretary of the Bank and acted as an authorized representative. The appointment of Mr. Gu Sheng will be effective when he obtains qualification certificate for secretary of Board of Directors issued by the SSE and upon approval by the CBRC on his qualification as secretary of the Board of Directors.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Yu Yali**

**Shou Meisheng**

**Hou Weidong**

**Shen Rujun**

- **Ms. Yu Yali** (Please refer to details in “Profile of Directors”)
- **Mr. Shou Meisheng**, age 61, Commissioner of Discipline Inspection. Mr. Shou has been a Commissioner of Discipline Inspection of the Bank since June 2007. He was concurrently Executive Vice President of the Bank from September 2012 to July 2016. He was General Manager of Human Resources Department of the Bank from May 2005 to June 2007, General Manager of International Banking Department of the Bank from June 1998 to May 2005 and General Manager of the Bank’s Dalian Branch from January 2002 to March 2004. Mr. Shou obtained his Doctoral degree in Economics from Dongbei University of Finance and Economics in 2006.
- **Mr. Hou Weidong** (Please refer to details in “Profile of Directors”)
- **Mr. Shen Rujun**, age 54, Executive Vice President. Mr. Shen has been an Executive Vice Present of the Bank since March 2015. He was President of Shandong Branch of Industrial and Commercial Bank of China from November 2013 to March 2015; General Manager of Finance Accounting Department in Industrial and Commercial Bank of China from July 2008 to November 2013; Vice President of ICBC Beijing Branch from November 2003 to July 2008; Deputy General Manager of Planning and Finance Department from December 1998 to November 2003, and Principal staff, Vice Chief, Chief and Deputy Head of Accounting Department as well as Deputy Head (in charge of overall management) and Head of Planning Department successively of Jiangsu Branch from January 1985 to December 1998. Mr. Shen obtained his Doctoral degree in Management from Technology and Economics School of Hohai University in 2001.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



**Wu Wei**

**Du Jianglong**

**Guo Mang**

**Ng Siu On**

- **Mr. Wu Wei**, age 48, Executive Vice President and the Chief Financial Officer. Mr. Wu has been an Executive Vice Present and the Chief Financial Officer of the Bank since September 2017. Mr. Wu was the Chief Financial Officer and the General Manager of Asset and Liability Management Department from April 2015 to August 2017, and he served in the Bank as General Manager of Investment Banking Department, President of Investment Banking Business Center as well as General Manager of Asset and Liability Management Department successively from July 2013 to April 2015. Mr. Wu served as General Manager of Financial Budget Department from October 2011 to July 2013, President of Liaoning Branch from January 2010 to October 2011, and Supervisor, Deputy Head and Deputy General Manager of Finance Division of Finance Accounting Department as well as Deputy General Manager and General Manager of Financial Budget Department successively from July 1998 to January 2010. He also worked at the Internal Audit Division of PBOC Wuhan Branch from July 1994 to October 1995. Mr. Wu obtained his Doctoral degree in Economics from Graduate Faculty of Research Institute for Fiscal Science of Ministry of Finance in 1998.
- **Mr. Du Jianglong**, age 47, the Secretary of the Board of Directors. Mr. Du has been the Secretary of the Board of Directors since September 2009. Mr. Du was the Director of the Board Office from March 2010 to July 2016 and Vice President of the Bank's Shanghai Branch from August 2015 to March 2016. He worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance from 1997 to 2009. While working in these departments, he held various positions as Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. During the period, he also took the positions of Supervisor of the Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained his Master's degree in Economics from the Research Institute for Fiscal Science of Ministry of Finance in 1997 and his Master's degree in Economics from University of Manchester in 2003.
- **Mr. Guo Mang**, age 55, Corporate Business Director. Mr. Guo has been a Corporate Business Director of the Bank since February 2017, and served as President of the Bank's Beijing Branch and President of Beijing Administrative Department (Group Customer Department) since December 2016. He was President of Shenzhen Branch from January 2010 to December 2016, Vice President (in charge of overall management) and President of Chongqing Branch from September 2004 to January 2010. Moreover, he served as credit clerk and Deputy Section Chief in the Credit and Investment Department of Shenzhen Branch, Head of Shatoujiao Office, Vice President (in charge of overall management) of Shatoujiao Subbranch, Vice President (in charge of overall management) and President of Hongli Subbranch, General Manager of the Marketing Department and Vice President of Shenzhen Branch from May 1991 to September 2004. Mr. Guo also worked as Section Member of the System Reform Office of PBOC Comprehensive Planning Department and Section Member of PBOC Savings Interest Rate Department from July 1987 to May 1991. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.
- **Mr. Ng Siu On**, age 64, the BoCom-HSBC Strategic Cooperation Consultant. Mr. Ng has been the BoCom-HSBC Strategic Cooperation Consultant since March 2013. He held various positions including Regional Director of the New Territories of HSBC Hong Kong, Assistant Vice President and Branch Manager in the Toronto Branch Network of HSBC Bank Canada, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking Department, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently holds the positions as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA degree from the Chinese University of Hong Kong in 1984.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (I) Changes in Directors and Senior Management

On 1 February 2018, the Board of Directors of the Bank elected Mr. Peng Chun as the Chairman of the Bank. On the same day, Mr. Peng Chun resigned from his position as the President of the Bank. Before the appointment of the new president who is appointed by the Board of Directors is approved by the CBRC, Mr. Peng Chun will, on behalf, perform the duties of the President. On 13 February 2018, the CBRC approved Mr. Peng Chun's appointment as the Chairman of the Bank. On the same day, Mr. Peng Chun has no longer served as Vice Chairman of the Bank.

On 22 June 2017, the Board of Directors of the Bank agreed to appoint Mr. Wu Wei as Executive Vice President and Chief Financial Officer of the Bank. On 7 September 2017, the CBRC approved Mr. Wu Wei to serve as Executive Vice President of the Bank. The qualification of Mr. Wu Wei as Chief Financial Officer of the Bank was approved in April 2015.

#### (II) Newly elected/appointed Directors, Supervisors and Senior Management

Name	Position	Change	Beginning and ending dates of term
Song Guobin	Non-executive Director	Elected	August 2017 – date of 2018 Annual General Meeting
He Zhaobin	Non-executive Director	Elected	August 2017 – the same as above
Raymond Woo Chin Wan	Independent Non-executive Director	Elected	November 2017 – the same as above
Wang Xueqing	Shareholder Representative Supervisor	Elected	June 2017 – the same as above
Li Yao	External Supervisor	Elected	October 2017 – the same as above
Guo Mang	Corporate Business Director	Appointed	February 2017 – February 2020

#### (III) Resigned Directors, Supervisors and Senior Management

Name	Ex-position	Change	Beginning and ending dates of term
Niu Ximing	Chairman of the Board of Directors and Executive Director	Resigned (due to job arrangement)	December 2009 – February 2018
Hu Huating	Non-executive Director	Retired (due to retirement)	September 2004 – April 2017
Liu Changshun	Non-executive Director	Resigned (due to job arrangement)	September 2014 – August 2017
Peter Hugh Nolan	Independent Non-executive Director	Retired (due to election of new session of the Board of Directors)	November 2010 – November 2017
Yan Hong	Shareholder Representative Supervisor	Resigned (due to job arrangement)	August 2008 – March 2017
Wang Jiang	Executive Vice President	Resigned (due to job arrangement)	August 2015 – July 2017
Yang Dongping	Chief Risk Officer	Resigned (due to personal reason)	August 2007 – February 2017



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

### V. CHANGES IN INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (I) Director

Mr. Peter Wong Tung Shun is appointed as a Non-independent Executive Director of HSBC Bank (Malaysia) Company Limited and has no longer served as the Chairman and the Non-executive Director of it.

Ms. Helen Wong Pik Kuen is appointed as the Vice President of HSBC Qianhai Fund Management Co., Ltd. and has no longer served as the Supervisor of HSBC Jintrust Fund Management Co., Ltd.

Mr. Yu Yongshun is appointed as an Independent Non-executive Director of Huaxin Trust Co., Ltd. and has no longer served as the Chairman of the Board of Supervisors of Huaxin Trust Co., Ltd. and Independent Non-executive Director of Huaxin Trust Cinda Securities Co., Ltd.

Mr. Chen Zhiwu has no longer served as the professor of Finance at School of Management of Yale University, the Distinguished Professor of School of Economics of Peking University and the Independent Non-executive Director of PetroChina Company Limited.

Mr. Liu Li is appointed as the Independent Director of CNPC Capital Company Limited.

#### (II) Supervisor

Mr. Gu Huizhong is appointed as an Independent Non-executive Directors of China Southern Airlines Co., Ltd.

Ms. Zhang Lili is appointed as a Director of Huaneng Invesco WLR(Beijing) Investment Fund Management Company Ltd.

#### (III) Senior Management

Mr. Ng Siu On has no longer served as a member of the Executive Committee of the Boys' and Girls' Clubs Association of Hong Kong.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

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

#### (I) Details of emoluments and shareholdings

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
		Emoluments	Other benefits	Total					
Peng Chun	Chairman of the Board of Directors and Executive Director	51.91	16.77	68.68	-	A share	150,000	0	150,000
						H share	50,000	0	50,000
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Yu Yali	Executive Director and Executive Vice President	46.72	16.33	63.05	-	A share	80,000	0	80,000
						H share	20,000	0	20,000
Hou Weidong	Executive Director and Executive Vice President	46.72	16.33	63.05	-	A share	80,000	0	80,000
						H share	20,000	0	20,000
Wang Taijin	Non-executive Director	67.20	15.90	83.10	-	A share	80,000	0	80,000
						H share	30,000	0	30,000
Song Guobin	Non-executive Director	22.40	7.57	29.97	-	A share	0	0	0
						H share	0	0	0
He Zhaobin	Non-executive Director	22.40	7.57	29.97	-	A share	0	0	0
						H share	0	0	0
Helen Wong Pik Kuen	Non-executive Director	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Liu Hanxing	Non-executive Director	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Luo Mingde	Non-executive Director	0	0	0	-	A share	0	0	0
						H share	0	0	0
Liu Haoyang	Non-executive Director	0	0	0	-	A share	0	0	0
						H share	0	0	0
Chen Zhiwu	Independent Non-executive Director	25	0	25	-	A share	0	0	0
						H share	0	0	0
Yu Yongshun	Independent Non-executive Director	0	0	0	-	A share	0	0	0
						H share	0	0	0
Li Jian	Independent Non-executive Director	25	0	25	-	A share	0	0	0
						H share	0	0	0
Liu Li	Independent Non-executive Director	25	0	25	-	A share	0	0	0
						H share	0	0	0
Jason Yeung Chi Wai	Independent Non-executive Director	25	0	25	-	A share	0	0	0
						H share	0	0	0
Raymond Woo Chin Wan	Independent Non-executive Director	2.39	0	2.39	-	A share	0	0	0
						H share	0	0	0
Song Shuguang	Chairman of the Board of Supervisors	51.91	18.27	70.18	-	A share	130,000	0	130,000
						H share	50,000	0	50,000
Gu Huizhong	Shareholder Representative Supervisor	0	0	0	-	A share	0	0	0
						H share	0	0	0
Zhao Yuguo	Shareholder Representative Supervisor	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Liu Mingxing	Shareholder Representative Supervisor	0	0	0	-	A share	0	0	0
						H share	0	0	0
Zhang Lili	Shareholder Representative Supervisor	0	0	0	-	A share	0	0	0
						H share	0	0	0
Wang Xueqing	External Supervisor	0	0	0	-	A share	0	0	0
						H share	0	0	0

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000)			Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
		Emoluments	Other benefits	Total					
Tang Xinyu	External Supervisor	0	0	0	-	A share H share	0 0	0 0	
Xia Zhihua	External Supervisor	0	0	0	-	A share H share	0 0	0 0	
Li Yao	External Supervisor	0	0	0	-	A share H share	0 0	0 0	
Chen Qing	Employee Representative Supervisor	85.34	15.03	100.37	-	A share H share	40,000 20,000	0 0	40,000 20,000
Du Yarong	Employee Representative Supervisor	84.05	15.03	99.08	-	A share H share	60,000 20,000	0 0	60,000 20,000
Fan Jun	Employee Representative Supervisor	82.86	15.03	97.89	-	A share H share	40,000 20,000	0 0	40,000 20,000
Xu Ming	Employee Representative Supervisor	83.33	15.03	98.36	-	A share H share	40,000 0	0 0	40,000 0
Shou Meisheng	Commissioner of Discipline Inspection	46.72	16.33	63.05	-	A share H share	79,100 20,000	0 0	79,100 20,000
Shen Ruijun	Executive Vice President	46.72	17.84	64.56	-	A share H share	0 20,000	0 0	0 20,000
Wu Wei	Executive Vice President and Chief Financial Officer	55.25	16.16	71.41	-	A share H share	46,000 20,000	0 0	46,000 20,000
Du Jianglong	Secretary of the Board of Directors	67.20	15.90	83.10	-	A share H share	80,000 0	0 0	80,000 0
Guo Mang	Corporate Business Director	84.02	20.03	104.05	-	A share H share	50,000 0	0 0	50,000 0
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	0	0	0	Yes	A share H share	0 30,000	0 0	0 30,000
<b>Directors, Supervisors and Senior Management resigned/retired</b>									
Niu Ximing	Former Chairman of the Board of Directors and former Executive Director	44.50	17.73	62.23	-	A share H share	210,000 180,000	0 0	210,000 180,000
Hu Huating	Former Non-executive Director	22.40	5.14	27.54	-	A share H share	80,000 30,000	0 0	80,000 30,000
Liu Changshun	Former Non-executive Director	44.80	10.49	55.29	-	A share H share	50,000 30,000	0 0	50,000 30,000
Peter Hugh Nolan	Former Independent Non-executive Director	22.61	0	22.61	-	A share H share	0 0	0 0	0 0
Yan Hong	Former Shareholder Representative Supervisor	0	0	0	-	A share H share	0 0	0 0	0 0
Wang Jiang	Former Executive Vice President	27.25	9.80	37.05	-	A share H share	0 30,000	0 (30,000)	0 0
Yang Dongping	Former Chief Risk Officer	7.27	1.37	8.64	-	A share H share	150,000 20,000	(33,000) (20,000)	117,000 0

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

### Notes:

1. In 2017, the remunerations of Directors with central management, Supervisors and Senior Management were strictly determined in accordance with specifications of central financial enterprise remuneration measurement for person in charge. According to related regulations, the final remuneration of them in 2017 are now subjected to be confirmed; and the rest of which will be disclosed when confirmed.
2. The Bank's Employee Representative Supervisors received their remuneration as employees, and did not receive any remuneration as Employee Representative Supervisors.
3. The above equity changes are all buy-ins or sell-outs in the secondary market.
4. As the table above illustrating during the Report Period, total taxable emoluments received by the Directors, Supervisors and Senior Management (excluding those who resigned or retired) were RMB12.9226 million.

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

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

The remuneration decision-making process for Directors, Supervisors and Senior Management: According to the corporate governance procedure, the remuneration plan for Directors and Senior Management is drafted by Personnel & Remuneration Committee and is submitted to the Board of the Directors for review. Among which the Directors' remuneration is required to be submitted to the General Meeting for approval; the Supervisors' remuneration is submitted to the Board of Supervisors for approval by Nomination and Remuneration Committee of the Board of Supervisors. After the approval by the Board of Supervisors, such plan is submitted to the Shareholders' General Meeting for final approval.

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

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

## VII. HUMAN RESOURCE MANAGEMENT

### (I) Basic Information of Employees

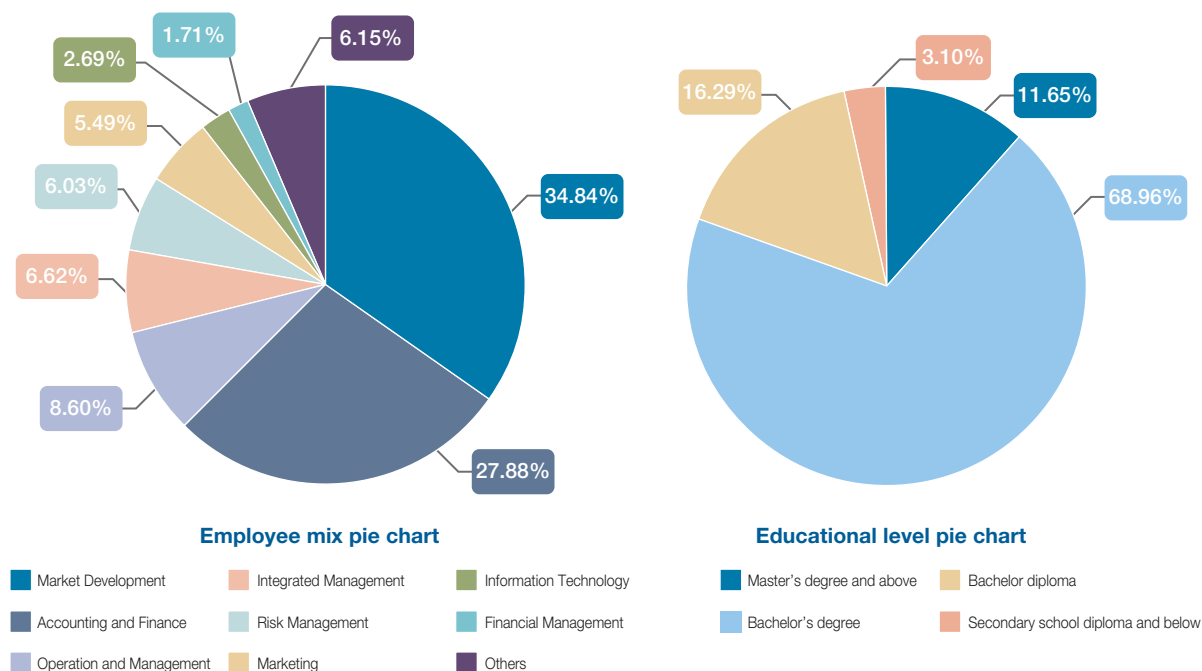
As at the end of the Reporting Period, the Bank had a total of 91,240 domestic and overseas employees, of which 88,906 employees were based domestically and 2,334 were local employees in overseas branches. There were 2,877 employees in the Bank's major subsidiaries.

	Head Office	Northern China	Eastern China	Central and Southern China	Western China	North Eastern China	Overseas
Number of employees	2,729	11,334	37,757	17,947	9,951	9,188	2,334

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

Among employees in domestic institutions, 31,853 employees hold professional and technical qualifications, of which 546 employees hold senior professional and technical qualifications, accounting for approximately 0.61%; 16,493 employees hold intermediate professional and technical qualifications, accounting for approximately 18.55%; and 14,814 employees hold junior professional and technical qualifications, accounting for approximately 16.66%.

As at the end of the Reporting Period, the number of retired employees the Bank had obligation to bear the cost to was 2,640.



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

### (II) Remuneration Policy

Under the requirement of the State's deepening reform, the Bank actively carried out the assessment of employment, remuneration and performance under the remuneration management system which is "based on Positions, as well as Integrating Position Value and Performance Value", adhered to giving priority to efficiency and giving consideration to fairness as well, optimized the allocation of remuneration resources, improved the efficiency of resource allocation; insisted on performance-oriented distribution according to work; actively explored the market-based assessment distribution model and stimulated innovation and vitality of basis units. Based on the risk accountability system, the Bank continued to improve the deferred payment system for the performance based incentives of the employees in key positions on corporate governance and risk management for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits such as annuity.

### (III) Performance Management

In response to the deepening reform in employment, remuneration and performance measurement with strategy oriented objectives, the Group further optimized the performance evaluation system and assessment procedures. The Group focused on profit-oriented performance measurement principle, enhanced synergy of performance measurement among business units, guided management departments to strengthen service support, and implemented an integrated performance measurement system across operating units of the Group. The Group continuously improved assessment of professional manager, optimized double dimension assessment model of "employment period and annual work" and emphasized on more restricted incentives for the key position staff. Based on product profitability and electronic performance measurement platform, and directed by the strategy, the Group clearly recorded and showed the employees' performance, which fully motivated the employees.

### (IV) Training Management

The Group sincerely implemented the educational training requirements of the Party Committee of the State and the Head Office, fully implemented the spirit of the 19th National Congress of the Communist Party of China, and thoroughly Xi Jinping Thought on Socialism with Chinese Characteristics for a new era and the constructing working spirit of state-owned enterprises, closely focused on the deepening reform, transformation and development, strictly followed the tasks of the Party, actively followed the studies on the theoretical and practical issues of Party building, implemented construction plan of the "13th Five-Year" education and training system, adhered to the fundamental Party principle of the Party School, highlighted political theory and Party education, and implemented the specialized workshops of "carrying forward the spirit of Jinggang Mountains" for the person in charge, the specialized workshops of Party building for newly-appointed secretary of the Party Committee and Main class of Party School for employees from the institutions under the bank with deputy positions and middle-aged management.

The Bank provided professional ability trainings, held strategic thinking and decision-making trainings for persons in charge from institutions under the Bank, held HSBC special management trainings and young and middle-aged talent pilot programs; continued to carry out the "talent plan", "youth talents", held trainings for management trainees, and pre-job trainings for new senior managers and persons in charge from basis

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

level business institutions; firstly implemented trainings for the presidents of the branch; held a total of 22 series trainings for 940 experts from 13 lines such as companies, financial institutions, international business, small enterprises and personal banking services. The Bank also implemented 13 series trainings for 673 elite customer managers from companies, financial institutions and small enterprises; started “home” training for overseas employees working in overseas subsidiaries; held a knowledge and skill competition named “new generation • new dream • new style” for new employees, and “Creation Cup” mini competition.

During the Reporting Period, the Bank organized trainings for nearly 1.1 million staffs from different levels and departments, centralized trainings for over 400,000 staffs and online trainings for over 700,000 staffs. The Group also developed over 4,600 online courses. Staff satisfaction rate of major project courses was around 97.4%. The training system was basically set up. The Simulation Bank successfully went on-line, and the Finance College of Bank of Communications was established, which strengthened the qualifications of teachers, courses, and construction of bases, promoted the construction and sharing of high-quality training resources, and steadily improved the quality of training with various training methods and achievements.

### (V) Talent Training and Reserve

The Group continued to carry out the cultivation of expert talents. The Group formulated the *Administrative Measures for the Appointment of Experts in BoCom*. According to this regulation, the Group clarified the job responsibilities, position system, qualifications, salary standards, recruitment process and assessment management of all the experts. In addition, the Group improved the training system and explored the training mode of “online course, field teaching, and on-job practice”. Furthermore, the Group innovated appraisal way, focusing on “performance + capacity + qualification”, and built the evaluation templates of talents, including professional qualifications, performance, achievements and contribution of real achievement. For next step, the Group established the evaluation process of basic recommendations, first trial in line of department and joint conference between organization department and lines of department. During the Reporting Period, the Bank promoted nearly 200 specialists in Head Office and other branches. The Bank implemented intensive training and on-job practice for 800 reserve talents in 12 periods and accumulated talent pool of 2,200 talents.

The Group continuously reinforced to develop talent cultivation and reserve for overseas institutions. Under the strategy of internationalization and BoCom Talent Reserve Five-Year Plan for Overseas Institutions, considering the overseas business development layout, the Group continued to promote the construction of C/B grade reserve talent team in overseas institutions and the international reserves team in order to strengthen the cultivation of talents who are professional in risk compliance and minority language. In addition, the Group also optimized the structure of international talent team and met the demand for talents in overseas institutions at all levels and internationalization. The Group had completed the selection and training of more than 130 international talents, and sent about 50 talents in different kinds of professional and minor language to overseas institutions during the years of 2016 and 2017.

### (VI) Employee Pension Scheme

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



# REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year 2017.

## (I) PRINCIPLE ACTIVITIES

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

A fair review of the Group's business and analysis using financial key performance indicators, a description of the principal risks and uncertainties facing the Group, and discussion of likely future development in the Group's business are set out in the section headed "Management Discussion and Analysis" in this report. Important events affecting the Group that have occurred since the end of the Reporting Period are set out in the section headed "Significant Events" in this report.

## (II) SUMMARY OF FINANCIAL INFORMATION

Summary of the operating performance, assets and liabilities for the last five years is set out in the section headed "Financial Highlights".

## (III) RESULTS AND PROFIT DISTRIBUTION

1. The operating performance of the Group during the Reporting Period is set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 166.
2. Details on the Group's undistributed profits as at the end of the Reporting Period are set out in Note 34 of the Consolidated Financial Statements.
3. Details of ordinary share dividend distributions for the last three years are as follows:

*(in millions of RMB unless otherwise stated)*

Year of dividend distribution	Number of bonus shares for every 10 shares (share)	Cash dividends per 10 shares (before tax, RMB)	Number of conversion for every 10 shares (share)	Amount of cash dividends (before tax)	Net profit	Proportion in net profit distributable to shareholders of listed companies in the consolidated statements (%)
					distributable to shareholders of listed companies in the consolidated statements for the year of dividend distribution	
2017	-	2.856	-	21,209	70,223	30.20
2016	-	2.715	-	20,162	67,210	30.00
2015	-	2.70	-	20,051	66,528	30.14

Note: The dividend distribution plan of the Group for the year of 2017 will be subject to the consideration and approval of the Shareholders' General Meeting. There was no proposal or plan of the Group regarding conversion of capital reserve to share capital in the last three years.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

4. Details of preference share dividend distributions are set out in the section headed “Dividend Distributions of Preference Shares” in this report.
5. The formulation, implementation or adjustment of the cash dividend policy

The Articles of Association clearly stated that the Bank may distribute dividends in cash or shares. The profit distribution of the Bank should focus on the reasonable return for investors, and the profit distribution policy should maintain its continuity and stability; unless under special circumstances, the Bank should distribute dividends mainly in cash if it records profit in the year and the accumulated undistributed profits are positive. The total profit distributed in cash for each year should not be less than 10% of the net profit that are available to distribute to shareholders of the Bank.

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

### (IV) CAPITAL RESERVE

Details on the movements of capital reserve of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on Page 168.

### (V) CHARITABLE DONATIONS

Charitable donations made by the Group during the Reporting Period amounted to RMB25.9122 million.<sup>1</sup>

### (VI) FIXED ASSETS

Details of changes in the Group’s fixed assets during the Reporting Period are set out in Note 23 to the Consolidated Financial Statements.

### (VII) PUBLIC FLOAT

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

### (VIII) DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS

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

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<sup>1</sup> Including personal donations of employees.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

Other than the service contract, during the Reporting Period or as at the end of the Reporting Period, neither the Bank's Directors or Supervisors, nor their connected entities had any direct or indirect material interests in any transactions, arrangements or contracts of significance set up by the Bank or any of its subsidiaries.

### (X) MANAGEMENT CONTRACT

During the Reporting Period, the Bank neither entered into nor held any contracts concerning the management and administration of the whole or any substantial part of the Bank's businesses.

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

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

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

Details are set out in the section headed "Remuneration Decision-making Process and the Deciding Factors" on page 105 of this report.

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

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

### (XIV) PURCHASE, SALE OR REPURCHASE OF LISTED SECURITIES OF THE BANK

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

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

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

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

During the Reporting Period or as at the end of the Reporting Period, the Bank or its subsidiaries did not enter into any agreements or arrangements which enabled the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other legal entities.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

### (XVII) MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the 5 largest customers of the Group accounted for less than 30% of the Group's total interest income and other operating income.

### (XVIII) CONTINUING CONNECTED TRANSACTIONS

1. The Interbank Transactions Master Agreement (hereinafter referred to as "the Agreement") and its renewals

The Group has regularly engaged in various transactions in the normal course of banking businesses with HSBC Group, including but not limited to the interbank loan and borrowing transactions, the transactions of bonds, money market, foreign currency and swaps and options. To regulate the continuing transactions mentioned above, the Bank has entered into the Agreement with HSBC in 2005, which was subsequently renewed in 2008, 2011 and 2014, respectively.

On 28 April 2017, the Bank and HSBC have renewed the Agreement in relation to continuing connected transactions mentioned above for the period of three years, starting from 1 June 2017 to 31 May 2020.

There was no fixed price or rate for the transactions under the Agreement. However, the parties agree that when conducting transactions in accordance with the Agreement, where there are applicable laws or regulations or promulgations by or notices from applicable regulatory authorities fixing the prices or rates, such fixed price or rate shall be adopted. Where there is no fixed price or rate, for open market transactions, reference will be made to the prevailing market prices and it shall be determined on an arm's length basis and on normal commercial terms. For other types of transactions, it shall be determined, on an arm's length basis and on normal commercial terms, and with reference to the prices or rates the parties would quote to each other or to independent counterparties (of equivalent credit worthiness as the parties) with respect to the particular type of transaction concerned (if applicable) and the risk management policies of both parties with respect to the transactions concerned.

HSBC is a substantial shareholder of the Bank; therefore, HSBC together with its subsidiaries are all connected persons of the Bank.

During the period from 1 January 2017 to 31 May 2017, the continuing connected transactions under the Agreement did not exceed their respective caps: (1) the realized gains and losses and the unrealized gains and losses (depending on the situation) arising from the non-exempt continuing connected transactions did not exceed RMB3.29 billion; (2) the fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) did not exceed RMB5.833 billion.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

During the period from 1 June 2017 to 31 December 2017, the continuing connected transactions under the Agreement did not exceed their respective caps: (1) the realized gains and losses and the unrealized gains and losses (depending on the situation) arising from the non-exempt continuing connected transactions did not exceed RMB5.66 billion; (2) the fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) did not exceed RMB11.492 billion

2. During the Reporting Period, the Balance of Transactions between the Group and HSBC Group are as follows:

- (1) As at the end of the Reporting Period, the aggregated balance of deposits placed with loans made to the HSBC Group by the Group were RMB10.75 billion; the aggregate bond investments balance were RMB3.703 billion; the interest income arising from these deposits, loans and bond investments were approximately RMB128 million in 2017. The aggregated balance of deposits placed with, loans and precious metal made to the Group by HSBC Group were RMB10.806 billion; the interest expenses arising from deposits, loans and precious metal were RMB175 million.
- (2) As at the end of the Reporting Period, the Group recorded the derivative transactions in nominal principle with HSBC Group off-balance sheet amounted to RMB163.191 billion; the balances of the derivative assets and derivative liabilities were RMB2.399 billion and RM1.449 billion respectively; the net loss arising from the derivative transactions were RMB338 million in 2017.

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

3. Independent Non-Executive Directors' Annual Review of the Non-Exempt Continuing Connected Transactions

Upon detailed review of the continuing connected transactions in 2017, all of the Independent Non-executive Directors of the Bank considered that the continuing connected transactions are as follows: (1) in the ordinary course of businesses of the Group; (2) under normal or more favorable commercial terms; and (3) in accordance with the Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

The auditors have issued a letter to the Board of Directors in respect of the continuing connected transactions in 2017 confirming the follows: (1) the non-exempt continuing connected transactions were approved by the Board of Directors; (2) the non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank; (3) the non-exempt continuing connected transactions were conducted in accordance with the terms of the Agreement; (4) the actual transaction amount of the non-exempt continuing connected transactions in 2017 did not exceed their respective caps.

5. The Bank has confirmed that the specific agreements under the continuing connected transactions during the Reporting Period were entered into and executed in accordance with the pricing principles pertaining thereto.

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

### (XIX) ISSUANCE OF SHARES AND DEBT SECURITIES

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

### (XX) PERMITTED INDEMNITY PROVISION

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



## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

### (XXI) ENVIRONMENT POLICIES AND PERFORMANCE

Please refer to the section “Corporate Social Responsibilities” in this report for the details.

### (XXII) COMPLIANCE WITH LAWS AND REGULATIONS

The Group needs to comply with the laws and regulation, mainly including *Company Law of the People’s Republic of China*, *Commercial Bank Law of the People’s Republic of China*, *Contract Law of the People’s Republic of China*, *Property Law of the People’s Republic of China*, *Labor Law of the People’s Republic of China*, *Banking Supervision Law of the People’s Republic of China*, *Implementation Measures of the China Banking Regulatory Commission for the Administrative Licensing Items concerning Chinese-Funded Commercial Banks*, domestic and overseas law and exchange regulation (i.e. *Securities Law of the People’s Republic of China*, *Stock Listing Rules of the Shanghai Stock Exchange*, *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*, *Securities and Futures Ordinance (CAP.571)*) and aforementioned laws, regulations and rules.

The Group ensures adhering to the laws, regulations and legal documents (especially those having significant impacts on the business) through internal controls, compliance management, business inspection and employee training. The Group will notify related employees and operating teams if there are any changes in business-related laws, regulations and legal documents.

During the Reporting Period, to the knowledge of the Bank’s Directors, the Group had no violation of related laws and regulations which will have significant effects on the Group.

## REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

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

Emphasizing on supplier selection, the Group encourages fair and public competition and intends to establish the long-term cooperation relationship with high quality suppliers based on mutual trust. Based on the core value of integrity, the Group devotes to providing better financial services and creating a reliable service environment for customers. During the Reporting Period, the Group had no important and material dispute with its suppliers/or customers.

### (XXIV) LIST OF DIRECTORS

List of Directors during the Reporting Period and as at the date of this Annual Report (unless otherwise stated) is set out in the section headed "Members of the Board of Directors" in the report.

The aforementioned sections, reports and notes form an integrated part of the Report of the Board of Directors.

By order of the Board of Directors

*Chairman*

**Peng Chun**

29 March 2018

# REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors of the Bank aimed at protecting the legitimate rights of the commercial bank, shareholders, employees, creditors and other stakeholders, based on the regulations from *the Guidelines on the Corporate Governance of Commercial Banks*, *the Guidelines on the Duties of the Board of Supervisors of Commercial Banks*, and the Articles of Association. The Board of Supervisors serves its supervision functions in accordance with the laws and regulations, objectively and fairly, scientifically and efficiently. The report of our work is as follows:

## I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS.

(I) Continued to strengthen the operation system of the supervision of the Board of Supervisors

During the Reporting Period, the Board of Supervisors comprehensively deepened the regular supervision and special supervision. The Board of Supervisors also promoted and established a dynamic supervision mechanism and mechanism of Supervision and Coordination Committee, forming a “four-in-one” supervisory system of the Board of Supervisors.

1. Implemented the regular supervision comprehensively, covered the key areas of corporate governance and operation management. The Board of Supervisors of the Bank comprehensively promoted the interviews for supervision as the major method of the regular supervision. The Board of Supervisors inseparably combined the strategy and operation, capital and finance, internal controls and compliance, risk and other aspects of management; selected key businesses and institutions to carry out interviews for supervision; timely identified and managed the key issues of comprehensive corporate governance, operating governance and institution governance as well as the new situation of operation and management; strengthened the follow-up action of evaluations and opinions on supervision; and continuously enhanced the depth of supervision. During the Reporting Period, the Board of Supervisors of the Bank conducted 19 interviews for supervision, including 6 line departments, 4 direct operating institutions, 2 subsidiaries and 7 provincial branches, to actively speed up the strategic transformation of the whole Bank, strengthen the risk control and maintain a steady growth.

2. Developed the in-depth special supervision, strengthened the ability to follow up key issues. The Board of Supervisors of the Bank paid close attention to the regulatory environment of “strong supervision and strong accountability”, strengthened the study of related policies and focused on key, prominent and major specific issues, in order to develop the in-depth special supervision; in respect of the management mechanism of the Bank, the Board of Supervisors conducted special supervision and analysis on customer development strategy, inspiration of operation vitality of the provincial branches, strengthening of the marketing function of operating outlets at basic level, building several key business brands of the Bank and the risk management mechanism of the whole Bank; in respect of the strategic transformation, the Board of Supervisors conducted special interviews and analysis on international business strategies, private banking development strategies and asset management businesses; in respect of the major risk, special supervision and analysis were conducted on customers of large scale private enterprises and groups, large amounts of credit risk exposures, risk management of rural banks, bond investment, risks of new loan and information disclosure of listed banks.

## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

3. Constructed the platform of dynamic supervision, formed a complete chain of supervision work. During the Reporting Period, the Board of Supervisors of the Bank established a dynamic supervision mechanism under the foundation of current regular supervision and special supervision, to add the important, underlying and systematic issues discovered in daily observation, analysis and supervision into the scope of supervision and implemented continuous follow-up, evaluation and supervision, which effectively enhanced the comprehensiveness, systematization and timeliness of the supervision work. Dynamic supervision, current regular supervision and special supervision complemented each other, thus forming a complete chain of the Board of Supervisors, which means that the focus point of supervision was determined according to close combination between the dynamic supervision and daily supervision; dynamic supervision provided information sources and support for other supervision activities, and conducted interviews for supervision or special supervision for relevant businesses, departments or institutions if appropriate; combined dynamic supervision with other supervisory activities at the end of each year, and evaluated the main content of supervision, so as to build up the important foundation of duty performance evaluation and supervision of the work plan of the Board of Supervisors in the next year.

4. Complied with the platform of the Supervision and Coordination Committee, exerted the supervision of the whole Bank. In order to further strengthen and improve the supervision work of the Bank, the Chairman of the Board of Supervisors of the Bank established the Supervision and Coordination Committee, according to the spirit in the BoCom's Plan to Strengthen Reformation. The Committee is the coordinating institution for the supervision work of the whole Bank and an important platform for the Board of Supervisors to fulfill the responsibilities of risk prevention and supervision of compliant operations. It is also a bridge connecting the work of the Board of Supervisors and the work of the whole Bank. The Committee mainly studies and discusses the circumstances of supervision of the governance level and major issues, actively promotes corrective actions and endeavors to prevent all kinds of systemic risks. During the Reporting Period, the Supervision and Coordination Committee held 2 meetings to discuss and supervise some important contents such as further improvement and completion of the risk management mechanism, strengthening the risk management and control of subsidiaries and operating institutions at basic level and focusing on the continuous improvement and optimization of business structure throughout the whole Bank's strategy.

## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

(II) Continuously strengthened supervision work in all major areas.

1. Started the systematic and in-depth strategic supervision. First, the Board of Supervisors focused on the reform and transformation of the whole Bank, analyzed outstanding issues that restricted the development of reformation and strategic transformation of the whole Bank, enhanced the quality of the customer management of the whole Bank, stimulated the vitality of basic-level operations and highlighted the advantages of strategic brands. Second, it focused on the implementation of “BoCom Strategy”. It focused on supervising international business development of the whole Bank, business synergies between subsidiaries and the Group, business structure and risk management capabilities of subsidiaries, private banking business and asset management business. Third, it focused on the sub-strategy implementation. It analyzed the implementation of sub-strategies such as corporate, retail and interbank business, prompting attention to issues such as business positioning, market development and high-quality customer ratio in some sections. Fourth, it paid attention to the implementation of strategic support measures. It analyzed the problems in the implementation of strategic support from the perspectives of management of internal capital pricing, resource allocation, transformation of outlets at basic level and construction of online finance.

2. Continued to carry out supervision work on capital and finance. First, the Board of Supervisors conscientiously carried out routine supervision of financial management. It continued to pay attention to the decision-making and execution of major financial matters, the adjustment of assets and liabilities structure and the operation of the restricted incentives mechanism. Second, it carried out financial supervision and analysis quarterly. It carried out comparison of the history of major financial indicators, peer comparison and structural analysis to check the authenticity, accuracy and completeness of financial reports. The Board of Supervisors also paid high attention to the achievement of regulatory indicators and analyzed the business development and risk management of the whole Bank. Third, it conducted interviews for supervision on the budget financial management of the whole Bank, involving the aspects of capital management, performance appraisal and financial expenses management. Fourth, it constructed the mechanism of regular communication with external auditors. It had regular communication focusing on formulation and implementation of the audit plan with external auditors. It also strengthened the timely communication at the working level.

3. Highlighted and strengthened the internal control and risk supervision.

**First**, the Board of Supervisors carried out the risk management mechanism and system supervision of the whole Bank. In respect of the risk management of the whole Bank, the Board of Supervisors conducted supervision on the aspects of risk and internal control management structure, the effectiveness of major business processes, management of risk from its source and unified credit authorization management. In respect of the operating governance, it systematically analyzed the management of industries, customers and products as well as the controls of key management. In respect of the institution governance, it focused on the leadership of the operating institutions, business development ideas, customers and business structure, credit authorization and risk independence, team building and branches management.

## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

**Second**, the Board of Supervisors strengthened the supervision of key operating institutions. It supervised the institutions with more prominent asset quality problems, analyzed the prominent problems in the characteristics of operation and management as well as risk internal control and management of relevant institutions, pointed out that the branches should set up correct business guiding ideas, did well in long-term planning, continuously promoted optimization of customers structure and business structure, adhered to the compliance with laws and regulations, strengthened internal controls and risk controls, and enhanced the level of integrated management of provincial branches or subsidiaries.

**Third**, the Board of Supervisors strengthened the supervision of key businesses. It supervised the credit risk management of the whole Bank, with emphasis on credit risk control measures, large amount of exposure of risks, disposal and resolution of risk assets, team construction of risk managers, risk measurement and stress testing; it supervised the management of credit authorization of the whole Bank, focusing on existing problems, such as loan quality, credit structure, basic credit authorization and institutional mechanism; it supervised the financial market business, focusing on the problems of bond duration management, management of passive bond holding and credit risk default; it supervised the market and liquidity risk management of the whole Bank, suggested to strengthen the strategic guidance of the whole Bank's overall liquidity, enhanced the forward-looking layout and dynamic management capabilities, and safeguarded the safety of liquidity of the whole Group from a macro-prudential perspective.

**Fourth**, the Board of Supervisors paid attention to the whole Bank's internal control and compliance management. It focused on supervising the design, construction and operation of the whole Bank's internal control management system and the strategic and systemic issues in its internal control management. It conducted interviews for supervision on internal audit work, regularly reviewed internal audit reports, timely grasped the audit work plans, key points of works, key audit findings, and guided the internal audit work in an efficient manner. It paid high attention to compliance management of the whole Bank, added the regulatory compliance indicators from People's Bank of China and the CBRC into dynamic supervision, and focused on compliance management of anti-money laundering of the whole Bank and overseas institutions.

4. Implemented information disclosure of special supervision. The Board of Supervisors conducted special supervision on annual information disclosure and focused on information disclosure work such as regular reports, interim reports, major information reports and related-party transactions reports. It also proposed that information disclosure of the whole Bank should be further regulated from the aspects of system construction, information submission mechanism and individual operation. Integrating the supervisory opinions of the Board of Supervisors, the Board of Directors revised and improved the *Administrative Measures for the Information Disclosure*, and the Senior Management revised and improved the *Administrative Measures for the Significant Information in Internal Reports* and the *Administrative Measures for Significant Information in Reports of Subsidiaries*, which effectively regulated the whole Bank's information disclosure.

## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

5. Enhanced the comprehensiveness and pertinence of performance supervision. **First**, the Board of Supervisors achieved the full implementation of track of duties of the Board of Directors and the Senior Management. It timely and comprehensively grasped the main duties of each Director and Senior Managers, and formed the performance supervision records of Directors and Senior Managers. **Second**, the daily supervision and performance supervision were connected closely. On the basis of full understanding of the performance of Directors and Senior Management, with the combination of features of the duties and professional characteristic of each Director and Senior Manager, the important problems discovered by daily supervision were decomposed into the performance evaluation of the corresponding Directors and Senior Managers, and enhanced the pertinence of performance supervision to effectively follow up and promote the rectification of key issues. **Third**, it performed interviews with Directors and Senior Managers. It listened to the briefings of Directors and Senior Managers on their performance of duties, problems existing in their work in the whole Bank or departments, and suggestions on work of the whole Bank. It discussed the issues that need to be studied and concerned about their scope of responsibilities and face-to-face communicated with the initial performance evaluation of the Board of Supervisors. **Fourth**, it strictly followed the requirements to evaluate, give feedback and report. In the meetings of the Board of Directors, it presented to the Board of Directors, Senior Management about the *Opinions from the Board of Supervisors on the Performance Duties of the Board of Directors and Senior Management*; it gave the written feedback on the performance evaluation and suggestions to the Directors and Senior Managers; it gave opinions, in accordance with the requirements, to the supervision department and Shareholders' General Meeting about the evaluation on performance about the Board of Directors and Senior Management and its members. As at the evaluation date, there were 19 Directors and Senior Managers who have been appointed for over 6 months of the Bank. Their evaluation is divided into three categories, namely "competent", "basically competent" and "not competent". The Board of Supervisors evaluated 18 Directors and Senior Managers as "competent" and 1 Director as "basically competent."

(III) Effectively improved the efficiency of meetings of the Board of Supervisors.

During the Reporting Period, the Board of Supervisors of the Bank held 4 meetings, discussed 21 resolutions, and reviewed 9 reports with specific topics; it held 7 meetings of Special Committees under the Board of Supervisors, and discussed 25 resolutions and reports. The operation of the meeting was standardized and efficient, effectively promoting the improvement of corporate governance throughout the whole Bank. **First**, the coverage of the conference was continuously expanded. In addition to the regular issues such as regular financial reports, special issues such as strategic transformation, management system and internal risk control were discussed; oversight of related party transactions was conducted in the meetings of the Board of Supervisors for the first time and reviewed the *Proposal of Renewing the Agreement of Interbank transaction with HSBC*; the review of work system of the Board of Supervisors was strengthened. **Second**, the depth of reviewing topics was increased. The topics of the meeting focused on professionalism and made a full use of the results of regular supervision, special supervision and dynamic supervision to thoroughly analyze the problems existing in corporate governance, strategic aspects and internal risk control of the Bank. It focused on the transformation and development of retail segment, interviewed for supervision focusing on individual finance and channel business were carried out. **Third**, Special Committees gave full play of their roles. According to the division of responsibilities of the Special Committees, the Board of Supervisors



## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

deliberated the issues separately in the various Committees for discussion and study, earnestly listened to and fully adopted the suggestions made by the Committees to further enhance the reviewing quality of the Committee. **Fourth**, the Supervisors performed their duties conscientiously and attended the meeting actively. During the Reporting Period, the attendance of the Supervisors in person was 91.7%.

(IV) Constantly improved the mechanism of the Board of Supervisors.

**First**, the Bank revised the contents of the Article of Association concerning the Board of Supervisors, sorted out the supervisory responsibilities of the Board of Supervisors in accordance with the regulatory requirements, clarified the structure of the Board of Supervisors and new requirements for duty performance, determined the main responsibilities of various Special Committees and continued to improve the corporate governance of the Bank. **Second**, it amended the implementation measures of performance supervision and evaluation for the Board of Directors, Senior Management and its members, determined the content, methods and procedures of the performance supervision and evaluation, combined the performance supervision and evaluation of the system, remedied the evaluation system for the Board of Directors and Senior Management. According to the work practices, the contents and procedures of performance supervision and evaluation were adjusted and optimized. **Third**, it formulated the implementation measures for financial supervision, clarified the contents and priorities of financial supervision, the main methods of supervision, the reporting process and the evaluation system so as to further improve the efficiency and quality of financial supervision. **Fourth**, it formulated the implementation measures for the supervision of information disclosure, clarified the contents and priorities of information disclosure supervision, implementation procedures, evaluation criteria and so on, and guaranteed information disclosure in accordance with laws and regulations.

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

### 1. Compliance with Applicable Laws.

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

### 2. Truthfulness of the Financial Statements.

The financial statements truly and fairly presented the financial position and financial performance of the Group. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have respectively issued unqualified auditor's report on the Group's financial statements for the year of 2017 and the Board of Supervisors has no objection to the report.

### 3. Use of Proceeds Raised.

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

## REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

### 4. Acquisition and Disposal of Assets by the Bank.

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

### 5. Related Party Transactions.

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

### 6. Implementation of Information Disclosure.

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

### 7. Related Deliberations.

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

The Bank attached significant importance to the development of its internal control system, with continuous enhancement made to perfect its internal control systems. The Board of Supervisors had no objection to the *Internal Control Self-Appraisal Report for 2017* of the Bank.

The Bank vigorously performed its corporate social responsibility. The Board of Supervisors had no objection to the *Corporate Social Responsibility Report for 2017* of the Bank.

By order of the Board of Supervisors

*Chairman*

**Song Shuguang**

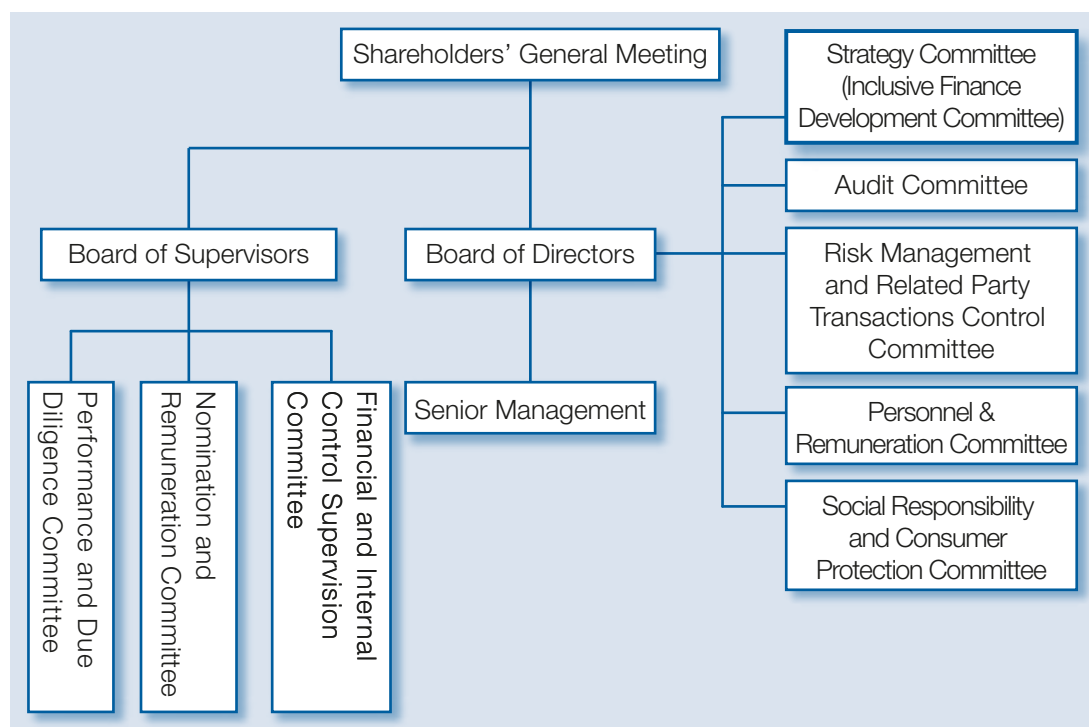
29 March 2018

# CORPORATE GOVERNANCE REPORT

Sound corporate governance is the system guarantee for sustainable development and the key for prudent operation of a commercial bank. Targeting at becoming the “Best Bank in Corporate Governance”, the Bank adheres to the key initiative of enhancing the standardization and efficiency of its corporate governance in order to promote in-depth reform and transformation development. During the Reporting Period, based on the structure of “the Shareholders’ General Meeting, the Board of Directors, the Board of Supervisors and Senior Management”, the Bank has fully performed the core leadership role of the Party by exploring new ways for the effective combination of the Party’s leadership and modern corporate governance, completing the decision-making process of corporate governance for adoption of party building into Articles of Association successfully, clarifying the legal status of the Party’s organization in the governance structure, and establishing “the core leadership by the Party Committees, strategic decision-making by the Board of Directors, the legal supervision by the Board of Supervisors, and the full authority of Senior Management”, which are effectively balanced and coordinated corporate governance mechanisms for large-scale commercial banks with Chinese characteristics, to protect the legitimate rights and interests of shareholders and other stakeholders. The corporate governance of the Bank strictly abides by the *Company Law*, the *Securities Law* and the requirements stipulated by the CSRC.

## I. CORPORATE GOVERNANCE STRUCTURE

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



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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### II. POLICY AND MECHANISM OF CORPORATE GOVERNANCE

During the Reporting Period, the Board of Directors and Strategic Committee of the Board of Directors (Inclusive Finance Development Committee) actively fulfilled the responsibilities of corporate governance, examined and evaluated the execution of corporate governance in due course and continuously moved forward the establishment of the corporate governance policy and mechanism. During the Reporting Period, the first Extraordinary General Meeting of the Bank in 2017 approved the revision of the Articles of Association and added the Party building work as the general requirements. The Bank also clarified the authority and working style of the Party organizations in decision-making, execution and supervision. In addition, with the aim of more standardized corporate governance system of the Bank, the Shareholders' General Meeting and the Board of Directors revised a series of rules and regulations, such as the *Procedural Rules of the Shareholders' General Meeting*, the *Procedural Rules of the Board of Directors*, the *Work Procedures for Independent Directors* and the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares*. In addition, the Board of Directors revised the *Rules of Work of the Strategic Committee of the Board of Directors (Inclusive Finance Development Committee)* and the *Rules of Work of Risk Management and Related Party Transactions Control Committee* in a timely manner, to further clarify the vesting responsibilities such as inclusive finance and anti-money laundering risk management and refined the assignments of duties and authorities of Special Committees under the Board of Directors, to continuously enhance the effectiveness of corporate governance.

### III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

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

Pursuant to the Articles of Association, shareholders have the right to obtain relevant information, including the Articles of Association, status of the share capital, minutes of the Shareholders' General Meetings, resolutions of meetings of the Board of Directors, and resolutions of meetings of the Board of Supervisors. Shareholders can also make enquires to the Board of Directors through the contact person and contact information set out in the section headed "Corporate Information" of this Report.

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

During the Reporting Period, the Bank held 1 Annual General Meeting and 1 Extraordinary General Meeting. All resolutions passed at Shareholders' General Meetings were fully executed. The resolution announcements for all Shareholders' General Meetings has been disclosed on the websites of SSE, HKEX News and the Bank, and published in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*.

On 22 June 2017, the Bank held the 2016 Annual General Meeting in Shanghai, at which 13 proposals was reviewed and approved, including *2016 Work Report of the Board of Directors*. On 27 October 2017, the Bank held the 2017 first Extraordinary General Meeting in Shanghai, at which 7 proposals were reviewed and approved, including *Proposal on the Amendments to "Articles of Association of Bank of Communications Co., Ltd."*.

### Summary of Shareholders' General Meetings

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2016 Annual General Meeting	22 June 2017	13 proposals including <i>2016 Work Report of the Board of Directors</i>	Passed	Disclosed on the official website of the Bank at <a href="http://www.bankcomm.com">www.bankcomm.com</a> , SSE website at <a href="http://www.sse.com.cn">www.sse.com.cn</a> and website of Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> .
2017 first Extraordinary General Meeting	27 October 2017	7 proposals including <i>Proposal on the Amendments to "Articles of Association of Bank of Communications Co., Ltd."</i>	Passed	Disclosed on the official website of the Bank at <a href="http://www.bankcomm.com">www.bankcomm.com</a> , SSE website at <a href="http://www.sse.com.cn">www.sse.com.cn</a> and website of Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> .

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

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

The Bank understands and recognizes the importance of diversification of members of the Board of Directors, which the Bank regards as a key supporting factor for improving the corporate governance and achieving the sustainable development of the Bank. During the process of selecting and appointing members of the Board of Directors, adequate consideration should be given to diversity, and a comprehensive assessment of the capabilities, skills, experience and background of the candidates is required to make an objective evaluation of their potential contributions to the Bank, to ensure the Board of Directors have diversified points of views in due course, resulting in the best matching between the members of the Board of Directors and the strategic development of the Bank. The term of office of the Directors of the Bank is 3 years. Directors can be re-elected upon expiry of the term of office.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

As at the end of the Reporting Period, the Board of Directors comprised 18 members, including 4 Executive Directors, namely Mr. Niu Ximing, Mr. Peng Chun, Ms. Yu Yali and Mr. Hou Weidong; 8 Non-executive Directors, namely Mr. Peter Wong Tung Shun, Mr. Wang Taiyin, Mr. Song Guobin, Mr. He Zhaobin, Ms. Helen Wong Pik Kuen, Mr. Liu Hanxing, Mr. Luo Mingde and Mr. Liu Haoyang; and 6 Independent Non-executive Directors, namely Mr. Chen Zhiwu, Mr. Yu Yongshun, Ms. Li Jian, Mr. Liu Li, Mr. Jason Yeung Chi Wai and Mr. Raymond Woo Chin Wan. The number of the Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the relevant regulatory requirements. On 1 February 2018, the Bank announced that Mr. Niu Ximing resigned as the Chairman, Executive Director and Chairman of the Strategic Committee (Inclusive Finance Development Committee) due to job arrangement, which is effective since 1 February 2018. Meanwhile, the 12th meeting of the 8th Session Board of Directors held on 1 February 2018 examined and approved the *Proposal on Election of Mr. Peng Chun as the Chairman of Bank of Communications Co., Ltd.*, and agreed to elect Mr. Peng Chun as the Chairman of the Board of Directors. It was approved by CBRC on 13 February 2018.

Please refer to the “Directors, Supervisors, Senior Management and Human Resource Management” section in this Annual Report for the changes of the members of the Board of Directors and their biographical details.

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

The Board of Directors is the strategic decision-making body of the Bank and responsible for the Shareholders’ General Meeting. The Board of Directors exercises duties within duties as stipulated under the laws, regulations and the Articles of Association, and as authorized by the Shareholders’ General Meetings to protect the legitimate interests of the Bank and its shareholders. The main responsibilities include convening and reporting to Shareholders’ General Meetings, executing resolutions of Shareholders’ General Meetings, determining the Bank’s business plans and investment proposals, listening to reports from the President and monitoring the performance of Senior Management. During the Reporting Period, with the support and supervision of Shareholders, Regulators and the Board of Supervisors, the Board of Directors maintained the stable returns for shareholders, by uniting and leading Senior Management and staff to implement the national policy conscientiously, to serve the real economy as a core, to prevent and control risks as the guarantee, to implement the deepening reform program as a driving force, to make new progress in all aspects of management and operation, and to show the overall good situation “a stable performance with good momentum for growth, better than expectation”.

During the Reporting Period, the Board of Directors carried out the following eight major tasks: first, it firmly served the real economy as a core and contributed to the supply side structural reform with BoCom's new energies. Second, it committed to the prudent and stable risk preference, strived for a successful risk prevention and controls, and held the bottom line of non-occurrence of systematic financial risks. Third, it unswervingly promoted the deepening reform and constantly accumulated new reforms and new achievements. Fourth, it enjoyed the "BoCom Strategy" development strategy, transformation and development as well as the operating characteristic appeared gradually. Fifth, it strengthened the strategic decision-making ability of the Board of Directors and continued to enhance the standardization and effectiveness of the corporate governance. Sixth, it completed the capital management and capital constraint system, and consolidated the capital foundation for the guarantee of business development. Seventh, it diversified the disclosure of investor relationships and information and the protection systems of shareholders' interests continued to be completed. Eighth, it vigorously promoted targeted poverty alleviation and strengthened consumer rights protection, and actively performed the corporate social responsibility.

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

The Bank has formulated the *Procedural Rules of the Board of Directors*, which specified stringent requirements regarding the convening manner, notice, procedures, agendas and minutes of meetings of the Board of Directors. During the Reporting Period, 6 meetings of the Board of Directors were held to discuss and approve 49 resolutions and reports, such as the Board of Directors' annual report, President's report, financial reports and profit appropriation plan. In addition, 20 meetings were held by the five special committees under the Board of Director, and 61 resolutions and reports were discussed. All of the above meetings were held in accordance with the requirements of the Articles of Association, *the Procedural Rules of the Board of Directors* and *the Code of Corporate Governance*.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

Attendance of Directors of the Bank at the Shareholders' General Meeting, meetings of the Board of Directors and Special Committees under the Board of Directors during the Reporting Period is set out as follows:

	Number of attendance/Number of meetings should be attended						
			Special Committees under the Board of Directors				
	Shareholders' General Meetings	The Board of Directors	Strategy Committee (Inclusive Finance Development Committee)	Audit Committee	Risk Management and Related Party Transactions Control Committee	Personnel & Remuneration Committee	Social Responsibility and Consumer Protection Committee
<b>Executive Directors</b>							
Peng Chun	2/2	6/6	5/5	-	-	-	1/1
Yu Yali	2/2	4/6	5/5	-	-	-	1/1
Hou Weidong	2/2	5/6	5/5	-	-	-	-
<b>Non-executive Directors</b>							
Peter Wong Tung Shun	0/2	4/6	-	-	-	-	1/1
Wang Taiyin	2/2	6/6	-	4/4	-	6/6	-
Song Guobin	1/1	1/1	-	-	1/1	-	0/0
He Zhaobin	1/1	1/1	-	1/1	-	-	0/0
Helen Wong Pik Kuen	0/2	6/6	-	-	-	6/6	-
Liu Hanxing	0/2	4/6	5/5	-	4/4	-	-
Luo Mingde	2/2	5/6	5/5	4/4	-	-	-
Liu Haoyang	1/2	6/6	5/5	-	4/4	-	-
<b>Independent Non- executive Directors</b>							
Chen Zhiwu	0/2	2/6	-	-	4/4	6/6	-
Yu Yongshun	2/2	6/6	-	4/4	4/4	-	-
Li Jian	2/2	6/6	-	4/4	4/4	-	-
Liu Li	2/2	6/6	-	4/4	-	6/6	-
Jason Yeung Chi Wai	1/2	4/6	5/5	4/4	-	-	-
Raymond Woo Chin Wan	0/0	0/0	-	-	0/0	0/0	-
<b>Directors resigned/ retired</b>							
Niu Ximing <sup>1</sup>	0/2	4/6	5/5	-	-	-	-
Hu Huating	0/0	2/2	-	-	1/1	-	1/1
Liu Changshun	1/1	5/5	-	3/3	-	-	1/1
Peter Hugh Nolan	1/2	4/6	-	-	4/4	6/6	-

Notes:

- Mr. Niu Ximing did not attend the 2016 Annual General Meeting due to job arrangement, and the Annual General Meeting was chaired by Mr. Peng Chun, the former Vice Chairman of the Board of Directors. Save as disclosed above, the Board of Directors confirmed that the Bank fully complied with the principles and code provisions under the Corporate Governance Code as set out in Appendix 14 to Hong Kong Listing Rules, and followed most of the recommended best practices contained in the Corporate Governance Code during the Reporting Period.
- Please refer to the section headed "Directors, Supervisors, Senior Management and Human Resources Management" (same below) for the specific changes of the Bank's Directors in this annual report.

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

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

1. Strategy Committee (Inclusive Finance Development Committee). Strategy Committee is primarily responsible for formulating the operations and management objectives and long-term development strategies of the Bank, formulating and reviewing the strategic plan for the development of inclusive finance, supervising and inspecting the implementation of the annual business plans and investment plans, inspecting and assessing the implementation of corporate governance system, making recommendations to the Board of Directors for developing and improving the corporate governance policies and system, and assessing the effectiveness of development of inclusive finance, the results of risk management and internal control regularly.

As at the end of the Reporting Period, Strategy Committee (Inclusive Finance Development Committee) under the Board of Directors comprised 8 members including Mr. Niu Ximing, Mr. Peng Chun, Ms. Yu Yali, Mr. Hou Weidong, Mr. Liu Hanxing, Mr. Luo Mingde, Mr. Liu Haoyang and Mr. Jason Yeung Chi Wai. On 1 February 2018, the Bank held the 12th meeting of the 8th Session of the Board of Directors, reviewed and approved the *Proposal of Appointing Mr. Peng Chun as the Chairman of the Strategy Committee (Inclusive Finance Development Committee) of the Board of Directors*, and now Mr. Peng Chun is the Chairman of the Committee. During the Reporting Period, Strategy Committee (Inclusive Finance Development Committee) held 5 meetings, reviewed and approved 13 proposals and reports including the Implementation of 2016 Annual Business Plan and Initiation of Establishment of BoCom Financial Asset Investment Co., Ltd., and presented the recommendations to the Board of Directors.

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

As at the end of the Reporting Period, Audit Committee under the Board of Directors comprised 7 members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. He Zhaobin, Mr. Luo Mingde, Mr. Yu Yongshun, Ms. Li Jian and Mr. Jason Yeung Chi Wai, with Mr. Liu Li, an Independent Non-executive Director, serving as the Chairman. During the Reporting Period, Audit Committee held 4 meetings, and reviewed and approved 19 proposals and reports, including 2016 financial report, 2016 profit distribution plan, Results Announcements For First Quarter 2017, 2017 Interim Results Announcements, Results Announcements For Third Quarter 2017 and presented the recommendations to the Board of Directors.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

3. Risk Management and Related Party Transactions Control Committee. The primary responsibilities are monitoring and evaluating the risk control and management circumstance in areas of credit, market, operations and compliance, periodically assessing the Bank's risks, management status, and risk tolerance capability and level; reviewing significant fixed asset investments, asset disposals, asset pledges or external guarantees; supervising and evaluating the risk management of America-involved operations; reviewing significant related party transactions, reviewing to anti-money laundering reports regularly; and making recommendations to the Board of Directors on improving the Bank's risk management, anti-money laundering risk management and internal controls.

As at the end of the Reporting Period, Risk Management and Related Party Transactions Control Committee of the Bank comprised 7 members, including Ms. Li Jian, Mr. Song Guobin, Mr. Liu Hanxing, Mr. Liu Haoyang, Mr. Chen Zhiwu, Mr. Yu Yongshun and Mr. Raymond Woo Chin Wan, with Ms. Li Jian, an Independent Non-executive Director, serving as the Chairman. During the Reporting Period, the Risk Management and Related Party Transactions Control Committee held 4 meetings, reviewed and approved 12 proposals and reports, including the Comprehensive Risk Management Policy and revision of the Rules of Work for Risk Management and Related Party Transactions Control Committee, and presented the recommendations to the Board of Directors.

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

As at the end of the Reporting Period, Personnel & Remuneration Committee comprised 5 members, including Mr. Liu Li, Mr. Wang Taiyin, Ms. Helen Wong Pik Kuen, Mr. Chen Zhiwu, and Mr. Raymond Woo Chin Wan, with Mr. Liu Li, an Independent Non-executive Director, serving as the Chairman. During the Reporting Period, the Personnel & Remuneration Committee held 6 meetings, and reviewed and approved 10 proposals, including the appointment of Mr. Guo Mang as Corporate Business Director and Mr. Wu Wei as the Vice President and Chief Financial Officer and presented recommendations to the Board of Directors.

5. Social Responsibility and Consumer Protection Committee. The primary responsibilities are conducting research and formulating the Bank's social responsibility strategies and policies, monitoring, inspecting and evaluating the fulfilment of social responsibility by the Bank, approving external donations according to the authorization of the Board of Directors, as well as reviewing the strategies, policies and goals on protecting the consumers' rights.

As at the end of the Reporting Period, Social Responsibility and Consumer Protection Committee of the Bank comprised 5 members, including Mr. Peng Chun, Mr. Peter Wong Tung Shun, Ms. Yu Yali, Mr. Song Guobin, Mr. He Zhaobin, and Mr. Peng Chun served as the Chairman. During the Reporting Period, Social Responsibility and Consumer Protection Committee held 1 meeting and considered 7 proposals and reports, including 2016 Working Report on Green Credit Policy and 2016 Report on Protecting the Consumers' Rights, and presented recommendations to the Board of Directors.

During the Reporting Period, the convening procedures, voting methods and passed proposals of all the above meetings of the special committees under the Board of Directors were in compliance with the requirements of relevant laws, regulations, the Articles of Association and working guidance of the committees.

### (V) Independent Non-Executive Directors

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

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

During the Reporting Period, the Bank constantly emphasized improving the duty performance and professional capabilities of the Directors. The Bank actively organized the Directors to attend different training sessions, and provided opportunities for the Directors to participate in continuous career development plans. The Bank also provided timely information on commercial banks, regulations, capital market and the Bank's operation management through *Weekly Newsletter* and *Monthly Information Report*. Some of the Directors conducted researches of the Bank's subsidiary institutions in order to further improve their ability to perform their duties.

During the Reporting Period, main training and research projects participated by Directors included:

1. Mr. Song Guobin, Mr. Wang Taiyin, Non-executive Directors, participated in *the sixth series of 2017 listed company chairman, general manager seminar* organized by China Association for Public Companies.
2. Mr. Raymond Woo Chin Wan, an Independent Non-executive Director, participated in *independent director qualifications training* organized by Shanghai Stock Exchange.
3. Mr. Wang Taiyin, Mr. He Zhaobin, Non-executive Directors, conducted research on business operations of branches.
4. Mr. Song Guobin, a Non-executive Director, conducted research on business development, risk management, internal audit control of branches.
5. Mr. Yu Yongshun, an Independent Non-executive Director, conducted research on business operations, risk management, internal audit control of branches.
6. Ms. Li Jian, an Independent Non-executive Director, conducted research on risk management, asset quality and business situation of branches.
7. Mr. Liu Li, an Independent Non-executive Director, conducted research on deepening reform of subsidiaries, development planning, business development, financial supervision and discrepancy of interest expense of branches.
8. Ms. Li Jian, Mr. Liu Li, Independent Non-executive Directors, conducted research on business development, internal audit control and risk management of branches.

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

The Directors are responsible for monitoring the preparation of annual financial statements to give a true and fair view of the Group's financial condition, operating results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2017, the Group selected and consistently applied appropriate accounting policies and made reasonable and prudent accounting judgements and estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's statement of reporting responsibility for their report is set out in the Auditor's Report on page 164 of the Annual Report.

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

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

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

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

There are 13 members on the Board of Supervisors, including the Chairman, 5 Shareholder Representative Supervisors, 3 External Supervisors, and 4 Employee Representative Supervisors. Mr. Song Shuguang serves as the Chairman of Board of Supervisors. 5 Shareholder Representative Supervisors are Senior Management of large-scale state-owned companies. Among the 3 External Supervisors, 2 of them were the Senior Management from the Interbank institution and the large-scale insurance company before their retirement, and 1 of them is a professor of finance in colleges and universities. 4 Employee Representative Supervisors are the responsible personnel of audit department, inspection department, the Board of Supervisors Office and employee union department. The Board of Supervisors has three Special Committees: Performance and Due Diligence Committee has 4 members including the Chairman of the Board of Supervisors as the Chairman, 2 External Supervisors and 1 Employee Representative Supervisor. They are responsible for the supervision and integrated review of the performance of the Board of Directors, the Board of Supervisors, Senior Management and its members. Nomination and Remuneration Committee has 6 members including the External Supervisor as the

## CORPORATE GOVERNANCE REPORT (CONTINUED)

Chairman, 2 Shareholder Representative Supervisors, 1 External Supervisor and 2 Employee Representative Supervisors. They are responsible for setting Supervisor's election, appointment procedures and standards, qualification assessment of the elected and appointed Supervisors, the remuneration of the Supervisors, supervising the scientific and rationality of the whole Bank's performance appraisal system, remuneration management system and policies, and remuneration of Senior Management. Finance and Internal Control Supervision Committee has 6 members, including the External Supervisor as the Chairman, 2 Shareholder Representative Supervisors, 1 External Supervisor and 2 Employee Representative Supervisors. They are responsible for drawing up plans for the supervision of the Bank's financial activities and information disclosure, implementing related inspections, supervising capital and financial management, internal controls, risk management and compliance management of the Bank.

During the Reporting Period, in accordance with the requirements of related State's laws and regulations, the regulatory requirements and the Articles of Association, the Board of Supervisors complied with regulations and performed objective and impartial, scientific and efficient supervision duties. All the Supervisors faithfully and diligently fulfilled their duties, giving full play to the independent role of the Board of Supervisors in corporate governance. During the Reporting Period, the attendance of the Supervisors of the Bank of the meetings of the Board of Supervisors is set out as follows:

<b>Supervisors</b>	<b>Position</b>	<b>Attendance at Meetings in Person</b>	<b>Attendance in Person Percentage (%)</b>
Song Shuguang	Chairman of the Board of Supervisors	4/4	100
Gu Huizhong	Shareholder Representative Supervisor	3/4	75
Zhao Yuguo	Shareholder Representative Supervisor	2/4	50
Liu Mingxing	Shareholder Representative Supervisor	3/4	75
Zhang Lili	Shareholder Representative Supervisor	4/4	100
Wang Xueqing	Shareholder Representative Supervisor	2/2	100
Tang Xiuyu	External Supervisor	4/4	100
Xia Zihua	External Supervisor	4/4	100
Li Yao	External Supervisor	0/0	
Chen Qing	Employee Representative Supervisor	4/4	100
Du Yarong	Employee Representative Supervisor	4/4	100
Fan Jun	Employee Representative Supervisor	4/4	100
Xu Ming	Employee Representative Supervisor	4/4	100
Average attendance in person percentage			91.7

Note: Mr. Wang Xueqing has served as a Supervisor of the Bank since 22 June 2017; Mr. Li Yao has served as a Supervisor of the Bank since 27 October 2017.



### VI. SENIOR MANAGEMENT

The Bank's Senior Management comprises the President, Executive Vice President, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. Led by the Board of Directors, the Bank implements the system which the President is responsible. The President is responsible for the Board of Directors, and all functional departments, branches, offices and other members of Senior Management are responsible for the President. The President has the authority to conduct the Bank's business operations in compliance with the laws and regulations, the Articles of Association and authorization from the Board of Directors, with primary responsibilities including but not limited to day-to-day operating business management of the Bank, implementation the resolutions of Shareholders' General Meetings and meetings of Board of Directors, formulation of annual business plans and investment plans, and implementation of such plans upon approvals by Shareholders' General Meeting or the Board of Directors.

During the Reporting Period, Senior Management conducted business operations within the scope authorized by the Articles of Association and the Board of Directors, and achieved the business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the work of Senior Management for the year 2017.

### VII. RISK MANAGEMENT

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

The Board of Directors is the highest decision-making body of comprehensive risks managements, takes the full responsibility of comprehensive risk management, and monitors and evaluates the whole Bank's risk management matters through Risk Management and Related Party Transactions Control Committee. The Board of Supervisors assumes the supervision responsibility of comprehensive risk management and is mainly responsible for the inspection and monitoring of the accountability of the Board of Directors and Senior Management. Senior Management is responsible for the overall risk management implementation and set up a core of "1+3+2" Risk Management Committee for daily risk decision making process. Its responsibilities mainly include the setup of feasible risk management framework, risk appetite and risk management plan formulated by the Board of Directors, the implementation of risk management requirements in accordance with the requirements of "Going Horizontal to the Edges, Going Vertical to the Bottom, and Covering all Aspects".

The procedures of risk identification and evaluation are: First, with the consideration of external economic and financial situation, changing regulatory requirements and changes of its own business operation and management, the Bank reviews the risks which may appear during operations and management and determines the types of risk. Second, the Bank judges in advance according to the risk environment, the Bank evaluates the possibility and degree of risks and determines the types of risk. Third, the Bank evaluates the risk management ability and effectiveness from management framework, process of management and management of mechanism, to ensure the risk management mechanism is able to effectively identify, monitor

## CORPORATE GOVERNANCE REPORT (CONTINUED)

and manage the relevant risks. Regarding the major risks, besides the establishment of the overall framework and detailed procedures of risk management, the Bank provides sufficient allowance on specific basis for the unexpected loss after consideration one by one. For the details of the risk management of the Group, please refer to the “Risk Management” under “Management Discussion and Analysis” section in this Annual Report for the Group’s risk management.

During the Reporting Period, facing complex economic and financial situations at home and abroad, the Group proactively dealt with the changing market and continued putting risk management at top priority. The Board of Directors approved the *Report of Comprehensive Risk Management Policy of Bank of Communications Co., Ltd.*, the *2017 Risk Appetite and Risk Policy of Bank of Communications Co., Ltd.* and etc. The Group continued to improve the risk management framework, listen to the reports of risk management by Senior Management on quarterly basis, control flexibly the credit risk, market risk, liquidity risk, operational risk, legal compliance and anti-money laundering, reputational risk, cross-border risk, country risk, and other risks, and timely provided findings and recommendations. The Group was able to identify, measure, evaluate, monitor, control and report risk by effective risk management system. The Group effectively managed, not eliminated, risk that cannot achieve the operation objectives, to ensure efficient and effective operations, reasonably ensured the true and fair of financial report and compliance of legal and regulatory requirements and ensured the stable asset quality. The Board of Directors confirmed the risk management system of the Bank and its subsidiaries was stable and effective.

### VIII. INTERNAL CONTROL

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

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

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

### (II) Statement of Effectiveness of Internal Control

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

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

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

The Board of Directors conducted assessment on the effectiveness of internal controls of the Bank as at 31 December 2017 (as the date of the assessment report on internal control) in accordance with the *Guidelines on Internal Control for Commercial Banks*, the *Basic Standard for Enterprise Internal Control*, and relevant guidelines, as well as other regulatory requirements on internal controls. Based on the Bank's standard criteria for evaluating deficiencies of internal controls over financial reporting, there were no material weakness or significant deficiencies of internal controls over financial reporting as at the base date of the assessment report on internal control, and the Bank maintained effective internal control over financial reporting in all material respects. In accordance with the Bank's internal control on the identification of non-financial reporting deficiencies, no significant deficiencies were identified in the internal control of non-financial reporting. The Bank proactively put efforts in improving and monitoring items with rooms for improvement, which did not pose any substantial impacts on the soundness and effectiveness of internal control and reliability of financial reporting.

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

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

In 2017, the Bank maintained the overall stability and effectiveness of its internal control system. In 2018, the Bank will continue to prudently operate in compliance with laws and regulations and constantly continue to enhance the standards of the requirements of internal controls.

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

The Bank was devoted to enhancing the quality of its annual report by improving its disclosure. During the Reporting Period, the Bank implemented *Administrative Measures for Suspension and Exemption of Information Disclosure*, revised *Administrative Measures of Information Disclosure*, *Administrative Measures for Report with Major Information* and *Administrative Measures for Subsidiaries' Report with Major Information*. The Bank effectively prevents the material mistakes by further improving the annual report disclosure system. During the Reporting Period, there was no material mistake in information disclosure.

### X. MANAGEMENT OF INSIDE INFORMATION

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

For the details of the Bank's Insider Registration Policy, please refer to the Bank's website at [www.bankcomm.com](http://www.bankcomm.com), SSE website at [www.sse.com.cn](http://www.sse.com.cn) and website of Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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

The Bank required that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares* issued by the CSRC. The Bank also adopted the *Model Code*. During the Reporting Period, all the Directors, Supervisors and Senior Management of the Bank confirmed that the securities transactions conducted by them are in compliance with the above rules.

### XII. CHAIRMAN AND PRESIDENT

According to the Articles of Association of the Bank, the Chairman and President shall be separated. The Chairman of the Board of Directors shall be elected by the Board of Directors with a majority of Directors, and the president shall be appointed by the Board of Directors. During the Reporting Period, Mr. Niu Ximing served as the Chairman of the Bank and the legal representative of the Bank, was responsible for organizing the Board of Directors to study and determine the Bank's business development strategy and other issues. Mr. Peng Chun served as the President of the Bank and was responsible for the routine management of the Bank.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

Due to job arrangement, Mr. Niu Ximing resigned as the Chairman of the Board of Directors from 1 February 2018. On 1 February 2018, the Board of Directors of the Bank elected Mr. Peng Chun as the Chairman of the Bank. On the same day, Mr. Peng Chun resigned as the President of the Bank. Before the appointment of the new President by the Board of Directors is approved by the CBRC, Mr. Peng Chun will, on behalf, perform the duties of the President. On 13 February 2018, the CBRC approved Mr. Peng Chun as the Chairman of the Bank.

### XIII. REVISION OF ARTICLES OF ASSOCIATION

The revision of the Articles of Association of the Bank during the Reporting Period is set out in the section headed "Significant Events" in this report.

### XIV. AUDITOR'S REMUNERATION

The Bank's 2016 Annual General Meeting approved resolution in relation to the appointment of auditors for the Year of 2017. PricewaterhouseCoopers Zhong Tian LLP was appointed by the Bank to perform the audit for financial statements under CAS, internal control of the Bank, and other related professional services. PricewaterhouseCoopers was appointed by the Bank to perform the audit for financial statements under IFRSs and other related professional services. Both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have provided audit services for the Bank for four consecutive years.

In 2017, PricewaterhouseCoopers and its network member firms were engaged to provide services to the Group (including the Group's subsidiaries and overseas branches) with a total audit fee of approximately RMB42.802 million, which included financial statement audit fees of RMB40.572 million and internal control audit fees of RMB2.23 million.

During the Reporting Period, the non-audit services provided by PricewaterhouseCoopers and its network member firms to the Group mainly included assurance services for the report on corporate social responsibilities and translation services. The Bank paid fees of approximately RMB4.54 million in total for such non-audit services. The Audit Committee satisfied that such services did not impair the independence of PricewaterhouseCoopers.

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

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

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

### XVI. INVESTOR RELATIONS (IR)

During the Reporting Period, the Bank upheld the concept of maximizing the value of investors and was committed to enriching the channels and ways of investors' communication, to enhance effectiveness of communication and promote value recognition. The Bank paid high attention to safeguard the legitimate rights and interests of investors, created value for investors and strived to create a healthy and harmonious investors' relationship.

- (I) The Bank adhered to the legal compliance and actively carried out information disclosure.
  - To comply with the principle of “True, Accurate, Complete, Timely, and Fair” to carry out statutory information disclosure. A total of 4 regular reports, 51 temporary announcements of A shares and 51 extraordinary announcements of H shares were issued during the year. The Bank takes the best disclosure level of listed companies as its benchmark, and the quality of disclosure is widely recognized by regulatory agencies and investors. It has been rated as a Class A company for information disclosure by the SSE for four consecutive years.
  - To establish the concept of “Full disclosure”, the Bank adds information obtained by the public through public channels into the scope of information disclosure management, and open the “last mile” of information disclosure.
  - To further improve the information disclosure system, the Bank formulates the *Administrative Measures on Suspension and Exemption of Information Disclosure*, and amends the *Administrative Measures for Information Disclosure*.
  - To insist on active disclosure of information, the Bank refines the core competitiveness of the Bank in regular reports, increases the content of targeted poverty alleviation, and actively carries out special presentations on international arrangements, comprehensive operations, and new banking service models in the era of mobile internet.
- (II) Through a wide range of communication channels, the Bank deepened communication and exchanges with investors and enhanced the recognition of the investment value of the Bank from capital market.
  - Through regular performance announcements, analysts' meetings, and annual performance roadshows in the three regions around the world, extensive and in-depth communication with investors and analysts were conducted to promote performance highlights and responded to hot issues. Domestic and foreign investors and analysts were organized to go into branches to carry out reverse roadshow activities, which enabled investors to have a more intuitive understanding of the Bank's effectiveness in deepening reform and transformation.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

- Through “Bringing In” to receive investors visiting and investigating, “Going Global” to participate in investment forum activities and other channels, the Bank maintained high-density and high-frequency communication with investors, actively promoted the Bank’s business characteristics and investment value, and maintained a close interaction with the market. During the Reporting Period, the Bank’s investors relations team received a total of 50 batches of institutional investors/analysts, communicated with 192 people from 158 domestic and foreign investment institutions; participated in 20 investor forums held by domestic and foreign investment banks and brokers and communicated with more than 240 investors.
  - Making full use of online platforms such as investor mailboxes, investor hotlines, IR official website, SSE e-platform, WeChat public account, the Bank actively participated in the reception day for listed company investors held by the SSE Roadshow Center, especially for the majority of small and medium investors, to create convenient conditions to communicate with the Bank.
- (III) The Bank paid high attention to safeguard the rights and interests of investors and strived to create value for investors.
- Strictly strengthening equity management, the Bank improved the equity information management system, to truthfully, accurately and completely disclose equity and shareholder information. The Bank strictly implemented the related transaction approval system and approved the *Main Agreement on Interbank Transactions* renewed with HSBC.
  - The Bank insisted on a stable cash dividend mechanism. The proportion of ordinary share cash dividends in 2016 kept at 30%, with a total dividend of RMB20.162 billion; dividends from overseas preference shares was USD122.5 million, and dividends from domestic preference shares was RMB1.755 billion, so that the majority of investors can timely share the development results.
  - The Bank prepared and convened Shareholders’ General Meetings, used online voting, small and medium investors voting on major events with independent vote counting and other means to ensure the equal and fair of legal rights of large and small shareholders.



# CORPORATE SOCIAL RESPONSIBILITIES

Based on the strong belief in “harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society”, the Bank earnestly puts the State’s macro-economic policies into practice, continuously upholds the “BoCom Strategy” to support the real economy, proactively fulfills its corporate social responsibilities and strives for the coordination of economic, environmental and social benefits under the new normal economic development.

## I. ENHANCEMENT ON RESPONSIBILITY MANAGEMENT

The Bank was the first listed domestic company to establish the “Corporate Social Responsibility Committee” (now renamed “Social Responsibility and Consumer Protection Committee”) under the Board of Directors. The Bank gradually established a sound social responsibility management system, incorporated social responsibility into the entire development strategy and operations of the Bank, proactively fulfilled its social responsibilities and contributed positively to the sustainable development of the State’s economy and society. The duties and specific work of “Social Responsibility and Consumer Protection Committee” are contained in the section headed “Corporate Governance Report” of this report.

During the Reporting Period, the Bank held a two-day training course on social responsibility. Nearly 40 senior managers of provincial branches and subsidiaries who are in charge of corporate social responsibility participated in the training. The training provided the theories and tools for employees to integrate social responsibility into their daily operations and further enhanced the management ability and standard of the corporate social responsibility departments of the Bank.

The Bank placed great emphasis on the communication with stakeholders. During the Reporting Period, based on the expectations and requirements of the eight types of major stakeholders’ interests identified (i.e., customers, shareholders, government institutions, employees, environment, communities, partners and social organizations), the Bank continued to commit itself to the key issues under its corporate social responsibilities and set targets correspondingly. The Bank’s efforts in corporate social responsibilities were well-recognized by stakeholders, media and professional institutions.

During the Reporting Period, social contribution value per share of the Bank reached RMB4.25, which increased by 12.73% on a year-on-year basis.

## II. TARGETED POVERTY ALLEVIATION

### (I) Overview of 2017 Targeted Poverty Alleviation

During the Reporting Period, the Bank thoroughly implemented the strategic plans of the 19th National Party Congress regarding the poverty alleviation and the important spirit of the General Secretary Xi Jinping’s speeches on the series of poverty alleviation, and actively implemented the *Decision of the State Council on Poverty Alleviation* and the *Poverty Alleviation Plan for the 13th Five-Year Plan*, to comprehensively plan the annual work of poverty alleviation, innovate the poverty alleviation model, focus on infrastructure construction in poor regions, development of distinctive industries, and cultural and educational fields. The Bank continued to enhance self-development in impoverished regions and the poor, to strive for poverty alleviation.

### **1. Developed the work of targeted poverty alleviation**

During the Reporting Period, the Bank continued to firmly promote the poverty alleviation work of the State Council Leading Group Office of Poverty Alleviation and Development in the designated regions (Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province) through several measures such as strengthening organizational leadership, selecting and sending personnel, and supervising and inspecting. During the Reporting Period, the Bank allocated leaders to conduct the field research respectively for the 3 poverty alleviation regions, and appointed personnel and First Secretaries to the 3 poverty alleviation regions to carry out supporting work with intentions, dedication, and hard work, which were well recognized by the local people. Based on the reality of poor counties, the Bank aimed to improve the production and living conditions in the poor regions and increase the income of poor households, actively utilized the profession of finance, and continuously strengthened poverty alleviation work, so that they can understand, lead, guide, implement measures and invest successfully, and the targeted poverty alleviation work can achieve remarkable results. During the Reporting Period, the Bank assisted in the reduction of poverty population of the regions of Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province, which was designated by the State Council Leading Group for Poverty Alleviation and Development, by 8,677, 11,300, and 8,182 respectively and successfully achieved the target of the year.

### **2. Innovated the model of poverty alleviation**

During the Reporting Period, the Bank exercised the full advantages of profession in the financial industry, precisely determined, allocated according to the demand, and set up innovation and firmly promoted the works of poverty alleviation funds. The Bank focused on urban infrastructure construction, energy conservation and environmental protection, underground pipe network, transportation, water conservancy, tourism, of which the projects covering many provinces such as Guizhou, Henan, Shaanxi and Xinjiang, making a contribution to improve the people's livelihood, serve the real economy and strive for poverty alleviation. In addition, the Bank regarded the rural e-commerce as an important media of targeted poverty alleviation to improve the environment for developing e-commerce in rural areas and enhanced the ability of poor households to use e-commerce to increase their incomes.

## CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

### (II) Achievements of Targeted Poverty Alleviation in 2017

(RMB'000 unless otherwise stated)

	<b>Quantity and Status</b>
I. Overview	
1. Capital <sup>Note</sup>	20,512.9
2. Number of recorded poor people helped by BoCom	10,970
II. Awards	
<p>The full version of <i>Fulfilling the Three Major Responsibilities to Promote Targeted Poverty Alleviation by the Bank of Communications</i> was published in the <i>Poverty Alleviation Information</i> of the State Council Leading Group for Poverty Alleviation and Development. The review of regional poverty alleviation of BoCom, the newsletter of personnel Wang Wenhua of poverty alleviation, etc., were published on <i>People's Daily</i>, <i>Financial Times</i>, <i>Xinhuanet.com</i>, <i>NetEase</i>, <i>sina.com</i>, and other media publications for many times. Regional poverty alleviation work was universally recognized by society and have fully demonstrated the Bank's good corporate citizenship image.</p> <p>The Bank was awarded the 'Award of the Most Social Responsible Financial Institution of the Year' by the <i>China Banking Association</i>.</p> <p>The Bank was awarded the 'Innovation Award of 2017 Financial Enterprise Poverty Alleviation' by the <i>Sina Finance</i>.</p>	

Note: Including Specific Donations from Party Membership Dues and employees' donations, etc.

In addition to poverty alleviation donation by Head Office and subsidiaries for regional targeted poverty alleviation, the Bank actively utilized its profession in finance to conduct financial poverty alleviation. As at the end of the Reporting Period, the Bank's balance of loans on targeted financial poverty alleviation (including those have been lifted out from poverty) was RMB16.056 billion.

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

In 2018, BoCom will, in accordance with *2016-2020 Poverty Alleviation Plan of BoCom* and *2018 Poverty Alleviation Plan of BoCom*, put every effort to facilitate all targeted poverty alleviation projects and help Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province, assigned by the State Council to the Bank, to timely complete the goal of alleviating poverty.



Mr. Song Shuguang, the Chairman of the Board of Supervisors, visited the herdsmen in Litang County, Sichuan Province.



Ms. Yu Yali, the Executive Vice President, visited and expressed sympathy to the elderly centre in Pei Cun Town, Hunyuan County, Shanxi Province.

## CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

### III. RESPONDS TO NATIONAL STRATEGIES

The Bank actively implemented the national strategy, helped the country build a modern economic system, and relied on the core financial advantages to promote the implementation and development of the national strategy. During the Reporting Period, the Bank focused on national strategies such as “Going Global” and “Belt and Road”, and steadily expanded and improved multi-level cross-border financial products and service systems to improve cross-border, cross-industry and cross-market operating capabilities and service standards. The Bank actively served to coordinate the development of the regions, worked together to help the development of Yangtze Economic Belt, developed Xiongan to promote the development of Beijing-Tianjin-Hebei Integration, and established cooperation to drive the transformation of the northeast industrial region. The Bank assisted in “developing a powerful country”, formulated and released the *Opinions on the Financial Support for Developing Powerful Country* during the Reporting Period, which clearly supported the direction and aspects for developing a powerful country, and further strengthened the Bank’s financial support and services for developing a powerful country.

### IV. SUPPORT TO THE REAL ECONOMY

During the Reporting Period, the Bank adhered to the integrated development strategy, integrated synergistic financial resources, formally established BoCom Investment, effectively helped the enterprises for de-leverage and cost reduction and injected new energy to the development of market-oriented debt-to-equity conversion businesses, which served the real economy more precisely. The Bank focused on development of innovation, explored innovative services in smart finance and continued to enhance the level of customer experience. It was rewarded as the ‘Best Financial Innovation Award’ by the *Banker (China)* for three consecutive years. The Bank actively responded to the supply-side structural reforms, strictly implemented the 5 major tasks of “de-capacity, de-stocking, de-leverage, cost reduction and weakness remedies”, determined the manufacturing-related industry policies for customers and admissions standards, customer stratification strategy, product strategy and management requirements and so on, under the *Policies and Guidelines of Industry (region) of Bank of Communications 2017*, and supported the funding needs of clients of traditional industrial enterprises and scientific and technological achievements with transformation and application that have been included in major technological transformations, industrial upgrading and structural adjustment projects in the country or regions.

(in billions of RMB)

	Year end of 2015	Year end of 2016	Year end of 2017
Total loan balance	3,722.006	4,102.959	<b>4,456.914</b>

## CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

### V. ASSISTANCE IN INCLUSIVE FINANCE

During the Reporting Period, the Bank paid high attention to the development and growth of small and micro enterprises, continuously improved the service capabilities of small and micro enterprises, opened up the “last mile” of financial resources to support small and micro enterprises, effectively supported the needs of small and micro enterprises, to inspire vitality of economic development, and it was awarded the ‘Best Supply Chain Financing Bank’ by *Asia Money*. The Bank formulated and issued the *Opinions on Implementing Supervision Requirements to Do a Good Job in the “Agriculture, Rural Areas and Farmers” in 2017*, to promote agricultural supply-side structural reform measures based on the concept of development, county finance, industrial integration, product and service innovation and other aspects.

(in billions of RMB)

	Year end of 2015	Year end of 2016	Year end of 2017
Loan balance of central and western China	1,003.151	1,105.340	<b>1,201.836</b>
Loan balance of medium, small and micro enterprises	1,230.228	1,276.870	<b>1,338.994</b>
Loan balance of agriculture related enterprises	599.270	624.768	<b>653.618</b>

Note: Central and western China includes 17 provinces, autonomous regions and municipalities. They are Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hunan Province, Hubei Province, Guangxi Region, Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Region, Xinjiang Region and Inner Mongolia Region.

### VI. CONTRIBUTION TO IMPROVE PEOPLE’S LIVELIHOOD

The Bank constantly innovated products and services in the fields of livelihood including health, food, housing and transportation, and focused on enhancing the satisfaction and convenience of residents.

During the Reporting Period, the Bank launched the standard version of the product “Bank-Connected-Hospital” to further enrich the function of hospital’s online financial services and meet the financial needs of patients for medical treatment and work. As at the end of the Reporting Period, the Bank has established strategic partnerships with a number of well-known medical institutions throughout the country. The products have been widely used in the 1/5 of the national First-class Hospitals at Grade 3 and are trusted by the majority of patients and medical workers.

During the Reporting Period, the Bank combined the needs of financial services of the client of court in different regions, to introduce innovative products “Case Loan Management”, assisted the Supreme People’s Court in fulfilling the requirements of “transparency, convenience, open justice of sunshine justice”, and on this basis, successfully built the first provincial-level integrated case loan management system and realized significant innovation in the judicial administration of special funds. As at the end of the Reporting Period, there were about 130 People’s Courts at various levels in multiple provinces and municipalities handled relevant businesses in the Bank and the settlement amount of “Case Loan Management” exceeded RMB10 billion, effectively serving the reform of the justicial system. During the Reporting Period, the Bank collected a total amount of approximately RMB12.5 billion through projects such as “Bank-Connected-School”, “Case Loan Management”, Cloud Pay and so on.

## CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

(in billions of RMB)

	Year end of 2015	Year end of 2016	Year end of 2017
Loan balance of security housing projects	35.327	42.610	<b>49.911</b>
Loan balance of sciences, education, culture and public health sectors	71.731	80.597	<b>81.812</b>
Loan balance of individuals	993.319	1,186.187	<b>1,409.882</b>

### VII. IMPLEMENTATIONS OF GREEN FINANCE

The Bank actively implemented the green credit development strategy and monitored the green credit business indicators of the whole Bank in accordance with relevant regulatory policies, system, and operational procedures. During the Reporting Period, the Bank adhered to the concept of green development, formulated and issued the *Notice on Further Strengthening the Green Credit Work*, completed the green credit policy system, comprehensively deepened the green credit work, increased investments of green credit, and guided financial resources toward the green environmental protection industry, to increase the efficiency of resources allocation and promote the coordination of development in economy and the environment.

(in billions of RMB unless otherwise stated)

	Year end of 2015	Year end of 2016	Year end of 2017
Proportion of “green” customers (%)	99.64	99.66	<b>99.76</b>
Proportion of loan balance made to “green” customers (%)	99.79	99.84	<b>99.94</b>
Loan balance of energy-saving and emission reduction sectors	204.795	241.199	<b>277.108</b>

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

### VIII. DEVELOPMENT OF GREEN SERVICES

The Bank integrated the concept of green and low-carbon into the whole process of financial services, actively innovated green products, improved service quality, reduced waste of resources and negative environmental impacts. During the Reporting Period, the channel diversion rate of domestic e-banking services increased significantly to 94.54%, which created a reduction of carbon dioxide emission by nearly 15,483.17 tons to the environment, representing an increase of 29.9% compared with last year.

	2015	2016	2017
Channel diversion rate of e-banking services (%)	88.13	91.42	<b>94.54</b>



## IX. PRACTICES OF GREEN OPERATIONS

During the Reporting Period, the Bank actively improved the rules and regulations of green procurement, strengthened social responsibility management in the supply chain and effectively supported for green procurement. The Bank actively responded to “development of conservation-oriented society”, to encourage the implementation of green office, networked and electronic operations, use recyclable and environmental-friendly products as far as possible, avoid waste of resources and energy, to create the atmosphere of green and low-carbon office, throughout the business operation process. With full disclosure to customers, the Bank canceled the Pacific Debit Card paper bill delivery service, which reduced the paper printing by about 2.5 million copies each year.

## X. OPTIMIZATION OF CUSTOMER SERVICE

The Bank continued to improve its service management system, constantly improved its services through reforms and innovations, connected customer and financial resources, and improved the availability and convenience of financial resources. It was committed to being the best bank in the financial industry. According to the China Retail Banking Satisfaction Study conducted by J.D. Power, the Bank ranked No.1 in the industry for four consecutive years with a score of 848 points. During the Reporting Period, the Bank actively carried out innovation of products and services, deployed all channels, and launched the “Mobile-based Credit Card” service system and released the industry’s first “Mobile-based Credit Card White Paper”. This project was rewarded by the *Shanghai Banking Association*, the ‘Annual Innovation Award of Shanghai Banking Industry’ in the year of 2017, which was jointly reviewed by the Shanghai Headquarters of the People’s Bank of China and the experts of CBRC. The Bank was also rewarded as the ‘Top 10 Financial Informationization in 2017’ by the *Financial Computerizing* magazine. As at the end of the Reporting Period, the Bank issued a cumulative total of 3 million mobile-based credit cards with an approval rate of 73.4%.



## XI. CARES ABOUT EMPLOYEES

The Bank paid attention to the protection of basic rights and interests of employees, enhanced the employees’ happiness by creating a respectful, diverse and harmonious working environment and atmosphere. During the Reporting Period, the Bank was rewarded as the ‘2017 Best Campus Recruitment Award’ and ‘2017 Outstanding Employer’. As at the end of the Reporting Period, the Bank had 91,240 domestic and overseas employees, of which 52.90% were female and 2.56% were overseas employees. There were 3,976 ethnic minority employees and 116 disabled employees.

	2015	2016	2017
Total number of domestic and overseas employees	91,468	92,556	<b>91,240</b>
Number of female employees served as medium-to-top management	2,474	2,512	<b>2,678</b>
Number of ethnic minority employees	3,658	3,832	<b>3,976</b>
Employee happiness index	66.09	68.93	<b>71.81</b>



## CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

Based on the action plan of “Happiness BoCom”, the Bank cared for employees’ physical and mental health, cared for and expressed sympathy to employees with difficulty, promoted the construction of the company’s “home culture” and enhanced the sense of belonging among employees. During the Reporting Period, the Head Office formulated and implemented the *Measures for Smoking Control of BoCom’s Head Office* in accordance with the *Regulations of Shanghai Municipality on Smoking Control* promulgated by Shanghai Municipality, to urge employees to reduce smoking and protect their own health. The Bank launched the series of activities of “Core of BoCom, Health Sharing” of Art, Culture and Sports Carnival, which included innovative competition projects covering a wide scope, to enhance interests, reduce the threshold to participate in competition, expand the coverage of the competition, and encourage all employees to actively participate in. The Bank issued the *Notice on the Service Activities of the Development of “Small, Practical, Specific Things”*, widely solicited employees’ opinions, organized more than 180 seminars, solicitations and briefings, and collected nearly 600 “Small, Practical, Specific Things” relating to the lives and work of employees.

### XII. DEVOTION TO PUBLIC WELFARE

The Bank was dedicated to public charity work. During the Reporting Period, various donation projects such as poverty alleviation, disability assistance and disaster relief were successfully carried out.

“Gateway to Tomorrow – Academic Grant for Disabled Teenagers”, which the Bank has started cooperating with its partners since 2007, was finished successfully. In this ten-year project, the Bank accumulatively allocated RMB100 million in donations, benefiting more than 43,000 people including special education instructors and disabled students.

During the Reporting Period, the Bank continued to launch the continuing project “Gateway to Tomorrow – Academic Grant for Disabled Teenagers” to constantly expand the influence of the project. The Bank took advantage of internationalization, relied on branch in operation, went to the community, and organized the “Sharing of China Dream – Hong Kong and Macau Undergraduate Student Aid Program”. The project is a four-year aid project implemented by the Hong Kong Branch and Macau Branch of the Bank, subsidizing 60 students from poor families in Hong Kong and Macau to go to the Mainland to receive higher education. The project has invested a total of around RMB2.4 million. The Bank continued to organize four major public welfare brand activities of the “4:30 Classes”, “Poverty Alleviation Summer Camp”, “Financial Services in Campus”, and “Special Olympics Art Exhibition”, to innovate in voluntary services and bring more benefits to grantees. The Bank established an overseas youth workshop in Hong Kong and signed a memorandum of cross-regional cooperation between the Volunteer Team of Hong Kong Branch and Shenzhen Branch to expand the scope of the volunteer services of the Bank. During the Reporting Period, the donation of the Bank is as follows:

(in RMB’000)

Items	Donation Amount
Poverty Alleviation	20,512.9
Disaster Relief	931.4
Helping the Disabled	2,012.4
Others	2,455.5
<b>Total</b>	<b>25,912.2</b>

# SIGNIFICANT EVENTS

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

During the Reporting Period, the Group was not involved in any material litigation and arbitration, or issues frequently questioned by the media. As at the end of the Reporting Period, the Group has been involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB3.694 billion. The Group is of the view that these litigations will not have any material effect on the financial position of the Group.

## II. DISCIPLINARY ACTIONS AGAINST THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

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

## III. 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.

## IV. RELATED PARTY TRANSACTIONS

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

As at the end of the Reporting Period, details of continuing related party transactions of the Group are disclosed in Note 43 to the Consolidated Financial Statements set out in this Annual Report. Directors, Supervisors and Senior Management of the Bank had outstanding loan balance of RMB581,000 in the Bank.

## V. MATERIAL CONTRACTS AND PERFORMANCE THEREUNDER

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

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

### (II) Material Guarantees

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

## SIGNIFICANT EVENTS (CONTINUED)

### (III) Other Material Contracts

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

## VI. REVISION ON THE ARTICLES OF ASSOCIATION

In accordance with the requirements of the related laws, regulations, regulatory rules and the Bank's real situation, the Board of Directors of the Bank passed the relevant resolutions on 24 August 2017, proposing amendments to certain articles of the current Articles of Association. The amendments mainly added terms of Party building, improved the procedures for shareholders to pledge their own shares, and increased the corporate governance procedures of the Bank to be performed by shareholders who intended to hold or accumulatively increase their shareholdings by 1%-5% and above. The Bank's first Extraordinary General Meeting in 2017 reviewed and approved the proposal to amend the Articles of Association of the Bank. The amendments to the Articles of Association were approved by the Board of Directors and the Board of Supervisors, and were passed by the Shareholders' General Meeting at the high vote of 97.39% (99.63% of shareholders of A Shares supported on this). The revision is pending for the approval from the CBRC.

## VII. OTHER SIGNIFICANT ISSUES

- (I) On 13 April 2017, the Bank successfully issued RMB30 billion medium-term notes with par value of RMB100 each. After deducting the issuance expenses, the issuance of bonds were used to supplement Tier-2 Capital of the Bank. For related details, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 18 January and 13 April 2017.
- (II) On 19 May 2017, BoCom International, a subsidiary of the Bank, was listed on the Main Board of the Hong Kong Stock Exchange. For related details, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 16 January, 20 February, 19 April, 4 May, 12 May, 19 May, and 11 June 2017.
- (III) On 30 October 2017, the Bank successfully issued RMB20 billion green bonds with par value of RMB100 each. The raised fund is to meet the assets and liabilities requirements of the Bank, utilize fund sources, optimize the liability structure, and properly use in the green projects that are recognized by Green Bonds Projects of China Green Finance Committee. For related details, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 29 March 2016 and 30 October 2017.
- (IV) On 29 January 2018, the Hong Kong Branch's retail business and private banking business of the Bank were transferred to Hong Kong Subsidiary and came into effective. For related details, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 14 July, 24 November 2017 and 29 January 2018.

## SIGNIFICANT EVENTS (CONTINUED)

- (V) On 1 February 2018, the Board of Directors of the Bank approved the BoCom Leasing, which is a wholly-owned subsidiary of the Bank, to increase capital of BoCom Aviation to RMB7 billion with its own funds. For related details, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 1 February 2018.
  
- (VI) On 5 February 2018, BoCom Investment, which is a wholly-owned subsidiary of the Bank, officially started its business. BoCom Investment has a registered capital of RMB10 billion and mainly engaged in debt-to-equity conversion and related supporting services. For related details, please refer to the announcements of the Bank published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 19 January, 26 September, 28 December 2017 and 5 February 2018.

# ORGANIZATION CHART OF THE BOCOM GROUP

Shareholders' General Meeting

Board of Directors

Senior Management

Office of the Board of Directors

Audit Supervision Bureau

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

## Head Office and Domestic Subsidiaries

### Corporate & Business Module

Corporate Business Department [Investment Banking Business Center]  
International Banking Department [Strategic Customers Department]  
[Cross-border Trade and Finance Center]

Inclusive Finance Development Committee  
Beijing Administrative Department (Group Customer Department)  
Asset Custody Business Center (Asset Custody Department)  
[Asset Custody and Operation Center]

Offshore Finance Business Center  
Bank of Communications International Trust Co., Ltd.  
Bank of Communications Financial Leasing Co., Ltd.  
BoCom International Holdings Company Limited  
BoCom Financial Asset Investment Co., Ltd.

### Retail and Private Business Module (Internet Finance Business Module)

Personal Finance Business Department (Customer Protection Department)  
Internet Channels Department  
Private Banking Center (Private Banking Department)  
Pacific Credit Card Center.  
Internet Finance Business Center (Online Finance Business Center)  
Bank of Communications Schroder Fund Management Co., Ltd.  
BoCommLife Insurance Company Limited

### Interbank and Market Business Module

Financial Institution Department [Interbank Strategic Customers Department]

Financial Market Business Center  
Asset Management Business Center  
Precious Metal Business Center  
Bills Business Center

### Risk Control Module

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

Offices (Office of Party Committee, Security Department)

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

Asset and Liability Management Department

Financial Budget Department (Data and Management Information Center)

Strategic Investment Department

Operations Management Department (Business and Data Integration Department)

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

Supervision Bureau (Anti-fraud Department)

Office of Inspection Leadership Team

Corporate Culture Department (Publicity Department of the Party Committee)

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

Department of General Affairs

Development and Research Department (Financial Research Center)

Finance College of Bank of Communications (Party School)

Financial Service Center (Business Department)

[International Clearing Center]

[Wuhan Financial Service Center]

[Nanning Financial Service Center]

[Hefei Financial Service Center]

[Yangzhou Financial Service Center]

Software Development Center (Shanghai)

Software Development Center (Shenzhen)

Software Development Center (Beijing)

Data Center (System Operation Center)

Test Center

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

## Board of Supervisors

## Office of the Board of Supervisors

### Domestic Branches

37 Provincial and Directly-managed branches

198 Branches Managed by Provincial Branches

3,270 Banking outlets

### Overseas Branches and Subsidiaries

Hong Kong Branch

Hong Kong Subsidiary

New York Branch

San Francisco Branch

Tokyo Branch

Singapore Branch

Seoul Branch

Frankfurt Branch

Macau Branch

Ho Chi Minh City Branch

Sydney Branch

Brisbane Branch

Taipei Branch

London Branch (UK Subsidiary)

Toronto Representative Office

Luxembourg Subsidiary (Luxembourg Branch)

Paris Branch

Rome Branch

Banco Bocom BBM S.A.

### Other Subsidiaries

China BoCom Insurance Co., Ltd

### Rural Banks

Dayi BoCom Xingmin Rural Bank

Zhejiang Anji BoCom Rural Bank

Xinjiang Shihezi BoCom Rural Bank

QingDao Laoshan BoCom Rural Bank

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

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

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



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

No.	Name	Address
22	Henan Provincial Branch	No. 11 Zhenghua Road, Jinshui District, Zhengzhou City, Henan Province
23	Hubei Provincial Branch	No. 847 Jianshe Avenue, Jiangnan District, Wuhan City, Hubei Province
24	Hunan Provincial Branch	No. 37 Shaoshan Middle Road, Yuhua District, Changsha City, Hunan Province
25	Guangdong Provincial Branch	No. 11 Xiancun Road, Tianhe District, Guangzhou City, Guangdong Province
26	Shenzhen Branch	No. 3018 Shennan Middle Road, Futian District, Shenzhen City, Guangdong Province
27	Guangxi Zhuang Autonomous Region Branch	No. 228 Renmin East Road, Xingning District, Nanning City, Guangxi Zhuang Autonomous Region
28	Hainan Provincial Branch	No. 45 Guomao Avenue, Longhua District, Haikou City, Hainan Province
29	Chongqing Branch	No. 3 Jiangbei City West Street, Jiangbei District, Chongqing City
30	Sichuan Provincial Branch	No. 211 West Yulong Street, Qingyang District, Chengdu City, Sichuan Province
31	Guizhou Provincial Branch	No. 4 Shengfu Road, Yunyan District, Guiyang City, Guizhou Province
32	Yunnan Provincial Branch	No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
33	Shaanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi'an City, Shaanxi Province
34	Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
35	Ningxia Hui Autonomous Region Branch	No. 296 MinZu North Street, Xingqing District, YinChuan City, NingXia Hui Autonomous Region
36	Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
37	Qinghai Provincial Branch	No. 29 Wusi West Road, Chengxi District, Xining City, Qinghai Province

Note: For the business outlet address and contact information of the Bank, please visit the Bank's official website ([www.bankcomm.com](http://www.bankcomm.com)) and click on "Branch Inquiry" for relevant information.

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

### List of Overseas Banking Institutions

No.	Name	Address
1	Hong Kong Branch/Hong Kong Subsidiary	20 Pedder Street, Central, Hong Kong
2	New York Branch	ONE EXCHANGE PLAZA 55 BROADWAY, 31ST & 32ND FLOOR, NEW YORK NY 10006-3008, U.S.A.
	San Francisco Branch	575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105 U.S.A.
3	Tokyo Branch	SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
4	Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower
5	Seoul Branch	6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea
6	Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
7	Macau Branch	16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau
8	Ho Chi Minh City Branch	17th Floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN
9	Sydney Branch	Level 27, 363 George Street Sydney NSW 2000 Australia
	Brisbane Branch	Level 35, 71 Eagle Street, Brisbane, Australia
10	Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan
11	London Branch/UK Subsidiary	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
12	Luxemburg Branch/Luxemburg Subsidiary	7 Ruede la Chapelle, Luxembourg, L-1325
13	Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3
14	Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
15	Rome Branch	3rd Floor, Piazza Barberini 52, Rome, 00187
16	Banco Bocom BBM S.A.	Praca Pio X, 98. 7 andar 20091 040 Rio de Janeiro RJ, Brazil

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

### List of Major Subsidiaries and Rural Banks

No.	Name	Address
1	BoCom International	No. 68 Des Voeux Road Central, Central, Hong Kong
2	BoCom Insurance	No. 8 Cotton Tree Drive, Central, Hong Kong
3	BoCom Fund	No. 8 Century Avenue, Pudong New District, Shanghai
4	BoCom International Trust	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai No. 847 Jianshe Avenue Wuhan
5	BoCom Leasing	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
6	BoCommLife Insurance	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
7	BoCom Investment	No. 1111 Shangfeng Road, Shanghai
8	Dayi BoCom Xingmin Rural Bank	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province
9	Zhejiang Anji BoCom Rural Bank	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province
10	Xinjiang Shihezi BoCom Rural Bank	No. 127 Dongyi Road, Shihezi City, Xinjiang Uygur Autonomous Region
11	Qingdao Laoshan BoCom Rural Bank	No. 458 Xianggang East Road, Laoshan District, Qingdao City, Shandong Province

# Hello 2018

1908-2018





羅兵咸永道

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

## OPINION

### What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the “Bank”) and its subsidiaries (the “Group”) set out on pages 166 to 293, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

### Independence

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

## KEY AUDIT MATTERS

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

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## KEY AUDIT MATTERS *(Continued)*

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

1. Impairment allowances for loans and advances to customers
2. Consolidation assessment of structured entities

### **Key Audit Matter**

#### *Impairment allowances for loans and advances to customers*

Refer to Notes 2.6, 2.34 (a), 3.1.5, 9, 19.2, and 19.3 to the Group's consolidated financial statements.

As at 31 December 2017, the Group reported a gross amount of loans and advances to customers of RMB4,456,914 million with impairment allowances of RMB102,415 million. The net book value of loans and advances to customers was RMB4,354,499 million. The impairment losses on loans and advances to customers for the year ended 31 December 2017 amounted to RMB29,787 million.

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

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

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

We focused on this area because loans and advances to customers accounted for 48.18% of the Group's total assets and the assessment of impairment loss involved significant estimates and judgments. We particularly focused on the following judgmental areas: timely identification of impaired loans, estimation of future cash flows of impaired loans for individual assessment, selection of models, determination of assumptions and parameters which included segmentation of loan portfolios, historical loss experience, loss identification period, risk adjustments for specific products, industries, and changes of macro-economic environment applied for collective assessment.

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

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

In addition, we have performed the following procedures:

1. For a sample of loans and advances not being identified by management as impaired, we tested management's assessment by examining the underlying loan information and external evidence available;
2. Where impairment was assessed on an individual basis, we assessed the forecasts, calculation and assumptions of future cash flows prepared by management by examining the underlying supporting evidence including external market data;
3. Where impairment allowances were assessed on a collective basis, we assessed if the impairment models used by management reflected the credit risk of loans and advances in the current economic environment. We also assessed key assumptions and parameters used by management in the impairment models, including segmentation of loan portfolios, historical loss experience, loss identification period, risk adjustments for specific industries, regions and changes of macro-economic environment based on our industry knowledge and available market information.

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

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## KEY AUDIT MATTERS *(Continued)*

### **Key Audit Matter**

#### *Consolidation assessment of structured entities*

Refer to Notes 2.2, 2.34 (f), 40 and 41 to the Group's consolidated financial statements.

The Group has managed or invested in a number of structured entities. As at 31 December 2017, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB938,943 million and RMB356,912 million, respectively. In addition, as at 31 December 2017, unconsolidated structured entities sponsored and managed by the Group amounted to RMB2,422,379 million.

Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated.

We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.

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

We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities.

In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities:

1. Analyzed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities;
2. Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment;
3. Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms;
4. We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes.

Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 29 March 2018

# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Notes	Year ended 31 December	
		2017	2016
Interest income		317,518	289,844
Interest expense		(190,152)	(154,973)
<b>Net interest income</b>	4	<b>127,366</b>	134,871
Fee and commission income	5	44,060	39,884
Fee and commission expense	6	(3,509)	(3,089)
<b>Net fee and commission income</b>		<b>40,551</b>	36,795
Net gains arising from trading activities	7	(397)	2,549
Net gains arising from financial investments		3,084	1,079
Share of profits of associates and joint venture		132	96
Insurance business income		12,968	9,596
Other operating income	8	12,816	9,076
Impairment losses on loans and advances to customers	9	(29,787)	(28,480)
Insurance business expense		(12,211)	(8,993)
Other operating expense	10	(71,257)	(70,479)
<b>Profit before tax</b>		<b>83,265</b>	86,110
Income tax	13	(12,574)	(18,459)
<b>Net profit for the year</b>		<b>70,691</b>	67,651
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets			
<i>Changes in fair value recorded in equity</i>		(2,317)	580
<i>Changes in fair value reclassified from equity to profit or loss</i>		(2,111)	(551)
Cash flow hedge reserve			
<i>Changes in fair value recorded in equity</i>		18	(28)
<i>Changes in fair value reclassified from equity to profit or loss</i>		103	(22)
Translation difference on foreign operations		(1,592)	1,577
Others		(9)	1,336
		(5,908)	2,892
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Actuarial gains/(losses) on pension benefits		31	(13)
Other comprehensive income for the year	38	(5,877)	2,879
<b>Comprehensive income for the year</b>		<b>64,814</b>	70,530
<b>Net profit attributable to:</b>			
Shareholders of the Bank		70,223	67,210
Non-controlling interests		468	441
		70,691	67,651
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Bank		64,585	70,284
Non-controlling interests		229	246
		64,814	70,530
<b>Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)</b>	14	<b>0.91</b>	0.89

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

# CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 31 December 2017	As at 31 December 2016
<b>ASSETS</b>			
Cash and balances with central banks	15	938,571	991,435
Due from banks and other financial institutions	16	782,468	715,787
Financial assets at fair value through profit or loss	17	261,037	216,444
Loans and advances to customers	19	4,354,499	4,009,046
Financial investments – loans and receivables	20	387,733	385,020
Financial investments – available-for-sale	20	402,138	342,755
Financial investments – held-to-maturity	20	1,511,375	1,407,449
Investment in associates and joint venture	22	3,357	714
Property and equipment	23	132,492	114,425
Deferred income tax assets	24	16,456	12,567
Other assets	25	248,128	207,524
<b>Total assets</b>		<b>9,038,254</b>	<b>8,403,166</b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions	26	2,382,744	2,231,060
Financial liabilities at fair value through profit or loss	27	60,308	84,299
Due to customers	28	4,930,345	4,728,589
Certificates of deposits issued	29	488,951	318,950
Current tax liabilities		7,943	5,164
Deferred income tax liabilities	24	520	145
Debt securities issued	30	287,662	229,515
Other liabilities	31	203,510	173,037
<b>Total liabilities</b>		<b>8,361,983</b>	<b>7,770,759</b>
<b>EQUITY</b>			
Share capital	32	74,263	74,263
Preference shares	33	59,876	59,876
Capital surplus	32	113,663	113,392
Other reserves		298,827	280,913
Retained earnings		124,514	100,698
<b>Equity attributable to shareholders of the bank</b>		<b>671,143</b>	<b>629,142</b>
Non-controlling interests		5,128	3,265
<b>Total equity</b>		<b>676,271</b>	<b>632,407</b>
<b>Total equity and liabilities</b>		<b>9,038,254</b>	<b>8,403,166</b>

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 29 March 2018 and signed on its behalf by:

Chairman and Executive Director: Peng Chun

Executive Director and Vice President: Yu Yali

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

# CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Other reserves													Attributable to the shareholders of the Bank	Non-controlling interests	Total
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for available-financial assets	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings				
	Note 32	Note 33	Note 32	Note 34	Note 34	Note 34	Note 34	Note 38	Note 38	Note 38	Note 38	Note 34				
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 year	-	-	-	-	-	-	-	-	-	-	-	70,223	70,223	468	70,691	
Other comprehensive income	-	-	-	-	-	-	(4,197)	121	(1,584)	31	(9)	-	(5,638)	(239)	(5,877)	
<b>Total comprehensive income</b>	-	-	-	-	-	-	(4,197)	121	(1,584)	31	(9)	70,223	64,585	229	64,814	
Capital contribution by non-controlling shareholders	-	-	277	-	-	-	-	-	-	-	-	-	277	1,667	1,944	
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,162)	(20,162)	(33)	(20,195)	
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(2,693)	(2,693)	-	(2,693)	
Transfer to reserves	-	-	-	6,811	3	16,738	-	-	-	-	-	(23,552)	-	-	-	
Others	-	-	(6)	-	-	-	-	-	-	-	-	-	(6)	-	(6)	
<b>Balance at 31 December 2017</b>	<b>74,263</b>	<b>59,876</b>	<b>113,663</b>	<b>57,461</b>	<b>139,767</b>	<b>104,470</b>	<b>(2,365)</b>	<b>7</b>	<b>(1,875)</b>	<b>35</b>	<b>1,327</b>	<b>124,514</b>	<b>671,143</b>	<b>5,128</b>	<b>676,271</b>	
Balance at 1 January 2016	74,263	14,924	113,392	44,098	139,764	75,653	1,608	(64)	(1,868)	17	-	73,098	534,885	3,207	538,092	
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	67,210	67,210	441	67,651	
Other comprehensive income	-	-	-	-	-	-	224	(50)	1,577	(13)	1,336	-	3,074	(195)	2,879	
<b>Total comprehensive income</b>	-	-	-	-	-	-	224	(50)	1,577	(13)	1,336	67,210	70,284	246	70,530	
Issuance of preference shares	-	44,952	-	-	-	-	-	-	-	-	-	-	44,952	-	44,952	
Increase by acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	227	227	
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)	(48)	(20,099)	
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(884)	(884)	-	(884)	
Transfer to reserves	-	-	-	6,552	-	12,079	-	-	-	-	-	(18,631)	-	-	-	
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(44)	(44)	(367)	(411)	
<b>Balance at 31 December 2016</b>	<b>74,263</b>	<b>59,876</b>	<b>113,392</b>	<b>50,650</b>	<b>139,764</b>	<b>87,732</b>	<b>1,832</b>	<b>(114)</b>	<b>(291)</b>	<b>4</b>	<b>1,336</b>	<b>100,698</b>	<b>629,142</b>	<b>3,265</b>	<b>632,407</b>	

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

# CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	Year ended 31 December	
		2017	2016
<b>Cash flows from operating activities:</b>			
Net profit before tax:		83,265	86,110
Adjustments for:			
Provision for impairment losses on loans and advances to customers		29,787	28,480
Provision for impairment of finance lease receivables		374	973
Provision for impairment of financial investments		221	643
Provision for/(Reversal of) impairment of other receivables		1,002	91
Provision for impairment of fixed assets		80	3
Provision for impairment losses on foreclosed assets		6	22
Provision for/(Reversal of) impairment losses on assets pending for disposal		(1)	–
Provision for insurance contracts reserve		8,916	5,856
Depreciations and amortisations		9,315	7,939
Provision for/(Reversal of) outstanding litigation and unsettled obligation		110	(40)
Net gains on disposal of property and equipment		(110)	(60)
Net gains on disposal of foreclosed assets		(13)	(5)
Interest income from financial investments		(79,895)	(66,978)
Unwind of discount on allowances during the period		(1,812)	(1,959)
Fair value (gains)/losses		5,756	2,223
Share of profits of associates and joint venture		(132)	(96)
Net gains arising from financial investments		(3,084)	(1,079)
Interest expense on debt securities issued		10,068	7,781
Operating cash flows before movements in operating assets and liabilities		63,853	69,904
Net (increase)/decrease in mandatory reserve deposits		(29,838)	(36,490)
Net (increase)/decrease in due from banks and other financial institutions		(71,456)	(152,643)
Net increase in financial assets at fair value through profit or loss		(56,908)	(41,301)
Net increase in loans and advances to customers		(374,620)	(403,738)
Net increase in other assets		(34,951)	(12,523)
Net increase in due to banks and other financial institutions		151,684	586,529
Net increase/(decrease) in financial liabilities at fair value through profit or loss		(17,823)	16,918
Net increase/(decrease) in due to customers		369,296	481,557
Net increase/(decrease) in other liabilities		24,137	(5,824)
Net increase/(decrease) in value-added tax, business tax and surcharges payable		(590)	349
Income tax paid		(12,057)	(17,672)
<b>Net cash from operating activities</b>		<b>10,727</b>	<b>485,066</b>

# CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

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

	Notes	Year ended 31 December	
		2017	2016
<b>Cash flows from investing activities:</b>			
Purchase of financial investments		(530,249)	(1,158,997)
Disposal or redemption of financial investments		355,053	546,036
Dividends received		420	353
Interest received from financial investments		79,977	61,668
Acquisition of subsidiaries, net of cash paid		–	(442)
Purchase of non-controlling interest		–	(411)
Purchase of intangible assets and other assets		(1,535)	(770)
Disposal of intangible assets and other assets		34	60
Purchase and construction of property and equipment		(27,736)	(34,814)
Disposal of property and equipment		1,077	2,372
<b>Net cash from investing activities</b>		<b>(122,959)</b>	<b>(584,945)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of preference shares		–	45,000
Cash payments for transaction cost of preferences shares issued		–	(48)
Proceeds from debt securities issued		90,028	60,585
Cash payments for distribution of dividends, profits or interest expenses		(32,062)	(24,905)
Capital contribution by non-controlling interests		1,944	–
Repayment of principals of debt securities issued		(29,395)	(2,719)
Dividends paid to non-controlling interests		(33)	(48)
<b>Net cash from financing activities</b>		<b>30,482</b>	<b>77,865</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(5,727)</b>	<b>7,975</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(87,477)</b>	<b>(14,039)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>316,396</b>	<b>330,435</b>
<b>Cash and cash equivalents at the end of the year</b>	39	<b>228,919</b>	<b>316,396</b>
<b>Net cash flows from operating activities include:</b>			
Interest received		243,096	228,140
Interest paid		(167,796)	(153,432)

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

## 1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a commercial and retail bank providing banking services mainly in the People’s Republic of China (“PRC”). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People’s Bank of China (“PBOC”). Headquartered in Shanghai, the Bank operates 232 branches in Mainland China and 21 subsidiary banks, branches (sub-branches) and representative offices overseas including Hong Kong Branch/Bank of Communications (Hong Kong) Co., Ltd., 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 Bocom BBM S.A. and Toronto Representative Office. The Bank’s A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.34.

#### **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	Annual Improvements to IFRSs 2014 – 2016 Cycle

#### *Amendments to IAS 7*

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 New and revised IFRSs effective by 1 January 2017 applied by the Group (Continued)

##### Amendments to IAS 12

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

##### Amendments to IFRS 12

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IFRS 12, 'Disclosure of Interest in Other Entities'. These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarised financial information for subsidiaries, associates and joint ventures apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

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

#### 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	Annual Improvements to IFRSs 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	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019

##### Amendments to IAS 40

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

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

##### *Amendments to IFRS 10 and IAS 28*

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

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

##### *Amendments to IAS 28*

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

##### *International Financial Reporting Interpretations Committee (“IFRIC”) 22*

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group’s consolidated financial statements.

##### *IFRIC 23*

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group’s consolidated financial statements.

##### *Amendments to IFRS 2*

On 20 June 2016, the IASB issued amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions, which provide guidance on three matters regarding classification and measurement. These amendments provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

##### *Amendments to IFRS 4*

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

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

##### *IFRS 15*

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

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

##### *IFRS 9*

IFRS 9 (2014) *Financial instruments* replaces the whole of IAS 39, effective from 1 January 2018. In a simplified standard-allowed manner, the Group can adjust the shareholder equity at the beginning of 2018 instead of restating the comparable figures of the prior period.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

"Hedge accounting" in IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.

The Group estimates that the adoption of IFRS 9 will reduce the shareholder equity at the beginning of 2018. The Group is still assessing the full impact of adopting IFRS 9 and the possible quantitative impact on the Bank's financial position will be disclosed in quarter 1 report of 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

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

##### *IFRS 16*

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB13,806 million, see note 36. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

##### *IFRS 17*

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

##### *Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

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

##### *Amendments to IFRS 9*

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Except the above mentioned impact of IFRS 9 and IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

### 2.2 Consolidation

#### **2.2.1 Subsidiary undertakings**

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Consolidation *(Continued)*

#### **2.2.2 Transactions with non-controlling interests**

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss.

#### **2.2.3 Structured entities**

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 40 and 41.

#### **2.2.4 Investment in an associate**

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At each period end, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

### 2.4 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

#### **Fair value hedges**

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

#### **Cash flow hedge**

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "capital reserve". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Financial assets

The Group's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

#### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract(asset or liability) to be designated at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

#### **(b) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

#### **(c) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other is comprehensive income accumulated at which time in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Financial assets *(Continued)*

#### **(d) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

#### **(e) De-recognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

#### **(f) Asset securitisation**

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- (1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.
- (2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- (3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of financial assets could include the following observable events:

- (1) Significant financial difficulty of the issuer or obligor.
- (2) A breach of contract, such as a default or delinquency in interest or principal payments.
- (3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- (5) The disappearance of an active market for that financial asset because of financial difficulties.
- (6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group.
- (7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.
- (8) A significant or prolonged decline in the fair value of equity instrument investments; and
- (9) Other objective evidence indicating impairment of the financial asset.

#### **(a) Impairment of financial assets carried at amortised cost**

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Impairment of financial assets *(Continued)*

#### **(b) Impairment of available-for-sale financial assets**

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss. The cumulative loss reclassified is the balance of the initial acquisition cost of the asset deducted by the recovered principal, amortized amount, the current fair value, and the impairment loss that has been previously recorded in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

#### **(c) Impairment of financial assets measured at cost**

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

### 2.7 Financial liabilities/Equity instruments

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

#### **(a) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Financial liabilities/Equity instruments (Continued)

#### **(a) Financial liabilities at fair value through profit or loss (Continued)**

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognised in profit or loss.

#### **(b) Other financial liabilities**

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from de-recognition or amortisation recognised in profit or loss.

#### **(c) De-recognition of financial liabilities**

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

#### **(d) Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Financial liabilities/Equity instruments *(Continued)*

#### **(e) Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

- (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and
- (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

### 2.8 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on an impaired financial asset or a group of impaired similar financial assets is recognised using the original interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

### 2.9 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognised when the services are rendered.

### 2.10 Dividend income

Dividends are recognised when the right to receive the dividends is established.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Assets transferred under repurchase agreements

#### (a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

#### (b) Financial assets purchased under reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

### 2.12 Precious metals

Precious metals that are not related to the Group’s trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group’s trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

### 2.13 Property and equipment

The Group’s property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the shorter of the economic useful lives and remaining lease terms		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Property and equipment *(Continued)*

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 3.5 to 25 years.

### 2.14 Foreclosed assets

Foreclosed assets are initially recognised at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

### 2.15 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

### 2.16 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### 2.17 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### 2.19 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### **(a) The Group as lessor**

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### **(b) The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

### 2.20 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

### 2.22 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **(a) Current income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### **(b) Deferred income tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Current and deferred income taxes *(Continued)*

#### **(b) Deferred income tax** *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### 2.23 Share capital

#### **(a) Share capital**

Share capital comprises ordinary shares issued.

#### **(b) Share issue costs**

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

### 2.24 Dividend

#### **(a) Dividends on ordinary shares**

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

#### **(b) Dividends on preference shares**

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

### 2.25 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.26 Employee benefits

#### **(a) Staff benefit and retirement benefit obligations**

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

#### **(b) Share-based compensation**

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.27 Foreign currency translation

Renminbi (“RMB”) is the currency of the primary economic environment in which the Bank and the Group’s domestic subsidiaries operate. Therefore, the Bank and the Group’s domestic subsidiaries choose RMB as their functional currency. The Bank and the Group’s foreign subsidiary choose its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank’s net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group’s entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners’ equity of the Group and presented under shareholder’s equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

### 2.28 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.29 Insurance contracts

#### **(a) Insurance contracts classification**

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 – Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

#### **(b) Insurance income recognition**

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

#### **(c) Insurance contract liabilities**

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

### 2.30 Financial guarantee contracts and credit related commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

### 2.31 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.32 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

### 2.33 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

### 2.34 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

#### **(a) Impairment losses on loans and advances**

The Group reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio and objective evidence of impairment. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data that reflects current economic conditions are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### **(b) Fair value of financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.34 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

#### **(c) Income taxes**

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

#### **(d) Held-to-maturity investments**

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling or reclassifying an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value, not at amortised cost.

#### **(e) Impairment of available-for-sale financial assets**

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial condition and near-term business outlook of the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk. Objective evidence of impairment for a debt investment exists when one or more events have occurred after the initial recognition of the available-for-sale debt investment that reduces the estimated future cash flows to be recoverable from the debt investment. The Group recognises an impairment loss for the debt investment when there is objective evidence that the debt investment is impaired.

#### **(f) Consolidation of structured entities**

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

#### **(g) De-recognition of financial assets**

When assessing whether loans transferred through packaged sales and securitisation meet the de-recognition criteria for financial assets, The Group exercises judgment to assess whether the transfer of the loans met the transfer criteria and whether all the risks and rewards of ownership of the loans have been transferred out. If the Group neither transfers nor retains substantially all the risks and rewards of ownership, the Group further assesses whether it retains control of the transferred loans. In making this assessment, the Group considers several factors, such as whether the transaction arrangement is attached with repurchase clauses. The Group sets up scenario hypothesis and tests the transfer of risks and rewards using discounted cash flow model. The Group derecognises the loans only when substantially all the risks and rewards of ownership of the loans have been transferred to another entity. If the Group substantially retains all the risks and rewards of ownership of transferred loans, these loans would continue to be recognised and the proceeds received would be recognised as financial liabilities. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred loans, the Group recognises its retained interest in the asset and an associated liability for the amounts it may have to pay.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT

### Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and the latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at Head Office undertakes the overall risk management functions of the Group. The Subordinate risk management division in each operation department at Head Office, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Group are credit risk, liquidity risk and market risk which also includes foreign exchange risk, interest rate risk and other price risk.

### 3.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or is unwilling to meet its obligations under a contract. Significant changes in the economy or in 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.1 Credit risk assessment

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

In assessing credit risk of corporate and retail customers in respect of its on-balance sheet and off-balance sheet exposures, the Group considers three factors (i) the “probability of default” by debtors; (ii) the “exposure at default” to be recognised by the Group based on the current net exposure and the future potential development of debtors; (iii) the extent of loss from risk exposure in the event of default (the “loss given default”).

Probability of default is the probability of occurrence of default event in a given period of time in future.

Exposure at default represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilised credit limit, interest receivable, and the anticipated usage of unutilised credit facilities as well as the related expenses to be incurred.

Loss given default represents the percentage of amount of loss to be occurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of counter party, type and seniority of claim and the availability of collaterals or other credit enhancements.

These credit risk measurements, which reflect expected loss (the expected loss model), are in accordance with the banking regulations and requirements of regulatory measures of the Basel Committee on Banking Supervision (the “Basel Committee”), and are applied in the daily operations of the Group.

The Group has implemented an internal rating system based on the requirements of the Basel New Capital Accord and the requirements of supervisory guidelines issued by China Banking Regulatory Commission (“CBRC”) on internal rating system. The Group summarised a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which is used for determination of the borrower’s credit ranking within the internal rating system. In order to improve the model’s accuracy and stability, the Group performs evaluation of the model at least every six months and monitors the results by performing back testing and comparing the results from model using the default data from customers. In practice, the monitoring and back testing has been performed quarterly.

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

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 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 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.

##### *(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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**

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

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

#### *(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:

<b>Collaterals</b>	<b>Maximum loan-to-value ratio</b>
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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

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

##### *(a) Collaterals (Continued)*

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

##### *(b) Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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'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 31 December 2017	As at 31 December 2016
<b>Assets</b>		
Balances with central banks	921,948	973,823
Due from banks and other financial institutions	782,468	715,787
Financial assets at fair value through profit or loss (debt securities and derivatives)	122,937	136,301
Loans and advances to customers		
– Loans to corporate entities	2,963,450	2,841,728
– Loans to individuals	1,391,049	1,167,318
Financial investments – loans and receivables	387,733	385,020
Financial investments – available-for-sale (debt securities)	393,748	334,049
Financial investments – held-to-maturity	1,511,375	1,407,449
Other financial assets	215,482	183,391
<b>Total</b>	<b>8,690,190</b>	<b>8,144,866</b>
<b>Off-balance sheet exposures</b>		
Guarantees, acceptances and letters of credit	600,386	638,145
Other credit related commitments	812,317	614,324
<b>Total</b>	<b>1,412,703</b>	<b>1,252,469</b>

The above table represents a worst case scenario of credit risk exposure to the Group as at 31 December 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%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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)*

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;
- 97.76% of the loans and advances portfolio are neither past due nor impaired (as at 31 December 2016: 97.35%);
- The impaired loans and advances to customers to total loans and advances to customers are 1.50% (as at 31 December 2016: 1.52%).

#### 3.1.5 Loans and advances to customers

	As at 31 December 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	4,357,095	782,468	3,994,254	715,787
Past due but not impaired	32,917	–	46,305	–
Impaired	66,902	–	62,400	–
<b>Gross</b>	<b>4,456,914</b>	<b>782,468</b>	<b>4,102,959</b>	<b>715,787</b>
Less: Allowances for collectively assessed impairment losses	(67,545)	–	(63,756)	–
Allowances for individually assessed impairment losses	(34,870)	–	(30,157)	–
<b>Net</b>	<b>4,354,499</b>	<b>782,468</b>	<b>4,009,046</b>	<b>715,787</b>

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

As at 31 December 2017, the Group's total loans and advances to customers increased by 8.63% 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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)

###### (a) Loans and advances neither past due nor impaired

	As at 31 December 2017		
	Normal	Special-mention	Total
Corporate loans and advances	2,872,804	100,203	2,973,007
Individual loans and advances	1,383,815	273	1,384,088
<b>Total</b>	<b>4,256,619</b>	<b>100,476</b>	<b>4,357,095</b>

	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
<b>Total</b>	<b>3,912,032</b>	<b>82,222</b>	<b>3,994,254</b>

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

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

	As at 31 December 2017					Total	Fair value of collaterals
	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days			
Corporate entities							
– Commercial loans	8,388	2,507	1,540	10,586	23,021	15,276	
Individuals							
– Mortgages	1,782	512	264	–	2,558	4,207	
– Credit Cards	4,732	1,124	650	–	6,506	–	
– Others	351	156	197	128	832	1,160	
<b>Total</b>	<b>15,253</b>	<b>4,299</b>	<b>2,651</b>	<b>10,714</b>	<b>32,917</b>	<b>20,643</b>	
Due from banks and other financial institutions	–	–	–	–	–	–	

	As at 31 December 2016					Total	Fair value of collaterals
	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days			
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	
<b>Total</b>	<b>12,539</b>	<b>4,798</b>	<b>3,748</b>	<b>25,220</b>	<b>46,305</b>	<b>32,886</b>	
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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.5 Loans and advances to customers (Continued)

##### (c) Loans and advances individually impaired

As at 31 December 2017, impaired loans and advances to customers before taking into consideration the collaterals held are RMB66,902 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 31 December 2017	As at 31 December 2016
Impaired loans and advances to customers		
Corporate entities	51,004	48,097
Individuals	15,898	14,303
<b>Total</b>	<b>66,902</b>	<b>62,400</b>
Fair value of collaterals		
Corporate entities	15,175	16,032
Individuals	11,356	9,461
<b>Total</b>	<b>26,531</b>	<b>25,493</b>

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

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

	As at 31 December 2017	As at 31 December 2016
Unsecured loans	1,397,316	1,246,423
Guaranteed loans	857,939	828,651
Collateralised and other secured loans	2,201,659	2,027,885
<i>Including: Loans secured by collaterals</i>	<b>1,626,630</b>	<b>1,551,431</b>
<i>Pledged loans</i>	<b>575,029</b>	<b>476,454</b>
Gross amount of loans and advances before impairment allowances	<b>4,456,914</b>	<b>4,102,959</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Credit risk *(Continued)*

#### 3.1.5 Loans and advances to customers *(Continued)*

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

	As at 31 December 2017		As at 31 December 2016	
		%		%
North of China <sup>(1)</sup>	588,224	13.20	568,598	13.86
Northeast <sup>(2)</sup>	207,142	4.65	202,216	4.93
East of China <sup>(3)</sup>	1,939,943	43.52	1,768,551	43.10
South and middle of China <sup>(4)</sup>	851,780	19.11	761,294	18.55
West of China <sup>(5)</sup>	447,924	10.05	417,904	10.19
Overseas <sup>(6)</sup>	421,901	9.47	384,396	9.37
Gross amount of loans and advances	4,456,914	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, Taipei, Toronto, Brisbane, Paris, Rome and Brazil.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.5 Loans and advances to customers (Continued)

##### (f) Industry analysis

	As at 31 December 2017		As at 31 December 2016	
		%		%
<b>Corporate loans</b>				
Mining	109,215	2.45	107,787	2.63
Manufacturing				
– Petroleum and chemical	106,999	2.40	106,514	2.60
– Electronics	76,261	1.71	59,942	1.46
– Steel	34,893	0.78	36,841	0.90
– Machinery	96,092	2.16	118,200	2.88
– Textile and clothing	30,043	0.67	33,714	0.82
– Other manufacturing	224,368	5.04	224,455	5.47
Electricity, gas and water production and supply	162,821	3.65	147,141	3.59
Construction	106,679	2.39	99,487	2.42
Transportation, storage and postal service	523,339	11.74	495,427	12.07
Telecommunication, IT service and software	25,769	0.58	20,594	0.51
Wholesale and retail	281,689	6.32	319,579	7.79
Accommodation and catering	35,143	0.79	34,489	0.84
Financial institutions	117,923	2.65	94,464	2.30
Real estate	186,784	4.19	204,111	4.97
Services	353,325	7.93	300,929	7.33
Water conservancy, environmental and other public services	248,641	5.58	188,622	4.60
Education, science, culture and public health	81,812	1.84	80,597	1.96
Others	106,278	2.38	117,290	2.86
Discounted bills	138,958	3.12	126,589	3.09
<b>Total corporate loans</b>	<b>3,047,032</b>	<b>68.37</b>	<b>2,916,772</b>	<b>71.09</b>
<b>Individual loans</b>				
Mortgages	897,264	20.13	770,280	18.78
Credit cards	399,004	8.95	307,857	7.50
Others	113,614	2.55	108,050	2.63
<b>Total individual loans</b>	<b>1,409,882</b>	<b>31.63</b>	<b>1,186,187</b>	<b>28.91</b>
Gross amount of loans and advances before impairment allowances	4,456,914	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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.6 Debt investments

		As at 31 December 2017	As at 31 December 2016
Neither past due nor impaired	(a)	2,383,924	2,228,199
Past due but not impaired		–	–
Impaired	(b)	1,279	1,020
Gross		2,385,203	2,229,219
Less:	(c)		
Collective impairment		(2,488)	(2,703)
Individual impairment		(929)	(920)
Net		2,381,786	2,225,596

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

	As at 31 December 2017				Total
	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)	
<b>RMB securities</b>					
AAA	5,600	102,267	879,836	46,684	1,034,387
AA- to AA+	–	7,230	6,323	7,666	21,219
A- to A+	–	3,888	1,386	804	6,078
Below A-	–	292	–	–	292
Unrated <sup>(1)</sup>	383,302	64,727	610,756	12,590	1,071,375
Sub-total	388,902	178,404	1,498,301	67,744	2,133,351
<b>Foreign currency securities</b>					
AAA	–	11,034	366	–	11,400
AA- to AA+	–	24,754	3,780	835	29,369
A- to A+	–	85,499	3,703	10,814	100,016
Below A-	–	48,357	3,742	2,855	54,954
Unrated <sup>(1)</sup>	1,239	45,700	1,483	6,412	54,834
Sub-total	1,239	215,344	13,074	20,916	250,573
<b>Total</b>	<b>390,141</b>	<b>393,748</b>	<b>1,511,375</b>	<b>88,660</b>	<b>2,383,924</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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 independent rating 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
<b>RMB securities</b>					
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 <sup>(1)</sup>	366,762	87,165	623,511	9,914	1,087,352
<b>Sub-total</b>	<b>386,211</b>	<b>147,631</b>	<b>1,398,216</b>	<b>79,904</b>	<b>2,011,962</b>
<b>Foreign currency securities</b>					
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 <sup>(1)</sup>	1,412	58,330	2,456	4,589	66,787
<b>Sub-total</b>	<b>1,412</b>	<b>186,418</b>	<b>9,233</b>	<b>19,174</b>	<b>216,237</b>
<b>Total</b>	<b>387,623</b>	<b>334,049</b>	<b>1,407,449</b>	<b>99,078</b>	<b>2,228,199</b>

<sup>(1)</sup> 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Credit risk *(Continued)*

##### 3.1.6 Debt investments *(Continued)*

###### (b) Impaired debt investments

	As at 31 December 2017				Total
	Financial investments – held-for-trading	Financial investments – available –for-sale	Financial investments – held-to-maturity	Financial investments – loans and receivables	
A- to A+	–	–	–	–	–
Below A-	270	30	355	–	655
Unrated <sup>(1)</sup>	–	424	–	200	624
<b>Total</b>	<b>270</b>	<b>454</b>	<b>355</b>	<b>200</b>	<b>1,279</b>

	As at 31 December 2016				Total
	Financial investments – held-for-trading	Financial investments – available –for-sale	Financial investments – held-to-maturity	Financial investments – loans and receivables	
A- to A+	–	–	–	–	–
Below A-	–	30	350	–	380
Unrated <sup>(1)</sup>	–	440	–	200	640
<b>Total</b>	<b>–</b>	<b>470</b>	<b>350</b>	<b>200</b>	<b>1,020</b>

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

###### (c) Impairment allowances for debt investments

	As at 31 December 2017	As at 31 December 2016
Allowances for collectively assessed impairment losses	2,488	2,703
Allowances for individually assessed impairment losses	929	920
	<b>3,417</b>	<b>3,623</b>

As at 31 December 2017 (as at 31 December 2016: Nil), no collateral was held by the Group against these debt investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (Continued)

#### 3.1.7 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity and interest rate derivative contracts and others with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

#### Credit risk weighted amounts

	As at 31 December 2017	As at 31 December 2016
Counterparty credit risk weighted amount	26,223	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 31 December 2017	As at 31 December 2016
Buildings	991	857
Land use rights	25	156
Others	19	15
Gross	1,035	1,028
Less: Impairment allowances	(129)	(136)
Net	906	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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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
<b>As at 31 December 2017</b>				
<b>Financial assets</b>				
Balances with central banks	893,353	1,805	26,790	921,948
Due from banks and other financial institutions	655,483	50,801	76,184	782,468
Financial assets at fair value through profit or loss (debt securities and derivatives)	93,661	11,513	17,763	122,937
Loans and advances to customers	3,935,626	211,982	206,891	4,354,499
Financial investments – loans and receivables	386,505	–	1,228	387,733
Financial investments – available-for-sale (debt securities)	157,306	51,804	184,638	393,748
Financial investments – held-to-maturity	1,497,147	584	13,644	1,511,375
Other financial assets	200,078	8,515	6,889	215,482
	<b>7,819,159</b>	<b>337,004</b>	<b>534,027</b>	<b>8,690,190</b>
<b>Off-balance sheet exposures</b>				
Guarantees, acceptances and letters of credit	563,090	10,504	26,792	600,386
Other credit related commitments	765,071	21,140	26,106	812,317
	<b>1,328,161</b>	<b>31,644</b>	<b>52,898</b>	<b>1,412,703</b>
	Mainland China	Hong Kong	Others	Total
<b>As at 31 December 2016</b>				
<b>Financial assets</b>				
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
	<b>7,283,759</b>	<b>341,256</b>	<b>519,851</b>	<b>8,144,866</b>
<b>Off-balance sheet exposures</b>				
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
	<b>1,157,592</b>	<b>36,613</b>	<b>58,264</b>	<b>1,252,469</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 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 banking 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, 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:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Market risk *(Continued)*

#### 3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

#### Items

	Year ended 31 December 2017			
	31 December	Average	Maximum	Minimum
	2017			
VaR	570	551	811	348
– Interest rate risk	183	153	192	89
– Foreign exchange risk	511	522	858	288

#### Items

	Year ended 31 December 2016			
	31 December	Average	Maximum	Minimum
	2016			
VaR	777	514	858	158
– Interest rate risk	121	137	173	88
– Foreign exchange risk	772	515	908	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 31 December 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	As at
	31 December	31 December
	2017	2016
+100 basis points parallel shift in yield curves	13,747	14,198
-100 basis points parallel shift in yield curves	(13,747)	(14,198)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.3 Sensitivity tests (Continued)

##### Interest rate sensitivity test (Continued)

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

	Changes in other comprehensive income	
	As at 31 December 2017	As at 31 December 2016
+100 basis points parallel shift in yield curves	(6,414)	(5,364)
-100 basis points parallel shift in yield curves	6,800	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)	
	Year ended 31 December 2017	Year ended 31 December 2016
5% appreciation of RMB	(4,187)	(2,286)
5% depreciation of RMB	4,187	2,286

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Market risk (Continued)

#### 3.2.3 Sensitivity tests (Continued)

##### Foreign exchange sensitivity test (Continued)

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rate against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2017	As at 31 December 2016
5% appreciation of RMB	(684)	(681)
5% depreciation of RMB	684	681

#### 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 from 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 highly market-oriented. In the tight money market situation, it may be higher 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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
<b>As at 31 December 2017</b>							
<b>Assets</b>							
Cash and balances with central banks	914,394	-	152	-	-	24,025	938,571
Due from banks and other financial institutions	433,536	81,883	234,917	32,132	-	-	782,468
Financial assets at fair value through profit or loss	23,855	21,209	51,997	33,603	6,957	123,416	261,037
Loans and advances to customers	2,246,308	487,685	1,458,383	123,455	38,668	-	4,354,499
Financial investments - loans and receivables	5,874	6,854	57,157	204,902	112,946	-	387,733
Financial investments - available-for-sale	46,534	77,320	42,020	165,901	61,973	8,390	402,138
Financial investments - held-to-maturity	33,531	47,583	137,104	876,824	416,333	-	1,511,375
Other assets	9,496	6,941	24,473	62,762	22,157	274,604	400,433
<b>Total assets</b>	<b>3,713,528</b>	<b>729,475</b>	<b>2,006,203</b>	<b>1,499,579</b>	<b>659,034</b>	<b>430,435</b>	<b>9,038,254</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	(842,384)	(544,681)	(727,104)	(247,529)	(21,046)	-	(2,382,744)
Financial liabilities at fair value through profit or loss	(7,174)	(9,685)	(5,148)	(4,371)	-	(33,930)	(60,308)
Due to customers	(3,147,002)	(541,889)	(813,212)	(399,253)	(4,467)	(24,522)	(4,930,345)
Other liabilities	(43,256)	(73,108)	(183,872)	(369,110)	(139,935)	(179,305)	(988,586)
<b>Total liabilities</b>	<b>(4,039,816)</b>	<b>(1,169,363)</b>	<b>(1,729,336)</b>	<b>(1,020,263)</b>	<b>(165,448)</b>	<b>(237,757)</b>	<b>(8,361,983)</b>
<b>Total interest sensitivity gap</b>	<b>(326,288)</b>	<b>(439,888)</b>	<b>276,867</b>	<b>479,316</b>	<b>493,586</b>	<b>192,678</b>	<b>676,271</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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
<b>As at 31 December 2016</b>							
<b>Assets</b>							
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
<b>Total assets</b>	<b>3,363,633</b>	<b>749,223</b>	<b>1,965,017</b>	<b>1,332,587</b>	<b>672,175</b>	<b>320,531</b>	<b>8,403,166</b>
<b>Liabilities</b>							
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)
<b>Total liabilities</b>	<b>(3,814,690)</b>	<b>(926,596)</b>	<b>(1,704,015)</b>	<b>(983,498)</b>	<b>(128,948)</b>	<b>(213,012)</b>	<b>(7,770,759)</b>
<b>Total interest sensitivity gap</b>	<b>(451,057)</b>	<b>(177,373)</b>	<b>261,002</b>	<b>349,089</b>	<b>543,227</b>	<b>107,519</b>	<b>632,407</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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 31 December 2017, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.5342 (31 December 2016: RMB6.9370) and 1 HK dollar to RMB0.83591 (31 December 2016: RMB0.89451). The tables below summarise the Group's exposure to foreign exchange risk at the end of the 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
<b>As at 31 December 2017</b>					
<b>Assets</b>					
Cash and balances with central banks	879,753	37,073	2,573	19,172	938,571
Due from banks and other financial institutions	449,036	286,691	28,126	18,615	782,468
Financial assets at fair value through profit or loss	233,886	21,183	3,307	2,661	261,037
Loans and advances to customers	3,825,429	334,104	143,396	51,570	4,354,499
Financial investments – loans and receivables	386,494	1,239	–	–	387,733
Financial investments – available-for-sale	185,123	151,492	29,487	36,036	402,138
Financial investments – held-to-maturity	1,498,292	9,371	–	3,712	1,511,375
Other assets	279,288	114,277	4,632	2,236	400,433
<b>Total assets</b>	<b>7,737,301</b>	<b>955,430</b>	<b>211,521</b>	<b>134,002</b>	<b>9,038,254</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	(1,942,060)	(382,376)	(12,084)	(46,224)	(2,382,744)
Financial liabilities at fair value through profit or loss	(32,412)	(17,745)	(7,214)	(2,937)	(60,308)
Due to customers	(4,272,937)	(421,682)	(201,975)	(33,751)	(4,930,345)
Other liabilities	(797,445)	(157,279)	(13,065)	(20,797)	(988,586)
<b>Total liabilities</b>	<b>(7,044,854)</b>	<b>(979,082)</b>	<b>(234,338)</b>	<b>(103,709)</b>	<b>(8,361,983)</b>
<b>Net position</b>	<b>692,447</b>	<b>(23,652)</b>	<b>(22,817)</b>	<b>30,293</b>	<b>676,271</b>
<b>Financial guarantees and credit related commitments</b>	<b>1,228,550</b>	<b>145,088</b>	<b>21,199</b>	<b>17,866</b>	<b>1,412,703</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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
<b>As at 31 December 2016</b>					
<b>Assets</b>					
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
<b>Total assets</b>	<b>7,191,474</b>	<b>909,415</b>	<b>183,915</b>	<b>118,362</b>	<b>8,403,166</b>
<b>Liabilities</b>					
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)
<b>Total liabilities</b>	<b>(6,586,960)</b>	<b>(882,709)</b>	<b>(200,033)</b>	<b>(101,057)</b>	<b>(7,770,759)</b>
<b>Net position</b>	<b>604,514</b>	<b>26,706</b>	<b>(16,118)</b>	<b>17,305</b>	<b>632,407</b>
<b>Financial guarantees and credit related commitments</b>					
	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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 Liquidity risk

#### **3.3.1 Overview**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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
<b>As at 31 December 2017</b>									
<b>Liabilities</b>									
Due to banks and other financial institutions	-	-	(392,232)	(452,434)	(550,132)	(739,806)	(300,145)	(29,615)	(2,464,364)
Non-derivative financial liabilities									
at fair value through profit or loss	-	-	(585)	(7,187)	(8,018)	(6,996)	(4,628)	-	(27,414)
Due to customers	-	-	(2,501,478)	(676,038)	(549,454)	(830,637)	(420,461)	(4,471)	(4,982,539)
Certificates of deposit issued	-	-	-	(38,591)	(73,849)	(170,019)	(217,422)	-	(499,881)
Debt securities issued	-	-	-	(5,001)	(1,214)	(26,020)	(209,451)	(133,154)	(374,840)
Other financial liabilities	-	-	(29,241)	(198)	(122)	(1,549)	(5,041)	(25,758)	(61,909)
<b>Total liabilities (contractual maturity dates)</b>	<b>-</b>	<b>-</b>	<b>(2,923,536)</b>	<b>(1,179,449)</b>	<b>(1,182,789)</b>	<b>(1,775,027)</b>	<b>(1,157,148)</b>	<b>(192,998)</b>	<b>(8,410,947)</b>
<b>Assets</b>									
Cash and balances with central banks	-	809,261	129,158	-	1,198	153	-	-	939,770
Due from banks and other financial institutions	-	-	76,427	357,232	83,896	237,855	32,219	-	787,629
Non-derivative financial assets at fair value									
through profit or loss	270	84,172	4,967	9,123	17,959	57,756	53,759	10,597	238,603
Loans and advances to customers	56,612	-	-	556,350	314,192	1,191,686	1,421,959	2,210,310	5,751,109
Financial investments – loans and receivables	80	-	-	6,091	10,383	72,777	246,892	134,146	470,369
Financial investments – available-for-sale	-	8,390	-	18,431	24,418	64,881	261,598	77,780	455,498
Financial investments – held-to-maturity	-	-	-	30,094	43,476	174,642	1,030,820	464,720	1,743,752
Other financial assets	418	-	42,044	2,752	7,744	28,030	71,781	25,006	177,775
<b>Assets held for managing liquidity risk (contractual maturity dates)</b>	<b>57,380</b>	<b>901,823</b>	<b>252,596</b>	<b>980,073</b>	<b>503,266</b>	<b>1,827,780</b>	<b>3,119,028</b>	<b>2,922,559</b>	<b>10,564,505</b>
<b>Net position</b>	<b>57,380</b>	<b>901,823</b>	<b>(2,670,940)</b>	<b>(199,376)</b>	<b>(679,523)</b>	<b>52,753</b>	<b>1,961,880</b>	<b>2,729,561</b>	<b>2,153,558</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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
<b>As at 31 December 2016</b>									
<b>Liabilities</b>									
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)
<b>Total liabilities (contractual maturity dates)</b>									
	-	-	(2,840,309)	(1,034,249)	(938,703)	(1,748,323)	(1,074,433)	(143,298)	(7,779,315)
<b>Assets</b>									
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	68,846	-	-	454,892	292,677	1,144,087	1,337,941	1,889,278	5,187,721
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
<b>Assets held for managing liquidity risk (contractual maturity dates)</b>									
	69,252	817,089	325,999	701,121	515,804	1,748,192	2,775,677	2,605,098	9,558,232
<b>Net position</b>									
	69,252	817,089	(2,514,310)	(333,128)	(422,899)	(131)	1,701,244	2,461,800	1,778,917

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 utilising the mandatory reserve deposits upon the PBOC's approval.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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
<b>As at 31 December 2017</b>						
<b>Assets</b>						
Derivative financial instruments						
held for trading						
– Foreign exchange and commodity contracts	97	241	497	–	–	835
– Interest rate contracts and others	140	287	718	1,348	100	2,593
<b>Total</b>	<b>237</b>	<b>528</b>	<b>1,215</b>	<b>1,348</b>	<b>100</b>	<b>3,428</b>
<b>Liabilities</b>						
Derivative financial instruments						
held for trading						
– Foreign exchange and commodity contracts	(198)	(105)	(61)	–	–	(364)
– Interest rate contracts and others	(69)	(172)	(546)	(918)	(35)	(1,740)
<b>Total</b>	<b>(267)</b>	<b>(277)</b>	<b>(607)</b>	<b>(918)</b>	<b>(35)</b>	<b>(2,104)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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				Over	
	1 month	1-3 months	3-12 months	1-5 years	5 years	Total
<b>As at 31 December 2016</b>						
<b>Assets</b>						
<b>Derivative financial instruments</b>						
<b>held for trading</b>						
– Foreign exchange and commodity contracts	–	13	538	–	–	551
– Interest rate contracts and others	374	179	437	1,641	270	2,901
<b>Total</b>	<b>374</b>	<b>192</b>	<b>975</b>	<b>1,641</b>	<b>270</b>	<b>3,452</b>
<b>Liabilities</b>						
<b>Derivative financial instruments</b>						
<b>held for trading</b>						
– Foreign exchange and commodity contracts	(185)	(17)	(434)	–	–	(636)
– Interest rate contracts and others	(246)	(236)	(549)	(1,202)	(29)	(2,262)
<b>Total</b>	<b>(431)</b>	<b>(253)</b>	<b>(983)</b>	<b>(1,202)</b>	<b>(29)</b>	<b>(2,898)</b>

##### (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				Over	
	1 month	1-3 months	3-12 months	1-5 years	5 years	Total
<b>As at 31 December 2017</b>						
<b>Derivative financial instruments held for trading</b>						
– Foreign exchange and commodity contracts						
– Outflow	(567,886)	(514,787)	(1,272,481)	(74,494)	–	(2,429,648)
– Inflow	568,303	514,893	1,271,064	74,841	–	2,429,101
<b>Total</b>	<b>417</b>	<b>106</b>	<b>(1,417)</b>	<b>347</b>	<b>–</b>	<b>(547)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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 (Continued)

	Up to				Over	
	1 month	1-3 months	3-12 months	1-5 years	5 years	Total
<b>As at 31 December 2016</b>						
<b>Derivative financial instruments held for trading</b>						
– 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
<b>Total</b>	<b>1,371</b>	<b>633</b>	<b>1,825</b>	<b>99</b>	<b>–</b>	<b>3,928</b>

#### 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				Over		Overdue	Undated	Total
		1 month	1-3 months	3-12 months	1-5 years	5 years				
<b>As at 31 December 2017</b>										
<b>Assets</b>										
Cash and balances with central banks	129,158	–	–	152	–	–	–	809,261	938,571	
Due from banks and other financial institutions	76,427	357,109	81,883	234,917	32,132	–	–	–	782,468	
Financial assets at fair value through profit or loss	4,968	15,175	25,693	70,746	50,297	9,717	270	84,171	261,037	
Loans and advances to customers	–	541,564	285,737	1,089,280	1,041,785	1,347,692	48,441	–	4,354,499	
Financial investments – loans and receivables	–	5,144	6,701	57,857	205,004	112,947	80	–	387,733	
Financial investments – available-for-sale	–	17,690	22,554	55,866	234,404	63,234	–	8,390	402,138	
Financial investments – held-to-maturity	–	26,455	36,150	134,704	895,522	418,544	–	–	1,511,375	
Other assets	50,526	12,095	20,412	31,938	96,116	30,237	418	158,691	400,433	
<b>Total assets</b>	<b>261,079</b>	<b>975,232</b>	<b>479,130</b>	<b>1,675,460</b>	<b>2,555,260</b>	<b>1,982,371</b>	<b>49,209</b>	<b>1,060,513</b>	<b>9,038,254</b>	
<b>Liabilities</b>										
Due to banks and other financial institutions	(392,232)	(450,152)	(544,681)	(727,104)	(247,529)	(21,046)	–	–	(2,382,744)	
Financial liabilities at fair value through profit or loss	(585)	(13,558)	(15,552)	(23,735)	(6,677)	(201)	–	–	(60,308)	
Due to customers	(2,501,308)	(670,109)	(541,850)	(813,336)	(399,275)	(4,467)	–	–	(4,930,345)	
Other liabilities	(47,566)	(67,837)	(91,797)	(212,335)	(419,739)	(149,312)	–	–	(988,586)	
<b>Total liabilities</b>	<b>(2,941,691)</b>	<b>(1,201,656)</b>	<b>(1,193,880)</b>	<b>(1,776,510)</b>	<b>(1,073,220)</b>	<b>(175,026)</b>	<b>–</b>	<b>–</b>	<b>(8,361,983)</b>	
<b>Net amount on liquidity gap</b>	<b>(2,680,612)</b>	<b>(226,424)</b>	<b>(714,750)</b>	<b>(101,050)</b>	<b>1,482,040</b>	<b>1,807,345</b>	<b>49,209</b>	<b>1,060,513</b>	<b>676,271</b>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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
<b>As at 31 December 2016</b>									
<b>Assets</b>									
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	-	441,919	267,736	1,050,597	1,003,801	1,183,888	61,105	-	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	20,804	9,900	17,159	31,075	89,264	28,290	305	138,433	335,230
<b>Total assets</b>	<b>327,237</b>	<b>705,403</b>	<b>514,612</b>	<b>1,650,341</b>	<b>2,355,702</b>	<b>1,832,840</b>	<b>61,510</b>	<b>955,521</b>	<b>8,403,166</b>
<b>Liabilities</b>									
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)
<b>Total liabilities</b>	<b>(2,859,958)</b>	<b>(1,052,154)</b>	<b>(950,827)</b>	<b>(1,749,335)</b>	<b>(1,026,956)</b>	<b>(131,529)</b>	<b>-</b>	<b>-</b>	<b>(7,770,759)</b>
<b>Net amount on liquidity gap</b>	<b>(2,532,721)</b>	<b>(346,751)</b>	<b>(436,215)</b>	<b>(98,994)</b>	<b>1,328,746</b>	<b>1,701,311</b>	<b>61,510</b>	<b>955,521</b>	<b>632,407</b>

#### 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.

Group	Up to 1 year	1-5 years	Over 5 years	Total
<b>As at 31 December 2017</b>				
Loan commitments and credit related commitments	766,298	44,058	1,961	812,317
Guarantees, acceptances and letters of credit	469,307	113,192	17,887	600,386
<b>Total</b>	<b>1,235,605</b>	<b>157,250</b>	<b>19,848</b>	<b>1,412,703</b>
<b>As at 31 December 2016</b>				
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
<b>Total</b>	<b>1,067,862</b>	<b>161,141</b>	<b>23,466</b>	<b>1,252,469</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.4 Fair value of financial assets and liabilities

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

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- (3) Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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, certificates of deposits with quotations from active market, precious metals, the second tier capital bonds and bond investments trading in inter-bank market. The fair value of RMB denominated bonds is determined based on the valuation result from the China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates, early redemption rate and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and receivables, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

For convertible loans, unlisted equities and unlisted funds 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 considering market liquidity. The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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 31 December 2017		As at 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Financial investments – loans and receivables	387,733	384,546	385,020	385,014
Financial investments – held-to-maturity	1,511,375	1,471,789	1,407,449	1,409,564
<b>Financial liabilities</b>				
Debt securities issued	(269,615)	(267,754)	(208,880)	(207,882)

#### *Fair value hierarchy of financial instruments not measured at fair value*

	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2017</b>				
<b>Financial assets</b>				
Financial investments – loans and receivables	–	104,618	279,928	384,546
Financial investments – held-to-maturity	16,115	1,455,674	–	1,471,789
<b>Financial liabilities</b>				
Debt securities issued	–	(267,754)	–	(267,754)

	Level 1	Level 2	Level 3	Total
<b>As at 31 December 2016</b>				
<b>Financial assets</b>				
Financial investments – loans and receivables	–	99,751	285,263	385,014
Financial investments – held-to-maturity	9,979	1,399,585	–	1,409,564
<b>Financial liabilities</b>				
Debt securities issued	–	(207,882)	–	(207,882)

The carrying amounts and fair values of other 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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
<b>As at 31 December 2017</b>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
– Governments and central banks	5,102	6,980	–	12,082
– Public sector entities	88	2,127	–	2,215
– Banks and other financial institutions	4,117	41,863	–	45,980
– Corporate entities	826	27,827	–	28,653
Fund investments	60	81,770	2,042	83,872
Equity securities	2	–	298	300
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	31,655	–	31,655
– Interest rate contracts and others	–	2,352	–	2,352
Precious metal contracts	–	41,198	–	41,198
	10,195	235,772	2,340	248,307
Financial assets designated at fair value through profit or loss				
Loans to banks and other financial institutions	–	12,730	–	12,730
	–	12,730	–	12,730
Available-for-sale financial assets				
Debt securities				
– Governments and central banks	14,711	23,072	–	37,783
– Public sector entities	69	4,282	–	4,351
– Banks and other financial institutions	123,843	178,575	–	302,418
– Corporate entities	20,253	25,339	3,604	49,196
Fund investments and others	–	2,101	482	2,583
Equity securities	3,158	–	2,649	5,807
	162,034	233,369	6,735	402,138
<b>Total assets</b>	<b>172,229</b>	<b>481,871</b>	<b>9,075</b>	<b>663,175</b>
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,485)	–	–	(2,485)
Certificates of deposit issued	–	(12,654)	–	(12,654)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(31,819)	–	(31,819)
– Interest rate contracts and others	–	(1,525)	–	(1,525)
Financial liabilities related to precious metal contracts	–	(11,825)	–	(11,825)
Debt securities issued	–	(18,047)	–	(18,047)
<b>Total liabilities</b>	<b>(2,485)</b>	<b>(75,870)</b>	<b>–</b>	<b>(78,355)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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
<b>As at 31 December 2016</b>				
Financial assets at fair value through profit or loss 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
<b>Total assets</b>	<b>188,764</b>	<b>364,510</b>	<b>5,925</b>	<b>559,199</b>
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)
<b>Total liabilities</b>	<b>(3,184)</b>	<b>(101,750)</b>	<b>–</b>	<b>(104,934)</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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

	Financial assets at fair value through profit or loss	Available- for-sale financial assets
Balance at 1 January 2017	–	5,925
Total gains or losses		
– Net gains arising from trading activities	12	(286)
– Other comprehensive income	–	(1,132)
Additions	2,328	2,264
Disposals	–	(30)
Transfer from current level to other levels	–	(6)
Balance at 31 December 2017	2,340	6,735
Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2017		
– Realised gains/(losses)	12	(286)
– Unrealised gains/(losses)	–	(1,132)

	Financial assets at fair value through profit or loss	Available- for-sale financial assets
Balance at 1 January 2016	–	1,521
Total gains or losses		
– Net gains arising from trading activities	–	15
– Other comprehensive income	–	–
Additions	–	4,879
Disposals	–	–
Transfer from current level to other levels	–	(490)
Balance at 31 December 2016	–	5,925
Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2016		
– Realised gains/(losses)	–	15
– Unrealised gains/(losses)	–	–

These financial instruments with fair values determined based on unobservable inputs are primarily convertible loans, unlisted equities and unlisted funds. The fair value of these financial instruments is determined primarily using market comparison method or discounted cash flow model. These valuation methods involve inputs from various unobservable assumptions such as price over book ratio and marketability discounts.

As at 31 December 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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 31 December 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.

### 3.6 Capital management

The Group's objectives in managing "capital", which is a broader concept than the "shareholder equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group's ability to maintain a stable operation so as to continue provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The group management adopts administrative measures issued by CBRC, which was developed based on guideline issued by the Based Committee, in monitoring its capital adequacy and the usage of regulatory capital on a quarterly basis.

The *Administrative Measures for the Capital of Commercial Banks (Provisional)* specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on Core Tier 1 Capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on Core Tier 1 Capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;
- Additional Tier 1 Capital, including additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;
- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* are as follows:

Item	As at 31 December 2017	As at 31 December 2016
Core Tier 1 Capital adequacy ratio (%)	10.79	11.00
Tier 1 Capital adequacy ratio (%)	11.86	12.16
Capital adequacy ratio (%)	14.00	14.02
Core Tier 1 Capital	613,104	571,466
Core Tier 1 Capital deductions	(3,650)	(3,335)
Net Core Tier 1 Capital	609,454	568,131
Additional Tier 1 Capital	59,975	59,920
Net Tier 1 Capital	669,429	628,051
Tier 2 Capital	120,952	95,910
Net Capital	790,381	723,961
Risk-weighted asset	5,646,313	5,163,250

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 4 NET INTEREST INCOME

	Year ended 31 December	
	2017	2016
<b>Interest income</b>		
Loans and advances to customers	200,207	189,973
Financial investments	83,213	71,144
Due from banks and other financial institutions	20,528	15,026
Balances with central banks	13,570	13,701
	<b>317,518</b>	<b>289,844</b>
<b>Interest expense</b>		
Due to customers	(89,337)	(86,392)
Due to banks and other financial institutions	(77,576)	(55,720)
Certificates of deposit issued	(13,171)	(5,080)
Debt securities issued	(10,068)	(7,781)
	<b>(190,152)</b>	<b>(154,973)</b>
<b>Net interest income</b>	<b>127,366</b>	<b>134,871</b>
Including:		
Interest income on impaired financial assets	1,812	1,959
Interest income on financial investments at fair value through profit or loss	3,318	4,192
Interest expense on financial liabilities at fair value through profit or loss	773	610

## 5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2017	2016
Bank cards	16,267	12,065
Management service	14,948	12,502
Investment banking	4,518	5,306
Agency service	3,216	4,636
Guarantee and commitment	2,554	2,962
Settlement service	1,884	1,722
Others	673	691
	<b>44,060</b>	<b>39,884</b>
	Year ended 31 December	
	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	907	873
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	3,124	2,437



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2017	2016
Bank card business	2,382	2,142
Settlement service	716	671
Others	411	276
	<b>3,509</b>	<b>3,089</b>

	Year ended 31 December	
	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	7	11

### 7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2017	2016
Trading securities	1,140	(2,436)
Foreign exchange	(1,052)	4,520
Interest rate instruments and others	(485)	465
	<b>(397)</b>	<b>2,549</b>

Net gains or losses 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 or losses 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 or losses arising from trading activities for the year ended 31 December 2017 include a loss of RMB24 million (for the year ended 31 December 2016: a gain of RMB127 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 8 OTHER OPERATING INCOME

	Year ended 31 December	
	2017	2016
Leasing income	8,661	5,473
Income from sales of precious metal merchandise	2,242	1,920
Revaluation of investment property	192	41
Profit on sales of property and equipment	123	94
Others	1,598	1,548
	<b>12,816</b>	<b>9,076</b>

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

## 9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Year ended 31 December	
	2017	2016
Loans and advances to customers (Note 19.2)		
– Collectively assessed losses provision	14,660	9,439
– Individually assessed losses provision	15,127	19,041
	<b>29,787</b>	<b>28,480</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 10 OTHER OPERATING EXPENSE

	Year ended 31 December	
	2017	2016
Staff costs (Note 11)	27,942	26,040
General operational and administrative expense	26,585	26,310
Depreciation and amortisation	5,878	6,053
Leasing cost	3,437	1,886
Taxes and surcharges (a)	2,481	5,962
Provision for impairment of other receivables	991	85
Provision for impairment of finance lease receivables	374	973
Provision for/(Reversal of) impairment loss on financial investments ((b), Note 20)	221	643
Charge/(Reversal) of provision for outstanding litigations	110	(40)
Others	3,238	2,567
	<b>71,257</b>	<b>70,479</b>

(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

	Year ended 31 December	
	2017	2016
Loans and receivables (Note 20)	(195)	13
Available-for-sale financial assets (Note 20)	412	621
Held-to-maturity investments (Note 20)	4	9
Total	<b>221</b>	<b>643</b>

## 11 STAFF COSTS

	Year ended 31 December	
	2017	2016
Salaries and bonuses	19,407	17,850
Post-employment benefit (a)	3,259	3,176
Housing benefits and subsidies	328	392
Other social security and benefit costs	4,948	4,622
	<b>27,942</b>	<b>26,040</b>

(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 11 STAFF COSTS (Continued)

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

#### **Defined contribution plans** (Continued)

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2017	2016
Expenses incurred for retirement benefit plans and unemployment insurance	2,472	2,409
Expenses incurred for annuity plan	758	746
<b>Total</b>	<b>3,230</b>	<b>3,155</b>

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

	As at	As at
	31 December 2017	31 December 2016
Expenses incurred for retirement benefit plans and unemployment insurance	53	26
Expenses incurred for annuity plan	12	68
<b>Total</b>	<b>65</b>	<b>94</b>

#### **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	As at
	31 December 2017	31 December 2016
Statement of financial position – Obligations for pension benefits	395	427

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

	Year ended 31 December	
	2017	2016
Components of defined benefit costs recognised in profit or loss	28	21
Components of defined benefit costs recognised in other comprehensive income	(31)	13
<b>Total</b>	<b>(3)</b>	<b>34</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 11 STAFF COSTS *(Continued)*

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

#### **Defined benefit plan** *(Continued)*

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2017	2016
Present value of unfunded obligations at the beginning of the year	427	443
Retirement benefits paid during the year	(29)	(50)
Net interest expense	26	18
Past service cost	2	3
Actuarial (gains)/losses	(31)	13
Present value of unfunded obligations at the end of the year	395	427

The average duration of the supplementary retirement benefits plan at 31 December 2017 is 11.75 years (31 December 2016: 12.62 years).

The Group expects to make a contribution of RMB42 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.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate or inflation rate, which were 4.05% (31 December 2016: 3.49%) and 1.58% (31 December 2016: 1.97%) respectively as at 31 December 2017. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 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).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB24 million (increase by RMB27 million).
- (2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB28 million (decrease by RMB25 million).
- (3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB27 million (decrease by RMB27 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 11 STAFF COSTS (Continued)

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

#### **Defined benefit plan (Continued)**

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (a) Directors', supervisors' and senior management's emoluments before taxation

Name	Year ended 31 December 2017			Total
	Emoluments	Remuneration	Other benefits	
<i>(in thousands of RMB)</i>				
<b>Executive directors</b>				
Mr. Peng, Chun	-	519	168	687
Ms. Yu, Yali	-	467	163	630
Mr. Hou, Weidong	-	467	163	630
<b>Non-executive directors</b>				
Mr. Wang, Dongsheng	-	-	-	-
Mr. Wang, Taiyin	-	672	159	831
Mr. Song, Guobin	-	224	76	300
Mr. He, Zhaobin	-	224	76	300
Ms. Huang, Bijuan	-	-	-	-
Mr. Liu, Hanxing	-	-	-	-
Mr. Luo, Mingde	-	-	-	-
Mr. Liu, Haoyang	-	-	-	-
Mr. Chen, Zhiwu	250	-	-	250
Mr. Yu, Yongshun	-	-	-	-
Ms. Li, Jian	250	-	-	250
Mr. Liu, Li	250	-	-	250
Mr. Yang, Zhiwei	250	-	-	250
Mr. Hu, Zhanyun	24	-	-	24
<b>Supervisors</b>				
Mr. Song, Shuguang	-	519	183	702
Mr. Gu, Huizhong	-	-	-	-
Mr. Zhao, Yuguo	-	-	-	-
Mr. Liu, Mingxing	-	-	-	-
Ms. Zhang, Lili	-	-	-	-
Mr. Wang, Xueqing	-	-	-	-
Ms. Tang, Xinyu	-	-	-	-
Ms. Xia, Zhihua	-	-	-	-
Mr. Li, Yao	-	-	-	-
Ms. Chen, Qing	-	853	150	1,003
Mr. Du, Yarong	-	841	150	991
Mr. Fan, Jun	-	829	150	979
Mr. Xu, Ming	-	833	150	983
Total	1,024	6,448	1,588	9,060
<b>Directors and supervisors retired/ resigned in 2017</b>				
Mr. Niu, Ximing	-	445	177	622
Mr. Hu, Huating	-	224	51	275
Mr. Liu, Changshun	-	448	105	553
Mr. Peter, Hugh Nolan	226	-	-	226
Total	226	1,117	333	1,676

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

### (a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

*(in thousands of RMB)*

Name	Year ended 31 December 2016			Total
	Emoluments	Remuneration	Other benefits	
<b>Executive directors</b>				
Mr. Niu, Ximing	–	652	162	814
Mr. Peng, Chun	–	652	162	814
Ms. Yu, Yali	–	587	158	745
Mr. Hou, Weidong	–	587	158	745
<b>Non-executive directors</b>				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Hu, Huating	–	1,389	204	1,593
Mr. Wang, Taiyin	–	1,389	204	1,593
Mr. Liu, Changshun	–	1,389	204	1,593
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Peter, Hugh Nolan	250	–	–	250
Mr. Chen, Zhiwu	250	–	–	250
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	49	–	–	49
<b>Supervisors</b>				
Mr. Song, Shuguang	–	652	174	826
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
<b>Total</b>	<b>1,049</b>	<b>7,297</b>	<b>1,426</b>	<b>9,772</b>

<sup>(1)</sup> The total compensation package for directors and supervisors for the year ended 31 December 2017 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2017 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2016 was disclosed in information on the first interim general meeting of stockholders in 2017 issued on 25 September 2017.

<sup>(2)</sup> Staff supervisors Ms. Chen, Qing, Mr. Du, Yarong, Mr. Fan, Jun and Mr. Xu, Ming received compensation according to their staff position of the Bank and did not received additional compensation for being staff supervisors.

<sup>(3)</sup> During 2017 and 2016, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

<sup>(4)</sup> Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

### (b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2017	2016
Salary	13	14
Discretionary bonuses	12	13
Employer's contribution to pension scheme and other benefits	2	1
<b>Total</b>	<b>27</b>	<b>28</b>

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of employees As at 31 December	
	2017	2016
HKD2,500,001 – 3,000,000	–	–
HKD3,000,001 – 3,500,000	–	–
HKD3,500,001 – 4,000,000	–	–
HKD4,000,001 – 4,500,000	2	–
HKD4,500,001 – 5,000,000	2	1
HKD5,000,001 – 5,500,000	–	3
HKD5,500,001 – 6,000,000	–	–
HKD6,000,001 – 6,500,000	–	–
HKD8,000,001 – 8,500,000	1	1
HKD10,000,001 – 10,500,000	–	–
	<b>5</b>	<b>5</b>

During 2017 and 2016, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 13 INCOME TAX

	Year ended 31 December	
	2017	2016
Current tax		
– PRC enterprise income tax	13,602	13,718
– Hong Kong profits tax	826	770
– Overseas taxations	408	326
	14,836	14,814
Deferred income tax (Note 24)	(2,262)	3,645
	12,574	18,459

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.

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:

	Year ended 31 December	
	2017	2016
Profit before tax	83,265	86,110
Tax calculated at a tax rate of 25%	20,816	21,528
Effect of different tax rates in other countries (or regions)	(31)	23
Tax effect of expense not deductible for tax purposes <sup>(1)</sup>	1,966	4,344
Tax effect arising from income not subject to tax <sup>(2)</sup>	(10,282)	(7,489)
Income tax adjustment for prior years	105	53
Income tax expense	12,574	18,459

<sup>(1)</sup> 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.

<sup>(2)</sup> The income not subject to tax are mainly generated by PRC treasury bonds and municipal government bonds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 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.

	Year ended 31 December	
	2017	2016
Net profit attributable to shareholders of the Bank	70,223	67,210
Less: Net profit attributable to preference shareholders of the Bank	(2,693)	(884)
Net profit attributable to ordinary shareholders of the Bank	67,530	66,326
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)	0.91	0.89

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 33 Preference Shares. For the purpose of calculating basic earnings per share, 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 period ended 31 December 2017, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

## 15 CASH AND BALANCES WITH CENTRAL BANKS

	As at	As at
	31 December 2017	31 December 2016
Cash	16,623	17,612
Mandatory reserve deposits	802,012	782,821
Excess reserve deposits	112,534	181,487
Balances with central banks other than reserve deposits	7,402	9,515
	938,571	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	As at
	31 December 2017	31 December 2016
	%	%
Domestic mandatory reserve rate for deposits denominated in RMB	16.50	17.00
Domestic mandatory reserve rate for deposits denominated in foreign currencies	5.00	5.00

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2017	As at 31 December 2016
Due from banks and other financial institutions		
– Banks operating in Mainland China	109,025	132,556
– Banks operating outside Mainland China	35,400	47,397
Financial assets held under resale agreements		
– Securities	57,051	58,043
– Bills	10,226	10,000
Placements with and loans to banks		
– Banks operating in Mainland China	194,348	117,207
– Banks operating outside Mainland China	98,342	83,436
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	274,307	263,710
– Placements with and loans to other financial institutions outside Mainland China	3,769	3,438
	<b>782,468</b>	<b>715,787</b>

As at 31 December 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 RMB110,662 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 during 2017 was RMB51,429 million and the weighted average outstanding period was 4.13 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2017	As at 31 December 2016
Derivative financial instruments (Note 18)	34,007	37,223
Financial assets held for trading		
Government bonds		
– Listed in Hong Kong	2,414	2,422
– Listed outside Hong Kong (a)	7,062	6,466
– Unlisted	2,606	1,426
Other debt securities		
– Listed in Hong Kong	6,178	4,185
– Listed outside Hong Kong (a)	69,894	84,079
– Unlisted – corporate entities	–	10
– Unlisted – banks	776	490
Equity securities		
– Listed in Hong Kong	10	1
– Listed outside Hong Kong	–	33
– Unlisted	290	–
Fund investments		
– Listed in Hong Kong	–	47
– Listed outside Hong Kong	5	181
– Unlisted	83,867	17,828
Precious metal contracts	41,198	40,819
Subtotal	248,307	195,210
Financial assets designated at fair value through profit or loss Loans to banks and other financial institutions	12,730	21,234
Total	261,037	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 31 December 2017	As at 31 December 2016
Financial investments – financial assets at fair value through profit or loss		
– Banks and other financial institutions	129,853	50,142
– Corporate entities	28,952	56,238
– Governments and central banks	12,082	10,314
– Public sector entities	2,215	474
	173,102	117,168

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(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 31 December 2017	Contractual/ notional amount	Fair values	
		Assets	Liabilities
Foreign exchange and commodity contracts	2,472,503	31,655	(31,819)
Interest rate contracts and others	721,892	2,352	(1,525)
Total amount of derivative instruments recognised	3,194,395	34,007	(33,344)

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)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 18 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2017	As at 31 December 2016
RMB	1,518,866	1,305,983
USD	1,343,072	1,187,380
HKD	200,543	130,261
Others	131,914	182,976
<b>Total</b>	<b>3,194,395</b>	<b>2,806,600</b>

### Hedge accounting

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

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

As at 31 December 2016	Contractual/ notional Amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	57,004	786	(215)
Derivative financial instruments designated as hedging instruments in cash flow hedges	21,103	150	(786)
<b>Total</b>	<b>78,107</b>	<b>936</b>	<b>(1,001)</b>

#### (a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Part of the purchased interest rate swap contract is designated as hedging instruments. The interest rate swap contract is identical with the corresponding hedged items in terms of interest rate, term and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. After testing, the Group's management considers the hedging relationship for the current year is highly effective. The hedged items include available-for-sale financial assets, loans and advances to customers and certificates of deposit issued.

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

	As at 31 December 2017	As at 31 December 2016
Net gains on hedging instruments	256	727
Net Losses on hedged items attributable to the hedge risk	(348)	(780)
<b>Net losses from fair value hedges</b>	<b>(92)</b>	<b>(53)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 18 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedge accounting (Continued)

### (b) Cash flow hedge

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

For the year ended 31 December 2017, the Group's profit from the hedge instrument of RMB23 million (for the year ended 31 December 2016: a net loss of RMB37 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 year ended 31 December 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 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

	As at 31 December 2017	As at 31 December 2016
Loans and advances to customers	4,456,914	4,102,959
Less: Allowance for collectively assessed impairment losses	(67,545)	(63,756)
Less: Allowance for individually assessed impairment losses	(34,870)	(30,157)
	<b>4,354,499</b>	<b>4,009,046</b>

### 19.2 Movements in allowance for losses on loans and advances

	Year ended 31 December 2017		Year ended 31 December 2016	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
<b>Balance at the beginning of the year</b>	63,756	30,157	64,004	23,434
Net impairment allowances for loans charged to profit or loss (Note 9)	14,660	15,127	9,439	19,041
– Impairment allowances for loans	14,660	16,724	9,439	20,830
– Reversal of impairment allowances for loans	–	(1,597)	–	(1,789)
Recoveries of loans written-off in previous years	–	917	–	808
Unwind of discount on allowances during the year	–	(1,812)	–	(1,959)
Loans written off during the year as uncollectible	–	(19,554)	–	(21,225)
Other transfer (out)/in	(10,596)	10,178	(9,902)	9,902
Acquisition of subsidiaries	–	–	44	76
Exchange differences	(275)	(143)	171	80
<b>Balance at the end of the year</b>	<b>67,545</b>	<b>34,870</b>	<b>63,756</b>	<b>30,157</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(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)

	Year ended 31 December 2017		Year ended 31 December 2016	
	Corporate Loan	Individual Loan	Corporate Loan	Individual Loan
<b>Balance at the beginning of the year</b>	<b>75,044</b>	<b>18,869</b>	70,540	16,898
Net impairment allowances for loans charged to profit or loss	<b>27,223</b>	<b>2,564</b>	23,857	4,623
– Impairment allowances for loans	<b>28,536</b>	<b>2,848</b>	25,487	4,782
– Reversal of impairment allowances for loans	<b>(1,313)</b>	<b>(284)</b>	(1,630)	(159)
Recoveries of loans written-off in previous years	<b>436</b>	<b>481</b>	344	464
Unwind of discount on allowances during the year	<b>(1,589)</b>	<b>(223)</b>	(1,756)	(203)
Loans written off during the year as uncollectible	<b>(17,191)</b>	<b>(2,363)</b>	(18,258)	(2,967)
Other transfer out	–	<b>(418)</b>	–	–
Acquisition of subsidiaries	–	–	116	4
Exchange differences	<b>(341)</b>	<b>(77)</b>	201	50
<b>Balance at the end of the year</b>	<b>83,582</b>	<b>18,833</b>	75,044	18,869

### 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		Sub-total	Total	Identified impaired Gross loans and advances as a % of total gross loans and advances (%)
	Loans and advances for which the allowance is collectively assessed	For which the allowance is collectively assessed	For which the allowance is individually assessed				
<b>As at 31 December 2017</b>							
Gross loans and advances	4,390,012	8,185	58,717	66,902	4,456,914	1.50	
Allowance for impairment losses	(59,920)	(7,625)	(34,870)	(42,495)	(102,415)		
Net loans and advances to customers	4,330,092	560	23,847	24,407	4,354,499		
<b>As at 31 December 2016</b>							
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		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

### 20 FINANCIAL INVESTMENTS

	As at 31 December 2017	As at 31 December 2016
Loans and receivables – at amortised cost		
– Listed outside Hong Kong (a)	109,888	83,850
– Unlisted	280,453	303,973
Less: Impairment allowance	(2,608)	(2,803)
Loans and receivables (net)	387,733	385,020
Available-for-sale debt securities – at fair value		
– Listed in Hong Kong	66,827	46,971
– Listed outside Hong Kong (a)	222,352	164,078
– Unlisted	104,569	123,000
Available-for-sale debt securities	393,748	334,049
Available-for-sale equity securities – at fair value		
– Listed in Hong Kong	1,263	666
– Listed outside Hong Kong	1,895	2,934
– Unlisted	2,649	3,204
Available-for-sale equity securities	5,807	6,804
Available-for-sale fund investments and others – at fair value		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	247	233
– Unlisted	2,336	1,669
Available-for-sale fund investments and others	2,583	1,902
Total available-for-sale financial assets	402,138	342,755
Held-to-maturity debt securities – at amortised cost		
– Listed in Hong Kong	2,158	1,312
– Listed outside Hong Kong (a)	1,506,878	1,405,133
– Unlisted	2,694	1,354
Less: Impairment allowance	(355)	(350)
Held-to-maturity investments (net)	1,511,375	1,407,449

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 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
<b>Allowance for impairment losses</b>				
As at 1 January 2017	(2,803)	(1,175)	(350)	(4,328)
Provision for impairment	(262)	(438)	(10)	(710)
Transfers in	–	–	–	–
Reversal of impairment allowances	457	26	6	489
Disposals	–	43	–	43
Written-off	–	2	–	2
Recovery after written-off	–	(26)	–	(26)
Exchange differences	–	31	(1)	30
<b>As at 31 December 2017</b>	<b>(2,608)</b>	<b>(1,537)</b>	<b>(355)</b>	<b>(4,500)</b>
	Loans and receivables	Available- for-sale	Held-to- maturity	Total
<b>Allowance for impairment losses</b>				
As at 1 January 2016	(2,791)	(1,232)	(339)	(4,362)
Provision for impairment	(90)	(622)	(9)	(721)
Transfers in	–	(1)	–	(1)
Reversal of impairment allowances	77	1	–	78
Disposals	4	57	–	61
Written-off	–	656	–	656
Recovery after written-off	–	–	–	–
Exchange differences	(3)	(34)	(2)	(39)
<b>As at 31 December 2016</b>	<b>(2,803)</b>	<b>(1,175)</b>	<b>(350)</b>	<b>(4,328)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 20 FINANCIAL INVESTMENTS (Continued)

Financial investments analysed by issuer are as follows:

	As at 31 December 2017	As at 31 December 2016
<b>Loans and receivables</b>		
– Corporate entities	273,065	242,496
– Governments and central banks	104,630	80,572
– Banks and other financial institutions	12,646	64,755
Less: Impairment allowance	(2,608)	(2,803)
Loans and receivables (net)	387,733	385,020
<b>Available-for-sale financial assets</b>		
– Banks and other financial institutions	307,246	231,360
– Corporate entities	52,758	69,188
– Governments and central banks	37,783	37,735
– Public sector entities	4,351	4,472
Total	402,138	342,755
<b>Held-to-maturity investments</b>		
– Governments and central banks	1,152,116	1,003,962
– Banks and other financial institutions	280,352	306,591
– Corporate entities	50,165	68,741
– Public sector entities	29,097	28,505
Less: Impairment allowance	(355)	(350)
Held-to-maturity investments (net)	1,511,375	1,407,449

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

	As at 31 December 2017	As at 31 December 2016
Available-for-sale financial investment (at fair value)		
– listed in Hong Kong	795	–
– listed outside Hong Kong	11,863	–
– unlisted	40,603	47,534
	53,261	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 31 December 2017	As at 31 December 2016
Within 3 months	29,686	2,430
3 months to 12 months	16,314	10,316
1 year to 5 years	7,261	34,788
	53,261	47,534

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 21 PRINCIPAL SUBSIDIARIES

### 21.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group (%)	Principal activities
Bank of Communications Financial Leasing Co., Ltd.	Mainland China	20 Dec. 2007	RMB8,500,000,000	100	Financial leasing
Bank of Communications International Trust Co., Ltd.	Mainland China	18 Oct. 2007	RMB5,764,705,882	85	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.	Mainland China	4 Aug. 2005	RMB200,000,000	65	Fund management
BoCommlife Insurance Company Limited	Mainland China	27 Jan. 2010	RMB2,100,000,000	62.50	Life Insurance
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Hong Kong	2 May 2007	HKD2,734,392,000	73.14	Securities dealing and brokerage
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong	1 Nov. 2000	HKD400,000,000	100	General insurance and reinsurance
Dayi BoCom Xingmin Rural Bank Ltd.	Mainland China	26 Sep. 2008	RMB60,000,000	61	Commercial banking
Zhejiang Anji BoCom Rural Bank Ltd.	Mainland China	9 April 2010	RMB180,000,000	51	Commercial banking
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Mainland China	5 May 2011	RMB150,000,000	51	Commercial banking
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Mainland China	21 Sep. 2012	RMB150,000,000	51	Commercial banking
Bank of Communications (UK) Limited	UK	29 July 2011	USD100,000,000	100	Commercial banking
Bank of Communications (Luxemburg) Limited	Luxembourg	7 May 2015	EUR100,000,000	100	Commercial banking
BoCom Brazil Holding Company Ltda	Brazil	11 Mar. 2016	BRL447,150,212	100	Investment
Banco Bocom BBM S.A.	Brazil	29 Jun. 1967	BRL469,300,389	80	Commercial banking
Bank of Communications Financial Assets Investment Co., Ltd. <sup>(3)</sup>	Mainland China	29 Dec. 2017	RMB10,000,000,000	100	Investment

<sup>(1)</sup> These subsidiaries incorporated in PRC are all limited liability companies.

As at 31 December 2017, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

<sup>(2)</sup> For details of the debt securities issued by subsidiaries, please refer to Note 30.

<sup>(3)</sup> In December 2017, the bank set up a wholly-owned subsidiary, Bank of Communications Financial Assets Investment Co.,Ltd. As at 31 December 2017 the Bank held 100% of the total capital of Bank of Communications Financial Assets Investment Co.,Ltd.

<sup>(4)</sup> In May 2017, Bank of Communications International Holdings Company Limited listed on the main board of Hong Kong Stock Exchange

### 21.2 Changes of principal subsidiaries

As at 31 December 2017, the Group's investments and shareholdings in principal subsidiaries remained unchanged.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 21 PRINCIPAL SUBSIDIARIES (Continued)

#### 21.3 Auditors of subsidiaries

For the year ended 31 December 2017, PricewaterhouseCoppers was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2016: PricewaterhouseCoppers).

For the year ended 31 December 2017, PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2016: PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2017, Bank of Communications (UK) Limited was audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2016: PricewaterhouseCoopers LLP).

For the year ended 31 December 2017, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2016: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2017, BoCom Brazil Holding Company Ltda and Banco Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2016: PricewaterhouseCoopers LLP).

### 22 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	As at 31 December 2017	As at 31 December 2016
Investment in associates		
Investment cost	2,891	362
Net profit adjusted by the equity method	439	307
Changes in other equity	26	45
Sub-total	3,356	714
Investment in joint venture	1	–
Total	3,357	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 31 December 2017.

There are 15 directors at the 6th Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd. with effect from 26 April 2017, 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. As such, the Group transferred the investment in the company at fair value amounting to RMB2,532 million from available for sale financial assets to interest in associates, and recycled RMB2,043 million from equity to net gains arising from financial investments on that date.

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 31 December 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 23 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
<b>Cost</b>						
As at 1 January 2017	53,391	7,120	25,174	61,627	7,122	154,434
Additions	600	1,799	2,250	22,264	359	27,272
Transfer in from investment properties	674	-	-	-	-	674
Disposals	(419)	(210)	(2,240)	(1,006)	(31)	(3,906)
Construction in progress transfer in	3,912	(4,423)	-	-	511	-
Other transfers in/(out)	-	-	-	-	-	-
<b>As at 31 December 2017</b>	<b>58,158</b>	<b>4,286</b>	<b>25,184</b>	<b>82,885</b>	<b>7,961</b>	<b>178,474</b>
<b>Accumulated depreciation</b>						
As at 1 January 2017	(13,288)	-	(19,066)	(4,072)	(3,562)	(39,988)
Charge for the year	(1,829)	-	(2,613)	(3,489)	(704)	(8,635)
Transfer in from investment properties	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Disposals	111	-	2,072	543	15	2,741
<b>As at 31 December 2017</b>	<b>(15,006)</b>	<b>-</b>	<b>(19,607)</b>	<b>(7,018)</b>	<b>(4,251)</b>	<b>(45,882)</b>
<b>Allowance for impairment losses</b>						
As at 1 January 2017	-	(16)	-	(5)	-	(21)
Provision for impairment	-	-	-	(80)	-	(80)
Decrease	-	-	-	1	-	1
<b>As at 31 December 2017</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>(84)</b>	<b>-</b>	<b>(100)</b>
<b>Net book value</b>						
As at 31 December 2017	43,152	4,270	5,577	75,783	3,710	132,492

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 23 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
<b>Cost</b>						
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 in from 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
<b>Accumulated depreciation</b>						
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)
<b>Allowance for impairment losses</b>						
As at 1 January 2016	–	(16)	–	(2)	–	(18)
Provision for impairment	–	–	–	(3)	–	(3)
Decrease	–	–	–	–	–	–
As at 31 December 2016	–	(16)	–	(5)	–	(21)
<b>Net book value</b>						
As at 31 December 2016	40,103	7,104	6,108	57,550	3,560	114,425

As at 31 December 2017, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB75,773 million (31 December 2016: RMB57,483 million).

As at 31 December 2017, the property and equipment with re-registration procedure not completed amounted to RMB203 million (31 December 2016: RMB211 million). However, this registration process does not affect the rights of the Bank to these assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 24 DEFERRED INCOME TAX

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	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
Balance at 1 January 2017	12,401	109	107	(628)	(644)	(509)	(172)	1,758	12,422
Recognised in profit or loss	443	1	(8)	-	521	(13)	1,088	230	2,262
Recognised in other comprehensive income	-	-	-	1,292	(40)	-	-	-	1,252
Balance at 31 December 2017	12,844	110	99	664	(163)	(522)	916	1,988	15,936

	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	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
Balance at 1 January 2016	16,389	116	111	(555)	(273)	(77)	(212)	1,066	16,565
Recognised in profit or loss	(3,988)	(7)	(4)	-	(391)	13	40	692	(3,645)
Recognised in other comprehensive income	-	-	-	(73)	20	(445)	-	-	(498)
Balance at 31 December 2016	12,401	109	107	(628)	(644)	(509)	(172)	1,758	12,422

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 24 DEFERRED INCOME TAX (Continued)

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

	As at 31 December 2017		As at 31 December 2016	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
<b>Deferred income tax liabilities</b>				
Changes in fair value of derivative instruments	(34,007)	(8,503)	(37,223)	(9,294)
Change in fair value of investment properties	(2,291)	(522)	(2,255)	(509)
Change in fair value of available-for-sale financial assets	(1,348)	(382)	(2,329)	(636)
Change in fair value of financial assets and liabilities at fair value through profit or loss	–	–	(694)	(172)
Other temporary differences	(807)	(220)	–	–
	<b>(38,453)</b>	<b>(9,627)</b>	<b>(42,501)</b>	<b>(10,611)</b>
<b>Deferred income tax assets</b>				
Allowance for impairment losses	51,233	12,844	49,489	12,401
Changes in fair value of derivative instruments	33,344	8,340	34,599	8,650
Change in fair value of available-for-sale financial assets	4,797	1,046	58	8
Outstanding litigations and unsettled obligation	449	110	448	109
Retirement supplementary pension payable	395	99	427	107
Change in fair value of financial assets and liabilities at fair value through profit or loss	3,681	916	–	–
Other temporary differences	7,899	2,208	7,016	1,758
	<b>101,798</b>	<b>25,563</b>	<b>92,037</b>	<b>23,033</b>
Net deferred income tax assets	<b>63,345</b>	<b>15,936</b>	<b>49,536</b>	<b>12,422</b>

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

	As at 31 December 2017	As at 31 December 2016
Deferred income tax assets	16,456	12,567
Deferred income tax liabilities	(520)	(145)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 25 OTHER ASSETS

	As at 31 December 2017	As at 31 December 2016
Finance lease receivables (c)	122,342	117,676
Less: Impairment allowance for finance lease receivables (d)	(3,586)	(3,219)
Interest receivable	54,561	47,803
Settlement accounts	24,196	6,495
Other receivables and prepayments	19,536	13,273
Less: Impairment allowance for other receivables and prepayments (d)	(1,907)	(673)
Investment properties (b)	8,217	8,762
Land use rights and others	1,834	1,016
Intangible assets (a)	1,328	1,172
Precious metal	1,031	1,268
Foreclosed assets	906	892
Leasehold improvement	696	818
Goodwill (e)	453	471
Rental deposits	95	127
Others	18,426	11,643
	<b>248,128</b>	<b>207,524</b>

### (a) Intangible assets

	Software
<b>Cost</b>	
As at 1 January 2017	2,380
Additions	433
Transfers in	-
Disposals	(33)
<b>As at 31 December 2017</b>	<b>2,780</b>
<b>Accumulated amortisation</b>	
As at 1 January 2017	(1,208)
Amortisation expense	(247)
Transfers in	-
Disposals	3
<b>As at 31 December 2017</b>	<b>(1,452)</b>
<b>Net book value</b>	<b>1,328</b>

	Software
<b>Cost</b>	
As at 1 January 2016	2,133
Additions	299
Transfers in	7
Disposals	(59)
<b>As at 31 December 2016</b>	<b>2,380</b>
<b>Accumulated amortisation</b>	
As at 1 January 2016	(974)
Amortisation expense	(229)
Transfers in	(5)
Disposals	-
<b>As at 31 December 2016</b>	<b>(1,208)</b>
<b>Net book value</b>	<b>1,172</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 25 OTHER ASSETS (Continued)

#### (b) Investment properties

	Year ended 31 December 2017	Year ended 31 December 2016
Balance at the beginning of the year	8,762	5,634
Additions of the year	(581)	2,988
Gains on property revaluation	192	41
Exchange differences	(156)	99
Balance at the end of the year	8,217	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 31 December 2017, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2017
Commercial property units located in Hong Kong	–	–	899	899
Commercial property units located outside Hong Kong	–	–	7,318	7,318

The valuation of these investment properties located in Hong Kong as at 31 December 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.

#### (c) Finance lease receivables

	As at 31 December 2017	As at 31 December 2016
Minimum finance lease receivables		
Within 1 year (inclusive)	39,337	36,778
1 year to 2 years (inclusive)	28,119	29,301
2 years to 3 years (inclusive)	22,127	20,786
Over 3 years	49,613	45,935
Gross investment in finance leases	139,196	132,800
Unearned finance income	(16,854)	(15,124)
Net investment in finance leases	122,342	117,676
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	34,649	32,451
1 year to 2 years (inclusive)	24,594	26,092
2 years to 3 years (inclusive)	19,609	18,438
Over 3 years	43,490	40,695
	122,342	117,676
The allowance for uncollectible finance lease receivable	(3,586)	(3,219)
Net finance lease receivables	118,756	114,457

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 25 OTHER ASSETS (Continued)

### (d) Impairment allowance

	As at 1 January 2017	Amounts accrued	Reversal	Write-off	Transfers (in)/out	Exchange differences	As at 31 December 2017
Finance lease receivables	(3,219)	(374)	-	-	-	7	(3,586)
Other receivables and prepayments	(629)	(1,103)	112	189	(436)	1	(1,866)
Others	(44)	(12)	1	14	-	-	(41)
<b>Total</b>	<b>(3,892)</b>	<b>(1,489)</b>	<b>113</b>	<b>203</b>	<b>(436)</b>	<b>8</b>	<b>(5,493)</b>

	As at 1 January 2016	Amounts accrued	Reversal	Write-off	Transfers (in)/out	Exchange differences	As at 31 December 2016
Finance lease receivables	(2,241)	(973)	-	-	-	(5)	(3,219)
Other receivables and prepayments	(573)	(177)	92	41	(7)	(5)	(629)
Others	(59)	(6)	-	26	-	(5)	(44)
<b>Total</b>	<b>(2,873)</b>	<b>(1,156)</b>	<b>92</b>	<b>67</b>	<b>(7)</b>	<b>(15)</b>	<b>(3,892)</b>

### (e) Goodwill

	As at 1 January 2017	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2017
Bank of Communications International Trust Co., Ltd.	200	-	-	-	200
BoCommLife Insurance Company Limited	122	-	-	-	122
Others	149	-	-	(18)	131
<b>Total</b>	<b>471</b>	<b>-</b>	<b>-</b>	<b>(18)</b>	<b>453</b>

	As at 1 January 2016	Addition during the year	Decrease during the year	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
<b>Total</b>	<b>351</b>	<b>149</b>	<b>(29)</b>	<b>-</b>	<b>471</b>

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the share prices of similar types of those listed financial institutions.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

### (f) Loans to employees

As at 31 December 2017 and 31 December 2016, the Group does not offer any loans to employees for the purpose of enabling the selected employees to acquire the shares of the Bank and its subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2017	As at 31 December 2016
Borrowing from central banks	532,867	443,597
Deposits from other banks		
– Banks operating in Mainland China	350,499	375,400
– Banks operating outside Mainland China	24,385	12,066
Deposits from other financial institutions		
– Other financial institutions operating in Mainland China	906,690	844,836
– Other financial institutions operating outside Mainland China	25,947	21,685
Placement from banks		
– Banks operating in Mainland China	191,932	168,802
– Banks operating outside Mainland China	235,867	172,364
Borrowing from other financial institutions		
– Other financial institutions operating in Mainland China	4,434	1,200
– Other financial institutions operating outside Mainland China	12,140	11,901
Financial instruments sold under repurchase agreements		
– Securities	74,270	175,920
– Bills	23,713	3,289
<b>Total</b>	<b>2,382,744</b>	<b>2,231,060</b>

### 27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2017	As at 31 December 2016
Derivative financial instruments (Note 18)	33,344	34,599
Certificates of deposit issued	12,654	15,135
Financial liabilities related to precious metal contracts	11,825	33,350
Short position of securities held for trading	2,485	1,206
Others	–	9
<b>Total</b>	<b>60,308</b>	<b>84,299</b>

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 instruments.

#### Financial liabilities designated as fair value through profit or loss

	As at 31 December 2017	As at 31 December 2016
Difference between carrying amount and maturity amount		
– Fair values	12,654	15,135
– Amount payable at maturity	12,638	15,142
<b>Difference</b>	<b>16</b>	<b>(7)</b>

For the year ended 31 December 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 28 DUE TO CUSTOMERS

	As at 31 December 2017	As at 31 December 2016
Corporate demand deposits	1,842,317	1,725,948
Corporate time deposits	1,507,300	1,480,293
Individual demand deposits	655,559	722,225
Individual time deposits	921,714	795,335
Other deposits	3,455	4,788
	<b>4,930,345</b>	<b>4,728,589</b>
Including:		
Deposits pledged as collateral	331,179	389,771

## 29 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposits issued by the Bank's domestic branches, branches in Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Sydney, London, Luxembourg, Dayi BoCom Xingmin Rural Bank Ltd. and Banco Bocom BBM S.A. were measured at amortised cost.

## 30 DEBT SECURITIES ISSUED

		As at 31 December 2017	As at 31 December 2016
Carried at amortised cost:			
Subordinated bonds	30.1	39,450	55,450
Tier 2 capital bonds	30.2	69,585	39,839
Bonds			
The Bank	30.3	106,264	74,212
Subsidiaries	30.3	54,316	39,379
Sub-total		<b>269,615</b>	<b>208,880</b>
Carried at fair value:			
Bonds	30.3	18,047	20,635
Total		<b>287,662</b>	<b>229,515</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 30 DEBT SECURITIES ISSUED (Continued)

#### 30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

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

(a) The Group redeemed the bond on 8 March 2017.

(b) The Group has an option to redeem these bonds on 3 July 2019. If no redemption is 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%.

#### 30.2 Tier 2 capital bonds

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Balance at the end of the year	Balance at the beginning of the year
14 BoComm 01	RMB	China	5.80	28,000	2014/08/18	10 years	(a)	28,000	27,963	27,959
14 BoComm USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 years	(b)	7,841	7,786	8,259
14 BoComm Euro	EUR	Hong Kong	3.625	500	2014/10/03	12 years	(c)	3,901	3,876	3,621
17 BoComm 02	RMB	China	4.50	30,000	2017/04/11	10 years	(d)	30,000	29,960	–
Total								69,742	69,585	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 Tier 2 capital bonds have the write-down feature, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 30 DEBT SECURITIES ISSUED (Continued)

### 30.3 Bonds

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Balance at the end of the year	Balance at the beginning of the year
<b>Bank</b>									
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
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/30	3 years	20,000	20,000	-
13 Taiwan Bond B	RMB	Taiwan	3.70	400	2013/12/10	5 years	400	401	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	502	500
14 Formosa Bond C	RMB	Taiwan	4.15	500	2014/06/23	7 years	500	502	500
17 medium-term notes 01	USD	Hong Kong	3MLibor+0.78	700	2017/05/15	3 years	4,574	4,573	-
17 medium-term notes 02	USD	Hong Kong	3MLibor+0.88	300	2017/05/15	5 years	1,960	1,960	-
17 medium-term notes 03	USD	Hong Kong	3MLibor+0.80	400	2017/12/04	3 years	2,614	2,613	-
17 medium-term notes 04	USD	Hong Kong	3MLibor+0.90	600	2017/12/04	5 years	3,921	3,919	-
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 years	900	897	906
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 years	700	698	705
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 years	200	199	201
Sub-total							107,269	106,264	74,212
<b>Subsidiaries</b>									
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 years	3,267	3,267	3,464
14 Azure Orbit	USD	Hong Kong	3.375	500	2014/04/25	5 years	3,267	3,267	3,464
5 Year medium-term notes	USD	Hong Kong	3.125	385	2015/08/18	5 years	2,516	2,516	2,667
3 Year medium-term notes	EUR	Luxembourg	3MEuribor +1.15	100	2015/08/18	3 years	780	780	731
3 Year USD bond	USD	Hong Kong	2.23	400	2016/03/15	3 years	2,614	2,614	2,772
5 Year USD bond	USD	Hong Kong	2.748	600	2016/03/15	5 years	3,921	3,870	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	-	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
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/7/18	3 years	2,000	1,950	-
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/8/22	3 years	3,000	2,100	-
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	2,400	-
Azure Nova	USD	Hong Kong	2.25	500	2016/10/25	3 years	3,465	3,265	3,465
Azure Nova	USD	Hong Kong	2.625	1,000	2016/10/25	5 years	6,908	6,513	6,909
Azure Nova	USD	Hong Kong	3.00	700	2017/03/21	3 years	4,806	4,567	-
Azure Nova	USD	Hong Kong	3.50	1,050	2017/03/21	5 years	7,186	6,831	-
Azure Nova	USD	Hong Kong	4.25	250	2017/03/21	10 years	1,711	1,626	-
Sub-total							62,441	54,316	39,379
Total							169,710	160,580	113,591

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 30 DEBT SECURITIES ISSUED (Continued)

#### 30.3 Bonds (Continued)

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

	Currency	Issue place	Coupon rate% %	Par value (CCY)	Issue date	Maturity	Issue amount	Balance	Fair value at the end of the year	Fair value at the beginning of the year
14 Hong Kong medium-term notes	USD	Hong Kong	2.125	700	2014/01/15	3 years	4,574	-	-	4,856
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 years	418	416	415	451
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 years	293	293	293	316
14 CHF bond	CHF	Hong Kong	0.875	300	2014/06/26	3 years	2,003	-	-	2,050
14 SGD bond	SGD	Hong Kong	2.10	100	2014/07/24	3 years	488	-	-	481
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 years	4,901	4,899	4,895	5,206
16 Hong Kong medium-term notes	USD	Hong Kong	2.25	500	2016/01/25	3 years	3,267	3,266	3,274	3,450
16 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+ 0.875	550	2016/08/16	3 years	3,594	3,593	3,602	3,825
17 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+ 0.775	850	2017/02/21	3 years	5,554	5,553	5,568	-
Total							25,092	18,020	18,047	20,635

### 31 OTHER LIABILITIES

	As at 31 December 2017	As at 31 December 2016
Interest payable	92,579	79,635
Insurance contracts reserve	21,428	12,512
Settlement accounts	24,742	22,741
Staff compensation payable	8,770	7,814
Deposits received for finance lease	8,390	8,934
VAT and other taxes payable	3,939	4,529
Provision for outstanding litigation (a)	449	348
Dividends payable	102	71
Provision for unsettled obligation (a)	-	100
Others	43,111	36,353
Total	203,510	173,037

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 31 OTHER LIABILITIES (Continued)

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

	As at 1 January 2017	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	Exchange differences	As at 31 December 2017
Provision for outstanding litigation	348	223	(113)	(9)	-	449
Provision for unsettled obligation	100	-	-	(100)	-	-
	448	223	(113)	(109)	-	449

	As at 1 January 2016	Amounts accrued during the year	Amounts Transferred in during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2016
Provision for outstanding litigation	369	81	19	(121)	-	348
Provision for unsettled obligation	94	-	-	-	6	100
	463	81	19	(121)	6	448

## 32 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 31 December 2017	74,263	74,263	113,663	187,926

	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 31 December 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 32 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

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

	As at 1 January 2017	Additions	Reductions	As at 31 December 2017
Share premium	112,769	277	–	113,046
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	–	(6)	22
<b>Total</b>	<b>113,392</b>	<b>277</b>	<b>(6)</b>	<b>113,663</b>

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

### 33 PREFERENCE SHARES

#### 33.1 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
<b>Offshore preference share</b>										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the year
<b>Domestic preference shares</b>										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the year
Total							59,982			
Less: Issuance fees							(106)			
Book value							59,876			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 33 PREFERENCE SHARES *(Continued)*

### 33.2 Main clauses

#### **Offshore preference shares**

##### *(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.

##### *(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 33 PREFERENCE SHARES *(Continued)*

### 33.2 Main clauses *(Continued)*

#### **Offshore preference shares** *(Continued)*

##### *(d) Order of distribution and liquidation method*

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent 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 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 offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

##### *(e) Redemption*

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

#### **Domestic preference shares**

##### *(a) Dividend*

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

- (1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and
- (2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date) plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic 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, domestic 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

## 33 PREFERENCE SHARES (Continued)

### 33.2 Main clauses (Continued)

#### **Domestic preference shares** (Continued)

##### *(b) Conditions to distribution of dividends*

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

##### *(c) Mandatory conversion trigger events*

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. 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.

##### *(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 33 PREFERENCE SHARES (Continued)

#### 33.3 Movement of preference shares issued

Group	Balance at	Movement		Balance at
	1 January 2017	Additions	Reductions	31 December 2017
<b>Offshore preference shares</b>				
Amount (shares)	122,500,000	–	–	122,500,000
In RMB (millions)	14,924	–	–	14,924
<b>Domestic preference shares</b>				
Amount (shares)	450,000,000	–	–	450,000,000
In RMB (millions)	44,952	–	–	44,952

#### 33.4 Interests attribute to holders of preference shares

	As at 31 December 2017	As at 31 December 2016
Total equity attribute to equity holders of the parent company	671,143	629,142
Equity attribute to ordinary shareholders of the parent company	611,267	569,266
Equity attribute to preference shareholders of the parent company	59,876	59,876
<i>Of which: Net profit</i>	2,693	884
<i>Total comprehensive income</i>	–	–
<i>Dividends paid during the year</i>	2,693	884
<i>Unpaid cumulative dividends</i>	–	–
Total equity attribute to non-controlling interests	5,128	3,265
Equity attribute to non-controlling interests of ordinary shares	5,128	3,265
Equity attribute to non-controlling interests of preference shares	–	–

## 34 RESERVES AND RETAINED EARNINGS

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

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

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to *Administrative Measures for the Provisioning of Financial Enterprises* (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 34 RESERVES AND RETAINED EARNINGS (Continued)

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

On 22 June 2017, the shareholders at the 2016 Annual General Meeting approved the following profit appropriation of 2016:

	As at 31 December 2017	As at 31 December 2016
Statutory reserve	6,621	6,360
Statutory general reserve	16,116	11,597
Discretionary reserve	–	–
<b>Total</b>	<b>22,737</b>	<b>17,957</b>

During the year ended 31 December 2017, the Group and the Bank transferred RMB16,738 million (2016: RMB12,079 million) and RMB16,116 million (2016: RMB11,597 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB16,116 million (2016: RMB11,597 million) related to the appropriation proposed for the Bank for the year ended 31 December 2016 which was approved in the 2016 Annual General Meeting held on 22 June 2017.

### Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets are set out below:

	Year ended 31 December	
	2017	2016
At the beginning of the year	2,191	2,162
Changes in fair value recorded in equity	(3,089)	836
Changes in fair value reclassified from equity to profit or loss	(2,631)	(734)
Income tax relating to components of other comprehensive income	1,292	(73)
<b>At the end of the year</b>	<b>(2,237)</b>	<b>2,191</b>

### Retained earnings

The movements of retained earnings are set out below:

	Year ended 31 December	
	2017	2016
At the beginning of the year	100,698	73,098
Profit for the year	70,223	67,210
Appropriation to statutory reserve	(6,811)	(6,552)
Appropriation to statutory general reserve	(16,738)	(12,079)
Appropriation to discretionary reserve	(3)	–
Dividends paid		
Dividends payable to ordinary shareholders	(20,162)	(20,051)
Dividends payable to preference shareholders	(2,693)	(884)
Others	–	(44)
<b>At the end of the year</b>	<b>124,514</b>	<b>100,698</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 35 DIVIDENDS

	Year ended 31 December	
	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 March 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 appropriated domestic preference dividends on 7 September 2017 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders) and total amount of RMB1,755 million.

On 29 March 2018, the Board of Directors of the Bank proposed to appropriate RMB8,705 million to the statutory general reserve. A cash dividend of RMB0.2856 (before tax) for each share, totalling RMB21,209 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2017 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 36 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

### Financial guarantees and credit related commitments

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

	As at 31 December 2017	As at 31 December 2016
Letters of guarantee	272,981	279,694
Letters of credit commitments	131,280	126,885
Acceptances bills	196,125	231,566
Credit card commitments	742,011	528,199
Loan commitments		
– Under 1 year	16,147	21,590
– 1 year and over	54,159	64,535
	<b>1,412,703</b>	1,252,469

### Capital expenditure commitments

	As at 31 December 2017	As at 31 December 2016
Contracted but not provided for	70,236	66,570

### Operating lease commitments

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

	As at 31 December 2017	As at 31 December 2016
Within 1 year (inclusive)	4,185	3,962
Beyond 1 year but no more than 2 years (inclusive)	3,124	3,005
Beyond 2 years but no more than 3 years (inclusive)	2,186	2,286
Beyond 3 years but no more than 5 years (inclusive)	2,492	2,548
More than 5 years	1,819	1,792
	<b>13,806</b>	13,593

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

	As at 31 December 2017	As at 31 December 2016
Within 1 year (inclusive)	8,411	6,295
Beyond 1 year but no more than 2 years (inclusive)	8,388	6,291
Beyond 2 years but no more than 3 years (inclusive)	8,139	6,287
Beyond 3 years but no more than 5 years (inclusive)	14,892	11,958
More than 5 years	37,053	36,525
	<b>76,883</b>	67,356

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

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

#### Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2017, the principal value of the Treasury Bonds that the Bank had the obligation to buy back amounted to RMB73,271 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 31 December 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 31. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

	As at 31 December 2017	As at 31 December 2016
Outstanding claims	3,694	3,327
Provision for outstanding litigation (Note 31)	449	348

### 37 COLLATERALS

#### (1) Assets pledged

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

	Pledged assets		Associated liabilities	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Investment securities	683,907	732,928	589,154	609,683
Bills	25,885	4,331	25,885	4,331
Total	709,792	737,259	615,039	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 42 transfers of financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 37 COLLATERALS (Continued)

### (2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2017, the fair value of such collaterals amounted to RMB18,079 million (31 December 2016: RMB25,934 million). All pledges are conducted under standard and normal business terms. As at 31 December 2017 and 31 December 2016, the Group did not sell or re-pledge any collaterals received.

## 38 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2017		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Financial investments – available-for-sale	(5,720)	1,292	(4,428)
<i>Changes in fair value recorded in equity</i>	(3,089)	772	(2,317)
<i>Changes in fair value reclassified from equity to profit or loss</i>	(2,631)	520	(2,111)
Cash flow hedge reserve	161	(40)	121
<i>Changes in fair value recorded in equity</i>	23	(5)	18
<i>Changes in fair value reclassified from equity to profit or loss</i>	138	(35)	103
Translation difference on foreign operations	(1,592)	–	(1,592)
Actuarial gains on pension benefits	31	–	31
Others	(9)	–	(9)
Other comprehensive income for the year	(7,129)	1,252	(5,877)

	Year ended 31 December 2016		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Financial investments – available-for-sale	102	(73)	29
<i>Changes in fair value recorded in equity</i>	836	(256)	580
<i>Changes in fair value reclassified from equity to profit or loss</i>	(734)	183	(551)
Cash flow hedge reserve	(70)	20	(50)
<i>Changes in fair value recorded in equity</i>	(37)	9	(28)
<i>Changes in fair value reclassified from equity to profit or loss</i>	(33)	11	(22)
Translation difference on foreign operations	1,577	–	1,577
Actuarial gains on pension benefits	(13)	–	(13)
Others	1,781	(445)	1,336
Other comprehensive income for the year	3,377	(498)	2,879

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 39 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

#### Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated 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 31 December 2017	As at 31 December 2016
Cash and balances with central banks (Note 15)	116,397	199,099
Due from banks and other financial institutions (Note 16)	112,522	117,297
	<b>228,919</b>	316,396

### 40 CONSOLIDATED STRUCTURED ENTITIES

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

As at 31 December 2017, the wealth management products managed and consolidated by the Group amounted to RMB938,943 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.

### 41 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 31 December 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 recognised 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
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## 41 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

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

	Sponsored amount		Type of income
	31 December 2017	31 December 2016	
Funds	193,490	102,373	Commission income
Trusts and asset management products	1,266,372	1,122,473	Commission income
Wealth management products	962,517	918,279	Commission income
<b>Total</b>	<b>2,422,379</b>	<b>2,143,125</b>	

As the year ended 31 December 2017, the Group's commission income from provision of providing service to the investors of the structured entities managed by the Group was RMB5,748 million (As the year ended 31 December 2016: RMB3,968 million), and Net Interest Income which related to placements transactions by the Group with WMP Vehicles was RMB1,562 million (during the year ended 31 December 2016: RMB470 million).

As at 31 December 2017 and 31 December 2016, the carrying amount of interests in unconsolidated structured entities held by the Group through investment, and which represented the maximum amount of exposure to risk was set out as follows:

	As at 31 December 2017				Type of income
	Carrying amount			Maximum exposure to loss	
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables		
Funds	81,991	2,268	–	84,259	Investment income
Trusts and asset management products	1,881	315	270,457	272,653	Interest income
<b>Total</b>	<b>83,872</b>	<b>2,583</b>	<b>270,457</b>	<b>356,912</b>	

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				Type of income
	Carrying amount			Maximum exposure to loss	
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables		
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
<b>Total</b>	<b>18,056</b>	<b>1,902</b>	<b>283,993</b>	<b>303,951</b>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 42 TRANSFERS OF FINANCIAL ASSETS

### 42.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 31 December 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 26).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Pledged assets		Associated liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Investment securities	3,298	745	3,116	738

### 42.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2017, the carrying value of debt securities lent to counterparties was RMB13,620 million (31 December 2016: RMB3,610 million).

### 42.3 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 statement of financial position 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 2017, loans with an original value of RMB44,021 million and carrying amount of RMB40,155 million (31 December 2016: RMB12,893 million and RMB9,580 million, of which RMB8,000 million was repaid in advance on 21 June 2017) have been securitised by the Group and the Bank.

As at 31 December 2017, assets continuously recognized by the Group and the Bank amounted to RMB2,197 million have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets in the form of holding subordinated tranches. (31 December 2016: RMB406 million).

### 42.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2017, the Group had transferred impaired loans and advances to customers with a total gross carrying amount of RMB24,854 million (2016: RMB28,101 million) and collected cash totalling RMB12,531 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 43 RELATED PARTY TRANSACTIONS

### (a) Transactions with the MOF

As at 31 December 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 31 December 2017	As at 31 December 2016
Bonds issued by MOF	416,098	379,228
Interest receivable	6,032	5,458
	<b>Year ended 31 December</b>	
	2017	2016
Interest income	13,200	11,357
Interest expense	358	896

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

	<b>Year ended 31 December</b>	
	2017	2016
	%	%
Bonds issued by MOF	1.94-5.05	2.10-6.15
Due to customers	4.46-4.51	2.55-3.40

### (b) Transactions with National Council for Social Security Fund

As at 31 December 2017, National Council for Social Security Fund holds 10,920 million (31 December 2016: 10,920 million) shares in the Group which represents 14.70% (31 December 2016: 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 31 December 2017	As at 31 December 2016
Due to customers	34,150	58,000
Interest payable	509	964
	<b>Year ended 31 December</b>	
	2017	2016
Interest expense	2,553	2,100

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 43 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Transactions with National Council for Social Security Fund (Continued)

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

	Year ended 31 December	
	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 31 December 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.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2017	As at 31 December 2016
On-balance sheet items		
Due from banks and other financial institutions	3,704	2,348
Loans to banks and other financial institutions	3,126	2,770
Derivative financial assets	2,399	2,576
Financial assets held under resale agreements	3,920	–
Interest receivable	28	53
Financial investments – available-for-sale	2,315	2,067
Financial assets at fair value through profit or loss	1,388	917
Deposits from banks and other financial institutions	3,949	3,128
Loans from banks and other financial institutions	3,996	11,394
Financial liabilities at fair value through profit or loss	2,861	3,680
Derivative financial liabilities	1,449	1,091
Financial instruments sold under repurchase agreements	–	1,960
Interest payable	34	29
Off-balance sheet items		
Notional principal of derivative financial instruments	163,191	161,736

	Year ended 31 December	
	2017	2016
Net gains/(losses) from trading activities	(338)	(224)
Interest income	128	84
Interest expense	175	156

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 43 RELATED PARTY TRANSACTIONS (Continued)

### (c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited and its subsidiaries (“HSBC”) (Continued)

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

	Year ended 31 December	
	2017	2016
	%	%
Due from banks and other financial institutions	0.01-0.52	0.01-0.72
Loans to banks and other financial institutions	0.20-3.55	1.00-1.80
Financial investments – available-for-sale	1.50-4.75	1.33-3.50
Deposits from banks and other financial institutions	0.01-6.10	0.01-5.75
Loans from banks and other financial institutions	(0.28)-4.30	(0.28)-2.85
Financial instruments sold under repurchase agreements	2.45-4.95	2.28-2.69
Financial assets held under resale agreements	2.60-2.96	2.02-2.35

### (d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the “state-owned entities”). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

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

### (e) Transactions with subsidiaries

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

Details of transaction volumes and outstanding balances are summarised below:

Bank	As at	As at
	31 December 2017	31 December 2016
Due from banks and other financial institutions	150	195
Loans to banks and other financial institutions	38,402	27,125
Financial investments	2,500	2,050
Loans and advances to customers	20,691	18,083
Interest receivable	590	428
Other assets	1,972	105
Deposits from banks and other financial institutions	16,312	6,329
Loans from banks and other financial institutions	1,792	–
Due to customers	2,568	2,409
Debt securities issued	51	51
Interest payable	36	18
Other liabilities	25	25

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 43 RELATED PARTY TRANSACTIONS (Continued)

#### (e) Transactions with subsidiaries (Continued)

Bank	Year ended 31 December	
	2017	2016
Interest income	1,601	1,464
Interest expense	108	51
Fee and commission income	818	556
Fee and commission expense	39	49
Other operating income	110	87
Other operating expense	158	142

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

Bank	Year ended 31 December	
	2017	2016
Due from banks and other financial institutions	0.72-4.67	0.72-3.72
Loans to banks and other financial institutions	0.09-5.55	0.09-3.87
Financial investments	3.05-6.10	3.80-6.10
Loans and advances to customers	0.02-4.18	0.80-3.67
Deposits from banks and other financial institutions	0.01-5.50	0.01-5.50
Loans from banks and other financial institutions	0.04-4.95	0.85-3.00
Due to customers	0.01-2.30	0.01-1.80
Debt securities issued	5.75	5.75

#### (f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2017	As at 31 December 2016
Due to customers	32	34
Loans and advances to customers	1	1

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 43 RELATED PARTY TRANSACTIONS (Continued)

### (g) Transactions with associates

As at 31 December 2017, the Group holds 9.00% (31 December 2016: 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 31 December 2017	As at 31 December 2016
Deposits from banks and other financial institutions	1,689	2,064
Interest payable	3	4
	<b>Year ended 31 December</b>	
	2017	2016
Interest income	2	–
Interest expense	27	21

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

	<b>Year ended 31 December</b>	
	2017	2016
	%	%
Deposits from banks and other financial institutions	1.35-5.58	0.72-3.45
Loans to banks and other financial institutions	2.31-2.88	–
Financial assets held under resale agreements	2.075-2.95	–

### (h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2017	As at 31 December 2016
Loans and advances to customers	5,052	5,830
Interest receivable	6	7
Deposits from banks and other financial institutions	1,224	1,605
Interest payable	19	16
	<b>Year ended</b>	Year ended
	31 December 2017	31 December 2016
Interest income	233	133
Interest expense	26	31

The interest rates of the transactions between the Group and Other related parties are summarised below:

	<b>Year ended</b>	Year ended
	31 December 2017	31 December 2016
	%	%
Loans and advances to customers	3.70-5.00	3.70-4.57
Deposits from banks and other financial institutions	2.45-5.80	2.45-5.80

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 44 SEGMENTAL ANALYSIS

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

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

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

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

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 44 SEGMENTAL ANALYSIS

### Operating segment information

	Year ended 31 December 2017								Total
	North	North	Central and	Western	Overseas	Head Office	Eliminations		
	Northern China	Eastern China	Eastern China	Southern China					
External interest income	26,790	9,374	71,911	38,861	20,626	20,693	129,263	-	317,518
External interest expense	(32,819)	(8,792)	(58,026)	(33,832)	(14,144)	(14,075)	(28,464)	-	(190,152)
Inter-segment net Interest income/(expense)	23,116	4,984	25,232	21,602	6,651	(400)	(81,185)	-	-
<b>Net Interest income</b>	<b>17,087</b>	<b>5,566</b>	<b>39,117</b>	<b>26,631</b>	<b>13,133</b>	<b>6,218</b>	<b>19,614</b>	<b>-</b>	<b>127,366</b>
<b>Net fee and commission income</b>	<b>4,458</b>	<b>1,632</b>	<b>12,581</b>	<b>8,420</b>	<b>3,169</b>	<b>2,628</b>	<b>7,663</b>	<b>-</b>	<b>40,551</b>
Net gains/(losses) arising from trading activities	279	59	937	432	90	735	(2,929)	-	(397)
Net gains/(losses) arising from financial investments	-	-	556	70	-	425	2,033	-	3,084
Insurance business income	-	-	12,932	-	-	36	-	-	12,968
Share of profit of associates and joint venture	-	-	-	-	-	(5)	137	-	132
Other operating income	1,285	204	8,192	819	453	1,489	374	-	12,816
<b>Total operating income</b>	<b>23,109</b>	<b>7,461</b>	<b>74,315</b>	<b>36,372</b>	<b>16,845</b>	<b>11,526</b>	<b>26,892</b>	<b>-</b>	<b>196,520</b>
Impairment losses on loans and advances to customers	(2,395)	(1,689)	(13,852)	(3,870)	(3,591)	(234)	(4,156)	-	(29,787)
Insurance business expense	-	-	(12,198)	-	-	(13)	-	-	(12,211)
Other operating expense	(7,246)	(3,315)	(22,174)	(11,094)	(5,482)	(4,370)	(17,576)	-	(71,257)
<b>Profit before tax</b>	<b>13,468</b>	<b>2,457</b>	<b>26,091</b>	<b>21,408</b>	<b>7,772</b>	<b>6,909</b>	<b>5,160</b>	<b>-</b>	<b>83,265</b>
Income tax	-	-	-	-	-	-	-	-	(12,574)
<b>Net profit for the year</b>									<b>70,691</b>
Depreciation and amortisation	(787)	(383)	(1,762)	(1,120)	(658)	(195)	(973)	-	(5,878)
Capital expenditure	(411)	(179)	(24,075)	(1,049)	(590)	(394)	(2,107)	-	(28,805)

	Year ended 31 December 2016								Total
	North	North	Central and	Western	Overseas	Head Office	Eliminations		
	Northern China	Eastern China	Eastern China	Southern China					
External interest income	26,252	9,384	67,965	36,828	20,225	15,052	114,138	-	289,844
External interest expense	(29,115)	(8,641)	(50,637)	(28,625)	(12,611)	(9,292)	(16,052)	-	(154,973)
Inter-segment net Interest income/(expense)	20,544	5,542	24,806	18,401	6,809	153	(76,255)	-	-
<b>Net Interest income</b>	<b>17,681</b>	<b>6,285</b>	<b>42,134</b>	<b>26,604</b>	<b>14,423</b>	<b>5,913</b>	<b>21,831</b>	<b>-</b>	<b>134,871</b>
<b>Net fee and commission income</b>	<b>4,135</b>	<b>1,647</b>	<b>12,244</b>	<b>7,385</b>	<b>2,969</b>	<b>2,204</b>	<b>6,211</b>	<b>-</b>	<b>36,795</b>
Net gains/(losses) arising from trading activities	369	91	793	404	86	138	668	-	2,549
Net gains/(losses) arising from financial investments	-	-	667	56	-	321	35	-	1,079
Insurance business income	-	-	9,552	-	-	44	-	-	9,596
Share of profit of associates and joint venture	-	-	-	-	-	9	87	-	96
Other operating income	838	165	4,774	715	495	1,936	153	-	9,076
<b>Total operating income</b>	<b>23,023</b>	<b>8,188</b>	<b>70,164</b>	<b>35,164</b>	<b>17,973</b>	<b>10,565</b>	<b>28,985</b>	<b>-</b>	<b>194,062</b>
Impairment losses on loans and advances to customers	(2,918)	(675)	(13,527)	(4,159)	(2,949)	(449)	(3,803)	-	(28,480)
Insurance business expense	-	-	(8,975)	-	-	(18)	-	-	(8,993)
Other operating expense	(7,666)	(3,498)	(21,366)	(11,223)	(5,704)	(4,013)	(17,009)	-	(70,479)
<b>Profit before tax</b>	<b>12,439</b>	<b>4,015</b>	<b>26,296</b>	<b>19,782</b>	<b>9,320</b>	<b>6,085</b>	<b>8,173</b>	<b>-</b>	<b>86,110</b>
Income tax	-	-	-	-	-	-	-	-	(18,459)
<b>Net profit for the year</b>									<b>67,651</b>
Depreciation and amortisation	(831)	(446)	(1,768)	(1,100)	(668)	(220)	(1,020)	-	(6,053)
Capital expenditure	(545)	(325)	(24,420)	(915)	(572)	(7,730)	(1,098)	-	(35,605)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 44 SEGMENTAL ANALYSIS (Continued)

### Operating segment information (Continued)

	As at 31 December 2017								Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	
Segment assets	1,278,373	365,648	2,692,078	1,523,081	727,652	939,297	4,077,988	(2,582,319)	9,021,798
Including:									
Investment in associates and joint venture	-	-	4	6	-	82	3,265	-	3,357
Unallocated assets									16,456
<b>Total assets</b>									<b>9,038,254</b>
Segment liabilities	(1,265,063)	(363,044)	(2,597,457)	(1,493,665)	(721,874)	(931,308)	(3,571,371)	2,582,319	(8,361,463)
Unallocated liabilities									(520)
<b>Total liabilities</b>									<b>(8,361,983)</b>

	As at 31 December 2016								Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	
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
<b>Total assets</b>									<b>8,403,166</b>
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)
<b>Total liabilities</b>									<b>(7,770,759)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 44 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:

	Year ended 31 December 2017				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	50,787	32,986	41,644	1,949	127,366
Inter-segment net interest income/(expense)	11,802	10,330	(22,132)	–	–
Net interest income	62,589	43,316	19,512	1,949	127,366
Net fee and commission income	16,034	20,229	2,483	1,805	40,551
Net gains/(losses) arising from trading activities	1,959	99	(3,004)	549	(397)
Net gains/(losses) arising from financial investments	–	–	3,084	–	3,084
Share of profit of associates and joint venture	–	–	–	132	132
Insurance business income	–	–	–	12,968	12,968
Other operating income	9,064	2,308	10	1,434	12,816
<b>Total operating income</b>	<b>89,646</b>	<b>65,952</b>	<b>22,085</b>	<b>18,837</b>	<b>196,520</b>
Impairment losses on loans and advances to customers	(27,223)	(2,564)	–	–	(29,787)
Insurance business expense	–	–	–	(12,211)	(12,211)
Other operating expense					
– Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
– Others	(25,054)	(34,303)	(2,682)	(3,340)	(65,379)
<b>Profit before tax</b>	<b>35,600</b>	<b>25,377</b>	<b>19,274</b>	<b>3,014</b>	<b>83,265</b>
Income tax					(12,574)
<b>Net profit for the year</b>					<b>70,691</b>
Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
Capital expenditure	(8,667)	(18,172)	(632)	(1,334)	(28,805)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

## 44 SEGMENTAL ANALYSIS (Continued)

### Business Information (Continued)

	Year ended 31 December 2016				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	54,359	28,631	50,642	1,239	134,871
Inter-segment net interest income/(expense)	16,460	14,832	(31,292)	–	–
Net interest income	70,819	43,463	19,350	1,239	134,871
Net fee and commission income	15,833	16,915	2,134	1,913	36,795
Net gains/(losses) arising from trading activities	1,952	17	132	448	2,549
Net gains/(losses) arising from financial investments	–	–	1,079	–	1,079
Share of profit of associates and joint venture	–	–	–	96	96
Insurance business income	–	–	–	9,596	9,596
Other operating income	5,876	2,051	196	953	9,076
<b>Total operating income</b>	<b>94,480</b>	<b>62,446</b>	<b>22,891</b>	<b>14,245</b>	<b>194,062</b>
Impairment losses on loans and advances to customers	(23,857)	(4,623)	–	–	(28,480)
Insurance business expense	–	–	–	(8,993)	(8,993)
Other operating expense					
– Depreciation and amortisation	(1,821)	(3,818)	(133)	(281)	(6,053)
– Others	(25,813)	(33,497)	(2,724)	(2,392)	(64,426)
<b>Profit before tax</b>	<b>42,989</b>	<b>20,508</b>	<b>20,034</b>	<b>2,579</b>	<b>86,110</b>
Income tax					(18,459)
<b>Net profit for the year</b>					<b>67,651</b>
Depreciation and amortisation	(1,821)	(3,818)	(133)	(281)	(6,053)
Capital expenditure	(10,712)	(22,462)	(782)	(1,649)	(35,605)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 44 SEGMENTAL ANALYSIS (Continued)

### Business Information (Continued)

	As at 31 December 2016				Total
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	
<b>Segment assets</b>	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
<b>Total assets</b>					8,403,166
<b>Segment liabilities</b>	(3,330,263)	(1,544,633)	(2,882,687)	(13,031)	(7,770,614)
Unallocated assets					(145)
<b>Total liabilities</b>					(7,770,759)

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

## 45 FINANCIAL STATEMENTS OF THE BANK

### (a) Statement of Financial Position of the Bank

	As at 31 December 2017	As at 31 December 2016
<b>ASSETS</b>		
Cash and balances with central banks	937,800	990,656
Due from banks and other financial institutions	809,651	732,335
Financial assets at fair value through profit or loss	256,572	213,292
Loans and advances to customers	4,354,253	4,010,249
Financial investments – loans and receivables	374,858	377,815
Financial investments – available-for-sale	376,161	323,024
Financial investments – held-to-maturity	1,509,592	1,408,124
Investment in subsidiaries	29,982	16,687
Investment in associates	3,264	610
Property and equipment	53,333	54,087
Deferred income tax assets	15,211	11,722
Other assets	106,608	71,895
<b>Total assets</b>	<b>8,827,285</b>	<b>8,210,496</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

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

### 45 FINANCIAL STATEMENTS OF THE BANK (Continued)

#### (a) Statement of Financial Position of the Bank (Continued)

	As at 31 December 2017	As at 31 December 2016
<b>Liabilities</b>		
Due to banks and other financial institutions	2,307,005	2,136,520
Financial liabilities at fair value through profit or loss	60,258	84,266
Due to customers	4,926,461	4,723,700
Certificates of deposits issued	483,558	317,013
Current tax liabilities	7,133	4,558
Deferred income tax liabilities	253	84
Debt securities issued	233,396	190,186
Other liabilities	155,265	138,349
<b>Total liabilities</b>	<b>8,173,329</b>	<b>7,594,676</b>
<b>Equity</b>		
Share capital	74,263	74,263
Preference shares	59,876	59,876
Capital surplus	113,427	113,433
Other reserves	293,846	276,326
Retained earnings	112,544	91,922
<b>Total equity</b>	<b>653,956</b>	<b>615,820</b>
<b>Total equity and liabilities</b>	<b>8,827,285</b>	<b>8,210,496</b>

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 29 March 2018 and signed on its behalf by:

Chairman and Executive Director: Peng Chun

Executive Director and Vice President: Yu Yali

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017  
(All amounts expressed in millions of RMB unless otherwise stated)

## 45 FINANCIAL STATEMENTS OF THE BANK (Continued)

### (b) Statement of Changes in Equity of the Bank

	Other reserves											Retained earnings	Total
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for available-for-sale financial assets	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others		
Balance at 1 January 2017	74,263	59,876	113,433	49,618	139,764	83,896	1,766	(119)	61	4	1,336	91,922	615,820
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	66,214	66,214
Other comprehensive income	-	-	-	-	-	-	(3,819)	114	(1,534)	31	(9)	-	(5,217)
<b>Total comprehensive income</b>	-	-	-	-	-	-	(3,819)	114	(1,534)	31	(9)	66,214	60,997
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,162)	(20,162)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(2,693)	(2,693)
Transfer to reserves	-	-	-	6,621	-	16,116	-	-	-	-	-	(22,737)	-
Others	-	-	(6)	-	-	-	-	-	-	-	-	-	(6)
<b>Balance at 31 December 2017</b>	<b>74,263</b>	<b>59,876</b>	<b>113,427</b>	<b>56,239</b>	<b>139,764</b>	<b>100,012</b>	<b>(2,053)</b>	<b>(5)</b>	<b>(1,473)</b>	<b>35</b>	<b>1,327</b>	<b>112,544</b>	<b>653,956</b>
Balance at 1 January 2016	74,263	14,924	113,433	43,258	139,764	72,299	1,188	(28)	(1,593)	17	-	67,217	524,742
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	63,597	63,597
Other comprehensive income	-	-	-	-	-	-	578	(91)	1,654	(13)	1,336	-	3,464
<b>Total comprehensive income</b>	-	-	-	-	-	-	578	(91)	1,654	(13)	1,336	63,597	67,061
Issuance of preference shares	-	44,952	-	-	-	-	-	-	-	-	-	-	44,952
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)
Transfer to reserves	-	-	-	6,360	-	11,597	-	-	-	-	-	(17,957)	-
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(884)	(884)
<b>Balance at 31 December 2016</b>	<b>74,263</b>	<b>59,876</b>	<b>113,433</b>	<b>49,618</b>	<b>139,764</b>	<b>83,896</b>	<b>1,766</b>	<b>(119)</b>	<b>61</b>	<b>4</b>	<b>1,336</b>	<b>91,922</b>	<b>615,820</b>

## 46 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

The Bank held the 19th meeting of the sixth board of directors of the Bank whereby the Resolution on establishing a wholly-owned subsidiary in Hong Kong, Bank of Communications (Hong Kong), was considered and approved. On 29 January 2018, the existing activities, assets and liabilities which constitute the retail banking business and private banking business of the Hong Kong branch of the Bank has been transferred to Bank of Communications (Hong Kong) Limited in accordance with section 4(1) of the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the laws of Hong Kong).

## SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION

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

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# SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

## 1 LIQUIDITY RATIO

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

	As at 31 December 2017	As at 31 December 2016
Liquidity ratio (%)	58.86	51.22

## 2 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
<b>As at 31 December 2017</b>				
Spot assets	869,474	208,402	129,103	1,206,979
Spot liabilities	(980,457)	(235,093)	(101,872)	(1,317,422)
Forward purchases	1,160,763	113,493	64,483	1,338,739
Forward sales	(1,080,955)	(78,190)	(81,381)	(1,240,526)
Net option position	(3,763)	58	(172)	(3,877)
Net long/(short) position	(34,938)	8,670	10,161	(16,107)
Net structural position	89,106	4,159	4,962	98,227

	USD	HKD	Others	Total
<b>As at 31 December 2016</b>				
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 approach as set out by CBRC in the regulatory report. 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.

## SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

### 3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

As at 31 December 2017	Non-bank				Total
	Bank	Official sector	private sector	Others	
Asia Pacific	526,963	56,522	384,235	–	967,720
<i>Of which attributed to Hong Kong</i>	84,062	31,378	173,165	–	288,605
North and South America	57,681	9,061	36,907	–	103,649
Africa	–	196	–	–	196
Europe	24,376	–	24,528	–	48,904
	609,020	65,779	445,670	–	1,120,469

As at 31 December 2016	Non-bank				Total
	Bank	Official sector	private sector	Others	
Asia Pacific	247,198	63,689	518,396	–	829,283
<i>Of which attributed to Hong Kong</i>	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

## SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

### 4 OVERDUE AND RESTRUCTURED ASSETS

#### 4.1 Gross amount of overdue loans

	As at 31 December 2017	As at 31 December 2016
Loans and advances to customers which have been overdue for		
– Within 3 months	22,334	21,401
– Between 3 and 6 months	7,841	13,020
– Between 6 and 12 months	17,893	21,999
– Over 12 months	50,689	51,763
	<b>98,757</b>	<b>108,183</b>
Percentage (%)		
– Within 3 months	0.50	0.52
– Between 3 and 6 months	0.18	0.32
– Between 6 and 12 months	0.40	0.54
– Over 12 months	1.14	1.26
	<b>2.22</b>	<b>2.64</b>

#### 4.2 Overdue and restructured loans

	As at 31 December 2017	As at 31 December 2016
Total restructured loans and advances to customers	10,843	15,464
<i>Including: Restructured loans and advances to customers overdue above 3 months</i>	7,437	10,616
Percentage of restructured loans and advances to customers overdue above 3 months in total loans (%)	0.17	0.26

# SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

## 5 SEGMENTAL INFORMATION OF LOANS

### 5.1 Impaired loans and advances to customers by geographical area

	As at 31 December 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	8,491	(4,878)	8,340	(4,494)
– North Eastern China	4,412	(2,258)	2,601	(1,266)
– Eastern China	32,295	(14,837)	32,696	(14,151)
– Central and Southern China	10,584	(6,098)	9,574	(5,306)
– Western China	10,146	(6,057)	7,860	(3,915)
	65,928	(34,128)	61,071	(29,132)
Hong Kong, Macau, Taiwan and overseas regions	974	(742)	1,329	(1,025)
	66,902	(34,870)	62,400	(30,157)

### 5.2 Overdue loans and advances to customers by geographical area

	As at 31 December 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	10,176	(4,652)	(387)	13,119	(4,230)	(1,284)
– North Eastern China	6,747	(2,117)	(582)	5,510	(1,258)	(648)
– Eastern China	50,098	(14,090)	(11,800)	57,384	(14,440)	(11,994)
– Central and Southern China	14,770	(5,712)	(966)	15,124	(5,313)	(1,280)
– Western China	15,378	(5,606)	(1,376)	15,385	(3,905)	(1,631)
	97,169	(32,177)	(15,111)	106,522	(29,146)	(16,837)
Hong Kong, Macau, Taiwan and overseas regions	1,588	(742)	(2,286)	1,661	(1,025)	(70)
	98,757	(32,919)	(17,397)	108,183	(30,171)	(16,907)
Fair value of collaterals	47,793	Not applicable	Not applicable	56,769	Not applicable	Not applicable

# SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

## 6 LOANS AND ADVANCES TO CUSTOMERS

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

Hong Kong	As at 31 December 2017			As at 31 December 2016		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Electronics	53	0.02	25	55	0.03	29
– Textile and clothing	3,497	1.64	27	3,638	1.77	29
– Other manufacturing	20,989	9.84	460	19,676	9.59	288
Electricity, gas and water production and supply	2,175	1.02	2	2,327	1.13	2
Construction	7,589	3.56	1,496	7,166	3.49	1,401
Transportation, storage and postal service	2,642	1.24	1,422	2,542	1.24	1,394
Telecommunication, IT service and software	504	0.24	–	539	0.26	–
Wholesale and retail	60,308	28.26	2,518	57,616	28.09	2,144
Accommodation and catering	997	0.47	50	1,056	0.51	37
Financial institutions	34,110	15.98	11,569	32,083	15.64	10,992
Real estate	4,483	2.10	6,466	4,734	2.31	8,380
Education, science, culture and public health	–	–	–	–	–	–
Others	50,434	23.63	2,028	47,282	23.07	2,397
<b>Total corporate loans</b>	<b>187,781</b>	<b>88.00</b>	<b>26,063</b>	<b>178,714</b>	<b>87.13</b>	<b>27,093</b>
Individual loans						
Mortgage	10,986	5.15	10,984	11,649	5.68	11,646
Credit cards	150	0.07	–	173	0.08	–
Others	14,477	6.78	11,814	14,590	7.11	11,547
<b>Total individual loans</b>	<b>25,613</b>	<b>12.00</b>	<b>22,798</b>	<b>26,412</b>	<b>12.87</b>	<b>23,193</b>
Gross amount of loans and advances before impairment allowance	213,394	100.00	48,861	205,126	100.00	50,286
<b>Outside Hong Kong</b>	<b>4,243,520</b>			<b>3,897,833</b>		

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral and pledged loans to the total loans of the Group is 49% as at 31 December 2017 (31 December 2016: 49%).

## SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

### 6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

#### 6.2 Allowance on loans and advances by type of loan

	As at 31 December 2017		As at 31 December 2016	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Corporates	51,004	(29,325)	48,097	(23,975)
Individuals	15,898	(5,545)	14,303	(6,182)
	<b>66,902</b>	<b>(34,870)</b>	<b>62,400</b>	<b>(30,157)</b>
Fair value of collateral	26,531	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 years are disclosed below:

	Year ended 31 December 2017			Year ended 31 December 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	27,223	(17,191)	436	23,857	(18,258)	344
Individuals	2,564	(2,363)	481	4,623	(2,967)	464
	<b>29,787</b>	<b>(19,554)</b>	<b>917</b>	<b>28,480</b>	<b>(21,225)</b>	<b>808</b>





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