交通银行
BANK OF COMMUNICATIONS

SINCE 1908 YOUR WEALTH MANAGEMENT BANK

Bank of Communications Co., Ltd.

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

2018 INTERIM REPORT

Stock Code:03328

IMPORTANT REMINDERS

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Bank warrant that the information in the Interim Report is authentic, accurate and complete, contains no false records, misleading statements or material omissions, and that they severally and jointly assume legal responsibilities for the information in this report.

2018 Interim Report and 2018 Interim Results Announcement were passed at the 20th meeting of the 8th Session of the Board of Directors of the Bank on 23 August 2018. There were 18 Directors eligible for attending the meeting, of whom 16 Directors attended the meeting in person and 2 Directors appointed others to attend the meeting. Mr. Peter Wong Tung Shun, the Vice Chairman and Mr. Liu Haoyang, the Non-executive Director did not attend the meeting in person due to work arrangement and appointed the two Non-executive Directors, Ms. Helen Wong Pik Kuen and Mr. Wang Taiyin respectively in writing to attend the meeting and exercise the voting right on their behalf.

The Bank did not distribute any interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2018.

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

Prospective statements in the report, such as future plans and development strategies, do not constitute any substantive commitment of the Bank to investors. Investors are hereby reminded of investment risk.

Contents

DEFINITIONS

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

"Articles of Associations"	The Articles of Association of Bank of Communications Co., Ltd. as approved by the CBIRC
"Bank", "BoCom"	Bank of Communications Co., Ltd.
"Basis point"	One in ten thousand
"Board of Directors"	The Board of Directors of the Bank
"Board of Supervisors"	The Board of Supervisors of the Bank
"CBIRC"	China Banking and Insurance Regulatory Commission
"Central and Southern China"	Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"Company Law"	The Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"Director(s)"	The Director(s) of the Bank
"Eastern China"	Including Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Group"	The Bank and its subsidiaries
"Head Office"	The Group's Head Office
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HSBC"	The Hong Kong and Shanghai Banking Corporation Limited
"Ministry of Finance"	The Ministry of Finance of the People's Republic of China
"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
"North Eastern China"	Including Liaoning Province, Jilin Province and Heilongjiang Province
"Northern China"	Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Overseas"	Including Hong Kong Branch/Bank of Communications (Hong Kong) Limited, 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/Bank of Communications (UK) Ltd., Bank of Communications (Luxembourg) S.A./Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd., Toronto representative office and other overseas subsidiaries

"PBOC"	The People's Bank of China
"Reporting Period"	The period from 1 January 2018 to 30 June 2018
"Securities Law"	Securities Law of the People's Republic of China
"SSE"	The Shanghai Stock Exchange
"SSF"	The National Council for Social Security Fund
"Supervisor(s)"	The Supervisor(s) of the Bank
"Western China"	Including Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region

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

Gu Sheng (Secretary of the Board of Directors and Company Secretary)

Contact address:	188 Yin Cheng Zhong Lu, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China
Tel:	86-21-58766688
Fax:	86-21-58798398
E-mail:	investor@bankcomm.com
Postal code:	200120

ADDRESS AND OFFICIAL WEBSITE

Registered address:	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 THE INTERIM 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

Place where the interim report is available
Board of Directors Office of the Bank

INFORMATION OF ORDINARY AND PREFERENCE SHARES

Classes	Stock exchange	Stock name	Stock code
A Share	SSE	Bank of Communications	601328
H Share	Hong Kong Stock Exchange	BANKCOMM	03328
Domestic Preference Share	SSE	BOCOM PREF1	360021
Overseas Preference Shares	Hong Kong Stock Exchange	BOCOM 15USDPREF	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, Zhou Zhang
International auditor:	PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
Name of auditor signed:	Jimmy Leung Kwok Wai

AUTHORIZED REPRESENTATIVES

Hou Weidong, Gu Sheng

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

Unified social credit code: 9131000010000595XD

FINANCIAL HIGHLIGHTS

The Group adopted new standards of financial instruments from 1 January 2018. As permitted by the transitional provisions of new standards, the Group did not restate comparative figures. Any adjustments to the carrying amounts at the date of transition were recognised in the opening retained earnings and other reserves. For the related impact, please refer to 2.2.1 Changes in accounting policies of 2 Summary of Significant Accounting Policies in Interim Financial Statements and Review Report.

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:

(in millions of RMB unless otherwise stated)

Key financial data	**January to June 2018**	January to June 2017	Increase/ (decrease) %
Net interest income[1]	**60,658**	61,333	(1.10)
Profit before tax	**47,470**	47,355	0.24
Net profit (attributable to shareholders of the Bank)	**40,771**	38,975	4.61
Earnings per share (attributable to shareholders of the Bank, in RMB yuan)[5]	**0.51**	0.49	4.08

	30 June 2018	31 December 2017	Increase/ (decrease) %
Total assets	**9,322,707**	9,038,254	3.15
Including: Loans and advances to customers[1]	**4,793,965**	4,579,256	4.69
Total liabilities	**8,652,646**	8,361,983	3.48
Including: Due to customers[1]	**5,732,928**	5,545,366	3.38
Shareholders' equity (attributable to shareholders of the Bank)	**663,653**	671,143	(1.12)
Net assets per share (attributable to shareholders of the Bank, in RMB yuan)[2]	**8.13**	8.23	(1.22)
Net capital[3]	**782,132**	790,381	(1.04)
Including: Net Core Tier 1 Capital[3]	**599,954**	609,454	(1.56)
Other Tier 1 Capital[3]	**60,005**	59,975	0.05
Tier 2 Capital[3]	**122,173**	120,952	1.01
Risk-weighted assets[3]	**5,645,071**	5,646,313	(0.02)

Key financial indicators (%)	January to June 2018	January to June 2017	Changes (percentage point)
Cost-to-income ratio[4]	29.26	26.96	2.30
Annualized return on average assets	0.89	0.91	(0.02)
Annualized return on average shareholders' equity[5]	12.99	13.06	(0.07)

	30 June 2018	31 December 2017	Changes (percentage point)
Impaired loans ratio[1]	1.49	1.50	(0.01)
Provision coverage of impaired loans[1]	170.98	154.73	16.25
Capital adequacy ratio[3]	13.86	14.00	(0.14)
Tier 1 Capital adequacy ratio[3]	11.69	11.86	(0.17)
Core Tier 1 Capital adequacy ratio[3]	10.63	10.79	(0.16)

Notes:

1. Due to changes in the presentation basis on the items in financial statements, the comparative data of the corresponding periods has been restated to the current presentation basis. Same applies hereinafter.
2. Refers to shareholders' equity attributable to shareholders of the Bank after the deduction of preference shares against the total issued ordinary shares at the end of the Reporting Period.
3. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC.
4. 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. The comparative data of the corresponding periods has been restated in accordance with the requirements of China Accounting Standards.
5. Excluding the impact of preference shares.

BUSINESS PROFILE

The Group's primary businesses include corporate banking, personal banking, treasury and other businesses. Corporate banking includes providing financial products and services to enterprises, government agencies and financial institutions, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses, etc. Personal banking 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. In addition, the Group involves in businesses such as fund, trust, financial leasing, insurance, overseas securities and debt-to-equity conversion through its subsidiaries, including Bank of Communications Schroder Fund Management Co., Ltd., Bank of Communications International Trust Co., Ltd., Bank of Communications Financial Leasing Co., Ltd., BoCommLife Insurance Company Limited, China BoCom Insurance Co., Ltd., BoCom International Holdings Company Limited and BoCom Financial Asset Investment Co., Ltd, etc.

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

I. BUSINESS REVIEW

In the first half of 2018, the Group actively responded to the changing market and political environment, firmly implemented strategies, effectively adapted to the changes, served the real economy, accelerated the reform and innovation, effectively strengthened risk management and control activities in order to achieve steady development of various businesses and stable financial results. As at the end of the Reporting Period, the Group's total assets increased by 3.15% over the end of the previous year to RMB9,322.707 billion. During the Reporting Period, the net profit of the Group (attributable to shareholders of the Bank) increased by 4.61% on a year-on-year basis to RMB40.771 billion. The Group was honored with the "Top 500 Global Companies" for ten consecutive years by *FORTUNE,* ranked No.168 in terms of operating income, up by 3 ranks as compared with the previous year. The Group 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 among Top 20 in this award for five consecutive years.

The Group realized a new enhancement in serving the real economy. The Group supported the key areas of national strategies, gave full play to professional advantages and contributed to the high quality development of 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 RMB214.709 billion or 4.69% over the end of the previous year to RMB4,793.965 billion. The Group vigorously developed the inclusive finance, and increased support for the financing needs of small and micro enterprises, "Mass Entrepreneurship and Innovation", poverty alleviation and "Agriculture, Rural areas and Farmers". As at the end of the Reporting Period, the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers both increased and the loan balance of the inclusive finance increased by RMB9.602 billion or 10.83% over the end of the previous year, which was higher than the average growth rate of all loans. The Group continuously optimized the credit structure, supported the supply-side structural reform and five major tasks of "de-capacity, de-stocking, de-leveraging, cost reduction, and weakness remediation", as a result, the percentage of loan in seriously excess capacity industry decreased continuously.

The Group achieved new results in the prevention and control of financial risks. The Group adhered to the prudent and stable risk preference, held the bottom line of non-occurrence of systematic financial risks, and kept the major asset quality indicators stable and sound. As at the end of the Reporting Period, the impaired loans ratio was 1.49%, decreased by 0.01 percentage point over the end of the previous year. The balances of overdue loan and overdue loan for over 90 days decreased by RMB7.654 billion and RMB11.730 billion respectively over the end of the previous year, and the ratio of overdue loan and overdue loan for more than 90 days decreased by 0.25 and 0.32 percentage points respectively over the end of the previous year. The provision coverage of impaired loans increased by 16.25 percentage points over the end of the previous year to 170.98%. The market and liquidity risks were generally controllable, and all indicators of risk limits were well implemented. The liquidity coverage ratio (legal entities) was 113.22%, which met the regulatory requirements. All kinds of measures were taken to detect the potential cases and risks and keep the case prevention and operational risks stable.

The Group created new highlights on the construction of "Your Wealth Management Bank". The Group applied big data, mobile interconnection, artificial intelligence and other financial technologies and gave wealth management banks new insights to build a digital, intelligent and an integrated online and offline wealth management bank. The Group initiated a quantitative financial quotient evaluation system and an intelligent product recommendation system, and created a mobile banking of "OTO Financial Advisor" to provide customers with more affordable, professional and personalized wealth management solutions. As at the end of the Reporting Period, the amount of individual financial assets under management ("AUM") increased by 3.69% over the end of the previous year to RMB2,987.976 billion. The number of qualified customers of BOCOM FORTUNE, OTO FORTUNE and private banking increased by 3.09%, 6.84% and 9.21% respectively over the end of the previous year. The customers of wealth management with assets above RMB50 thousand per day in a quarter increased by 4.37% over the end of the previous year. The total custody assets increased by 4.90% over the end of the previous year to RMB8,630.701 billion.

The Group made new progress in deepening reform comprehensively. The Group initialized the reform of credit risk management system to solidify the foundation of risk management. The Group reformed the talent incentive mechanism to precisely stimulate the key talent groups such as officers in-charge from basic level operating institutions as well as client relationship managers. The Group launched the intelligent transformation project of the Group's information system and closely linked to the pulse of Fintech development. The Group promoted the reform of "delegation, regulation, service" of BoCom and speeded up the establishment of a new Authorization Management System, that is distinctive, accurate and dynamic. The Group also deepened the reform of the divisional system, 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 and provision of the six major business divisions increased by 3.43% on a year-on-year basis. The Group adhered to the direction of transformation of retail business under the new situation and promoted the reform and development of provincial branches and basic level operating institutions collaboratively. As at the end of the Reporting Period, the profit contribution and retail business proportion of provincial branches increased by 1.22 percentage points and 1.31 percentage points respectively over the end of the previous year, and the balance of overdue loan showed a significant downtrend.

(I) Corporate Banking Businesses

- **During the Reporting Period, the Group's profit before tax from corporate banking businesses amounted to RMB25.258 billion, with an increase of 7.87% on a year-on-year basis, and net fee and commission income amounted to RMB7.962 billion.**
- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 2.35% over the end of the previous year to RMB3,946.825 billion; corporate loan balance increased by 1.80% over the end of the previous year to RMB3,226.445 billion.**
- **As at the end of the Reporting Period, the Group's corporate impaired loan balance was RMB54.482 billion and the impaired loans ratio was 1.69%.**

The Group focused on serving the real economy, took the international and comprehensive management advantages, and satisfied customers' comprehensive financing requirements by using products portfolio, such as credit, bonds, funds, leasing, trust, asset management, insurance, and investments. The Group provided supports for major national strategies, major projects and key areas, and established a reputable brand in areas, including cash management, supply chain finance, investment banking and cross-border finance.

1. Corporate and institutional businesses

The Group continuously strengthened the construction of customers base, optimized the system functions of products, focused on "System Digging", speeded up the replication and promotion of key business systems, adhered to executing the "Settlement, Transactions and Flow", and enhanced customer cooperation. During the Reporting Period, the Group increased 409 institutional system customers and 6,803 corporate system customers. The Group focused on the key industries and key customers such as schools, hospitals, salary payment to customers and settlement of transactions, intensified business development, and promoted scenarios and industry-oriented services solutions. The number of salary payment to source customers had a net increase of 164.8 thousand, 250 schools became new customers of "Bank-Connected-School" business, and 87 hospitals became new customers of "Bank-Connected-Hospital" business. As at the end of the Reporting Period, the total number of corporate customers of domestic banks increased by 4.10% over the end of the previous year.

2. Inclusive finance businesses

The Group deepened the reform of the Inclusive Finance Development Committee, optimized the mechanism of the inclusive finance system, improved the financial service capacity of inclusive finance, and formed a customer-centered comprehensive inclusive financial service system with whole process including account opening, settlement, deposit, finance and financing, etc. The Group strengthened the channel construction, and coordinately promoted the development of key areas including small and micro enterprises, "Agriculture, Rural areas and Farmers", poverty alleviation and "Mass Entrepreneurship and Innovation". The Group improved the pricing management, standardized the charging behavior, and effectively alleviated the problem of "difficult financing and expensive financing" in key areas and key customers. As at the end of the Reporting Period, the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers both increased and the loan balance of the inclusive finance of such enterprise increased by RMB9.602 billion or 10.83% over the end of the previous year, which was higher than the average growth rate of all loans. The number of loan customers with outstanding balance increased by 5,745, representing that the Group achieved a target of two increase of the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers periodically.

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

The Group focused on "Payment and Settlement + Trade Financing" and built an integrated service of "Online + Offline" whole chain. Relying on "Internet+", blockchain, big data analysis and other technologies, the Group innovated and optimized the system platforms such as electronic supply chain and smart cars, and accelerated the promotion of key products, such as "Express Bill Discounting", "Express Receivable Collector", "Express Pay", "Win to Fortune E Chain", and "Smart Cars". The Group strengthened the promotion of industrial chain finance in key industries such as construction, medical, retail, automobile and modern agriculture, deepened the cooperation with key enterprises and their upstream and downstream, and promoted comprehensive benefits. The Group was awarded "Top 10 Financial Innovation Award (Corporation Business)" of 2018 by *The Banker*. As at the end of the Reporting Period, the total number of qualified industrial chain networks of domestic banks reached nearly 2,900, and the financing balance of key products in industrial chain exceeded RMB100 billion, with an increase of 10.9% over the end of the previous year.

4. Cash management businesses

The Group strengthened the optimization and innovation of cash management products such as RMB cash pool, the bill pool, Payments to Bids and Payments to Party Committee, improved the services of opening new account for high-quality corporate customers, and improved the settlement activity of corporate customers. The Group established a green channel service for key customers, enhanced the response speed and service experience of key customers. The Group built a global cash management platform to achieve centralized operation and management of cross-border interbank accounts. The Group intensified the promotion of the financial management system of financial companies and improved the long-term operation mechanism. The Group launched distinctive discount packages of "Corporate Settlement+" for the "Win to Fortune" and strengthened the development of low-cost settlement funds. As at the end of the Reporting Period, there were more than 22 thousand group customers in the cash management of the "Win to Fortune" account, which involved more than 0.37 million cash management accounts.

5. *International settlement and trade financing*

The Group actively promoted international settlement and cross-border trade financing, and provided financial support and guarantee for "Going Global" enterprises. The Group implemented the measures of steady growth in foreign trade and coordinated with the structural adjustment of foreign trade. During the Reporting Period, the domestic banks handled international settlements of RMB2,217.785 billion and the international trade financing amounted to RMB47.237 billion. The Group actively supported the strategies of the "Belt and Road" and "Going Global" enterprises through offering financing and settlement products such as foreign guarantee. During the Reporting Period, the domestic banks handled foreign guarantee of RMB77.026 billion. The Group took steps forward on Fintech innovation and real economy services. The Group was the first bank operating blockchain business for domestic letter of credit, which facilitate the real-time electronic transmission of Chinese interchange information of domestic letter of credit business and continuing services in less time and faster funding flow matter. During the Reporting Period, a number of branches put such technology into practice.

6. *Investment banking businesses*

The Group vigorously promoted investment banking businesses of flow transformation and low capital consumption, increased cooperation with external institutions and expanded capital channels. The Group supported the development of national housing rental business, and registered the first debt financing instruments for rental housing. The Group completed the Central Huijin's medium-term notes of RMB15 billion and the State Grid's medium-term notes of RMB5 billion. The Group continued to promote the development of green bonds, and the underwriting amount of green bonds instruments as the lead underwriter reached RMB2.8 billion. The Group strongly supported the demand for enterprises' cross-border bond issuance, and had overseas bonds of approximately USD26.7 billion. The Group promoted asset securitization business comprehensively. The total underwriting asset securitization amount (including credit asset-backed securities and asset-backed notes) ranked second in the banking system. The Group issued "Jiao Yuan" first credit card installment asset-backed securities of RMB16.95 billion in 2018, which was the largest single-issue credit asset-backed securities in China and the first issuance of credit card installment asset-backed securities introducing foreign investors through the "Bond Connect". The Group accelerated the de-leverage and debt-to-equity conversion activities. The Group was rewarded as the "Jun Ding Award of Chinese Comprehensive Investment Bank" by *Securities Times* and the "Best Green Bond Bank" by *Asian Currency*. During the Reporting Period, the Group achieved an income of RMB2.470 billion in investment banking businesses, accounting for 10.86% of the Group's total fee and commission income. The number of debt financing instruments (excluding local government debt) underwritten by domestic banks as the lead underwriters was 179, and the underwriting amount of such instruments (excluding local government debt) increased by 66% on a year-on-year basis to RMB132.786 billion.

7. *Asset custody businesses*

The Group vigorously developed key custody products, and promoted new business cooperation models such as the connection between custody public funds and Yu'E Bao as well as the Tencent Finance Communications Platform. The custody scale of public funds exceeded RMB one trillion and ranked fourth in the market. The Group kept pace with the reform of the State's pension security system, strengthened the pension market development of basic pension, supplementary pension and commercial pension, and maintained the advantages of pension trusteeship. The Group seized the policy opportunities of interconnection and cross-border investment, developed cross-border custody business such as QDII and Bond Connect, and Hong Kong Trusteeship Center became the sole fund custody service agency of Tencent Wechat Payment in Hong Kong. The Group promoted the construction of "Custody E-connect" of BoCom, and created an internet custody service platform that integrated customer service, business processing and publicity. As at the end of the Reporting Period, the total custody assets increased by 4.90% over the end of the previous year to RMB8,630.701 billion, and the market share increased by 0.18 percentage points over the end of the previous year.

(II) Personal Banking Businesses

- **During the Reporting Period, the Group's profit before tax from personal banking businesses sector was RMB11.103 billion; net fee and commission income increased by 11.44% on a year-on-year basis to RMB11.366 billion.**
- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 5.81% over the end of the previous year to RMB1,783.778 billion; the balance of personal loans of the Group increased by 11.18% over the end of the previous year to RMB1,567.520 billion; the total number of individual customers in domestic banks increased by 3.08% over the end of the previous year.**
- **As at the end of the Reporting Period, the balance of personal impaired loans was RMB17.030 billion and the personal impaired loans ratio was 1.09%.**

The Group adhered to the "customer-centered" principle, followed the innovation of Fintech, explored the innovative business model, continuously improved the service quality, and further built the brand characteristics of "Your Wealth Management Bank" to promote the transformation and development of the retail business.

1. *Personal deposits and loans*

The Group continuously enriched the variety of savings deposit products, promoted individual large-value certificates of deposit, innovated structural deposit products, and upgraded low-cost core liabilities. The Group constantly deepened precision marketing and used white list for precise control to effectively promote the development of personal savings deposit business.

The Group made reasonable arrangements for the pace and areas of mortgage loans placement, strictly implemented the national macro-control policies and controlled the issuance rate of mortgage loans. Under the premise of effective management and control of risks, the Group supported the residents' reasonable owner-occupied housing demand. The Group constantly promoted the innovation of products and services, accelerated product and service innovation, and launched a petty consumer credit loan product named "Benefit Loan" targeting at high-quality salary payment to customers through the methods of online applications and automatic approvals to better meet customer demand. As at the end of the Reporting Period, the balance of personal residential mortgage loans increased by 6.17% over the end of the previous year to RMB952.652 billion.

2. *Wealth management businesses*

Adhering to the concept of "A century of BoCom, your wealth management bank", the Group persisted in Fintech innovation to lead development, and actively applied big data, mobile interconnection, artificial intelligence and other Fintech, giving wealth management banks new insights. The Group built a digital wealth management bank, made full use of big data analysis technology, promoted the innovation of wealth management services of "thousands of people, thousands of views" and constantly improved the ability of personalized customer service. The Group built an intelligent wealth management bank, initiated a quantitative financial quotient evaluation system and an intelligent product recommendation system, created a mobile banking of "OTO Financial Advisor" to provide online personalized wealth management services such as "asset diagnosis, allocation suggestions, product recommendations and order by one click" for public customers, which made professional wealth management services more inclusive and brought more benefits. The Group build an integrated online and offline wealth management bank. The Group was the first to launch online live broadcasts, air finance room and other live columns among domestic banking industry. The Group also launched "My Account Manager" in the mobile banking, which upgraded the wealth management services comprehensively.

As at the end of the Reporting Period, the amount of individual financial assets under management (AUM) increased by 3.69% over the end of the previous year to RMB2,987.976 billion. The number of qualified customers of BOCOM FORTUNE, OTO FORTUNE and private banking increased by 3.09%, 6.84% and 9.21% respectively over the end of the previous year, and the customers of wealth management with assets above RMB50 thousand per day in a quarter increased by 4.37% over the end of the previous year.

3. Bank card businesses

Credit card businesses

The Group accelerated the application of Fintech in credit cards businesses. The Group's mobile credit card was awarded "Top 10 Events of Financial Informatization in 2017" by the *Financial Electronization*. The quickest approval process took 2 seconds, and average approval process took 49 seconds upon submission. The credit card can be activated with 2 steps through "Go Pay" App which can be settled both online and offline. The Group issued the YouthElite platinum credit card for the young and high-end customers, and the number of issued cards was over 300 thousand for three weeks upon the launch. Cooperating with well-known enterprises, the Group issued 8 co-branded cards such as Sohu video card, Jingdong baitiao card, VISA world cup card, Shumen mobile game card and so on. The Group promoted the brand of "Super Red Friday", and launched a series of online and offline activities. The Group actively cooperated with overseas enterprises and increased 3,500 overseas preferential merchant stores. The Group constantly optimized the functions of "Go Pay" App, with the number of customers exceeding 47.60 million. The Group tapped the potential of products like "Well Enjoy the Loan" and "Install as You Like" to meet the consumer credit needs of different groups of customers, and the volume of consumer credit transactions in the first half of the year increased by 47% on a year-on-year basis. The Group optimized the function of Mobile Credit Card 3.0, added new functions such as face recognition and video activation to realize the online opening and activation of cards. The Group optimized self-help service such as online customer service and Robot Xiao Jiao, reducing the volume of manual traffic by 8%.

As at the end of the Reporting Period, the number of domestic credit cards (including quasi-credit cards) amounted to 68.83 million, representing a net increase of 6.40 million over the end of the previous year. The accumulated consumption in the first half of the year amounted to RMB1,465.954 billion, representing a year-on-year increase of 43.79%. The Group's credit card overdraft balance increased by 24.79% over the end of the previous year to RMB497.920 billion. The credit card overdraft impairment rate was 1.84%, which remained stable over the end of the previous year.

Debit card businesses

The Group made full use of mobile internet technology and strengthened the innovation of payment tools. Relying on C2B and C2C scan code payment products, the Group accelerated the construction of QR code payment system. The Group actively promoted innovative products and services such as "Security Pay", cards without intermediary and "Worry-free Card". The Group continuously optimized the service process of personal accounts, simplified the procedures of opening and cancellation of accounts to effectively enhance user experiences.

As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 137.17 million, representing a net increase of 5.49 million over the end of the previous year; the accumulated consumption in the first half of the year increased by 25.14% on a year-on-year basis to RMB545.639 billion.

(III) Interbank and Treasury Businesses

- **During the Reporting Period, the Group's profit before tax from treasury businesses increased by 41.58% on a year-on-year basis to RMB9.714 billion.**
- **As at the end of the Reporting Period, the Group's investments in securities amounted to RMB2,632.770 billion with an increase of 6.40% over the end of the previous year; during the Reporting Period, the securities investment yield was 3.56%.**

The Group adhered to the principle that the finance should return to its origin, focused on serving the main business of the real economy, constantly consolidated the customer base, accelerated business transformation and product innovation, strengthened various risk prevention and defusing, and promoted stable operations and compliance development of the interbank and market businesses.

1. Interbank businesses

The Group deepened the cooperation of financial market. During the Reporting Period, the Group was the first batch to obtain the depository qualification for overseas customers' deposits in the Dalian Commodity Exchange and provided foreign investors with the foreign currency deposit service when they participated in the domestic iron ore futures trading. The Group completed oil futures listing work of the Shanghai International Energy Center, which resulted in that the scale of security deposit of oil futures in the market was in the lead. The Group completed the first batch of market credit default swap centralized liquidation transaction, representing that the Group fully participated in the central counterparties clearing for interest rates, exchange rates, commodities and credit derivatives in Shanghai Clearing House. The Group exploited its international and comprehensive advantages, attracted foreign investors to participate in oil and iron ore futures trading, and proposed specific commodity varieties to be priced in RMB. During the Reporting Period, the average balance of deposits in financial market amounted to RMB165.3 billion.

The Group strengthened the construction of Interbank platform, extended high quality services to the villages and vast rural areas through agricultural commercial banks and rural credit cooperatives, and supported the development of inclusive finance through interbank cooperation in wealth management consignment, precious metal wallet consignment and bond distribution. As at the end of the Reporting Period, there were 763 cooperative corporate customers on the Interbank platform, increased by 230 over the end of the previous year, and there were 605 corporate customers on the interbank wealth management platform "Interbank Smart Platform", increased by 375 over the end of the previous year. The Group cooperated with insurance companies to launch the first (set of) major equipment insurance agency business as the representative of innovative products to support the national strategy of "Made in China 2025". The Group improved the ability of clearing services in the direct financing market. The number of cooperative securities companies in businesses of third-party custody reached 100, the cooperative coverage rate reached 100%, and the market proportion of the newly increased individual customers of the Bank and securities companies cooperation increased significantly. The number of cooperative futures companies in businesses of bank transfer reached 146, the cooperative coverage rate reached 98%, and the brokerage deposit of futures companies had a balance of RMB72 billion, maintaining its leading position in the market for 9 consecutive years.

2. Treasury businesses

The Group actively responded to price fluctuations in the bond market, flexibly adjusted trading strategies, and maintained the stable income of trading business. The Group actively undertook the responsibility of performing the "Bond Connect" business market maker and introduced overseas investors. During the Reporting Period, 51 "Bond Connect" transactions were executed, amounting to RMB15.550 billion. The Group vigorously developed the Renminbi bond lending business and signed new Master Agreements for Renminbi bond lending business with 96 institutions. The Group strengthened market analysis and anticipation, and actively expanded overseas counterparties in foreign exchange swap transactions. During the Reporting Period, the transaction volume of domestic banks in respect of Renminbi-denominated bonds reached RMB1.76 trillion and the volume of interbank foreign currency transactions reached USD969.608 billion.

The Group strengthened market research, 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 RMB2,632.770 billion, representing an increase of 6.40% over the end of the previous year; during the Reporting Period, the securities investment yield was 3.56%.

3. Asset management businesses

The wealth management of the Group operated steadily and the market share of product scale remained stable. The Group accelerated the transformation of net worth products and improved product structure to meet the increasingly diversified investment needs of investors. During the Reporting Period, the average daily value of net worth financial products exceeded RMB100 billion. The Group actively implemented the new regulations on asset management to promote the establishment of the subsidiary of asset management. The Group planned to set up BoCom Asset Management Co., Ltd. with a registered capital not higher than RMB8 billion, becoming the first large state-owned commercial bank to announce the establishment of asset management subsidiary. During the Reporting Period, the Bank issued a total of 5,089 wealth management products, raised funds of more than RMB10 trillion, and achieved revenue of more than RMB34 billion for customers. As at the end of the Reporting Period, the scale of Renminbi off-balance sheet asset management amounted to RMB627.454 billion.

4. Precious metal businesses

The Group was the first batch of pilot members of the forward curve quotation group of the silver inquiry market, the first batch to obtain the qualification of gold option implied volatility quotation of the Shanghai Gold Exchange and completed the first day deal of the silver inquiry business of the Shanghai Gold Exchange. During the Reporting Period, the domestic banks achieved RMB70.208 billion in terms of volume of precious metal brokerage transactions. The sales of real precious metals products businesses amounted to RMB1.126 billion, and the accumulated gold trading accounted to 3,824.56 tons. The gold trading volume of the Shanghai Gold Exchange ranked among Top Five in the market, and continuously maintained its active banking status in the market.

(IV) "Online and Offline" Network Construction

- **During the Reporting Period, the profit per person of the Group (annualized) amounted to RMB920.3 thousand, representing an increase of 7.69% on a year-on-year basis. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 3.61% over the end of the previous year to RMB2.150 billion.**

- **During the Reporting Period, the total e-channels transactions in domestic banks reached 3.333 billion, and the transaction amount reached RMB108.19 trillion. As at the end of the Reporting Period, the diversion rate of e-channels increased by 1.63 percentage points over the end of the previous year to 96.17%.**

- **As at the end of the Reporting Period, the total amount of domestic banking outlets decreased by 11 over the end of the previous year to 3,259, of which 15 were newly opened and 26 low-yield ones were integrated.**

The Group continued to improve its institutional layout, insisted on controlling the cost by reducing the areas and the counters of physical outlets, and speeded up the light and intelligent transformation of the network. By optimizing the e-channel service and product innovation, the Group effectively enhanced customer experience, and actively created a new integrated development situation of "Online + Offline".

1. Online network construction

Mobile banking. The Group deepened the application of Fintech, constantly upgraded the service mode and improved the customer experience. The Group optimized and revised the services of asset management, fund, precious metal, foreign exchange and life payment channels, added key and new functions such as "OTO Financial Advisor", "My Account Manager", continued purchase of financial products, small amount auto-deduction, cross-border financial sector, Manjinbao service, as well as small and micro business services. As at the end of the Reporting Period, the number of the Group's mobile banking registered customers reached 67.54 million, representing an increase of 10.62% over the end of the previous year. During the Reporting Period, the number of mobile banking transactions reached 173 million, representing an increase of 19.33% on a year-on-year basis, and the transaction amount increased by 35.49% on a year-on-year basis to RMB5.23 trillion.

Online banking. Regarding the corporate e-banking, the Group continued to strengthen the agency settlement product innovation of "Delivery and Guarantee" to meet customers' needs of large capital and long cycle. More than 1.6 thousand customers used "Delivery and Guarantee" for the fund settlement with a total amount of RMB5.49 billion. The Group actively promoted the services upgrading of the traditional "Bank-Connected-Corporate" to realize the whole transactions of electronization for the connected customers. During the Reporting Period, the number of corporate e-banking customers who newly signed contracts increased by more than 10 thousand on a year-on-year basis to over 50 thousand, and the number of corporate e-banking transactions increased by 15.98% on a year-on-year basis to 0.590 billion. Regarding the personal e-banking, the Group upgraded the home page of e-banking as well as risk control and security management upgrade to provide customers with a more stable and reliable trading environment. As at the end of the Reporting Period, the number of personal e-banking customers increased by 6.39% over the end of the previous year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased by 5.61% on a year-on-year basis to 2.395 billion.

2. Offline network construction

Physical outlets. Relying on the means of operation transformation, Fintech and intelligent machine tools, the Group coordinately promoted the construction of outlets miniaturization, light operation, intelligent service and cooperative operation. The Group experimentally set up the light and intelligent outlets of "low cost, excellent experience, characteristic features with basic public and private operating functions", explored and established the new model of business institutions construction, service and operation. As at the end of the Reporting Period, the total number of domestic banking outlets decreased by 11 over the end of the previous year to 3,259, of which 15 were newly opened and 26 low-yield outlets were integrated. The number of comprehensive outlets, traditional outlets and inclusive outlets was 576, 2,005, and 677 respectively. The Group's network covered 239 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities at 71.56%, which remained stable over the end of the previous year. In particular, the coverage ratio in Western China was 45.97%.

Self-service banking. The Group reduced the cost of self-service channels with low efficiency and improved the operation efficiency of machine tools. As at the end of the Reporting Period, the number of self-service machines in domestic banks was 23 thousand and the number of self-service banks was 2,878. The ratio of self-service banks to traditional branches was 1.12:1. During the Reporting Period, the number of self-service banking transaction was 176 million with transaction amounts reaching RMB1.31 trillion.

Relationship manager. The Group innovated to promote the construction of relationship manager team, enhanced the ability of business development for relationship managers, optimized the evaluation and incentive mechanism of relationship managers, and broadened the room for development for relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic banks reached 22,296, equivalent to 29.51%, among which the number of corporate relationship managers reached 10,253 and the number of retail relationship managers reached 12,043.

3. Service promotion and the protection of the rights and interests of consumers

The Group actively built a setup of "Full Service", and committed to building the best service brand in the financial industry. The Group grasped the customer pain point, took the reduction of people in the extra-long queue as the breakthrough point, optimized the business process, and improved customer experience and service efficiency. As at the end of the Reporting Period, the average queuing time per person decreased by 6.27 minutes over the end of the previous year. The Group regarded the protection of consumers' legitimate rights and interests as their own responsibility, continued to promote the consumer protection approval of the whole process of personal products. The Group carried out a campaign named "Universalizing financial knowledge, holding on to pocket money", strengthened the spread and popularization of financial knowledge and continuously improved consumer satisfaction. In the CBIRC's assessment in 2018 on the protection of consumer rights and interests in 2017, the Group was awarded "First Class Bank", which was the only one among the large banks, the postal savings bank and the 12 nationwide joint-stock banks.

Technology Innovation Leads Business Transformation and Development

The Group continuously developed the advanced corporate information system in the industry, and deeply integrated information technology and business development to strongly support the "BoCom Strategy".

In January 2018, the information systems of Frankfurt Branch and Hong Kong Branch (Subsidiary) were smoothly put into operation. On the basis of unified application structure and data standard, the information system integrated and restructured for domestic and overseas businesses, which laid a solid foundation for the business transformation and development of the whole Bank. The "BoCom Domestic and Overseas Integrated Business System and Restructuring Project" was awarded the "First Prize of Banking Technology Development Award" by People's Bank of China.

The Group promoted the deep integration of new financial technologies such as big data, artificial intelligence, cloud computing, mobile communication and blockchain for banking business, actively explored various areas, such as intelligent customer services, precision marketing, "Online + Offline" integration, risk supervision, and launched several applications, including online inquiry, online live broadcasts, air finance room and intelligent risk identification. Two App platforms, namely mobile banking and "Go Pay" of credit cards provided one-stop financial services in all time, all places and all situations. The credit card business achieved the online prompt approval, the smart outbound system accurately targeted marketing, and there were over 100 episodes of online live broadcasts, which attracted millions of audiences with nearly 3 millions interactive comments barrages.

The Group actively established the intelligent service system to initiate the intelligent transformative project on the Group's information system ("New 531" project). The "New 531" project placed digitization and intelligence as the core and applied the technical combination framework of "focus+distribution" as basis. Supported by two platforms of data application and information security, the Group managed to build an integrated intelligent service system through the intelligent ability construction in intelligence operation, intelligence interaction, intelligent investment advising and intelligent risk management.

Intelligent operation. By applying biological recognition such as face, fingerprint, iris and voice, as well as technologies on image processing and mobile interaction, the Group overcame the constraint of physical network as well as restriction of time and location in order to provide instant financial services so that the customers could enjoy the convenience of handling business without leaving home.

Intelligent interaction. By applying the intelligent voice technology such as voice recognition, semantic understanding and natural language processing and integrating image recognition, deep learning and knowledge graph, the Group offered personification of intelligent customer service and provided customers with kinds of ways to easily get operations processing and consultation enquiry by natural language, which enhanced customer service experience to the utmost extent.

Intelligent investment advice. By applying the intelligent decision making technology such as big data analysis and integrating modern portfolio theory, capital asset pricing model and years of experience of private banking in asset management, the Group researched and developed the supplementary service tool of investment that advised customers with intelligent diagnose, automatic analysis and customized investment planning on asset's mobility, reliability, safety and profitability, leading to realization of one-click and panoramic professional financial management services.

Intelligent risk management. By applying data mining technology such as the graphical model, integrating the artificial intelligence such as deep learning and neural networks, researching and developing risk monitoring model of intelligent risk forecast and comprehensive risk assessment, the Group basically achieved the automation of risk monitoring and reporting unexpected events in the manner of early warning, early judgment and early disposal of unexpected risk incidents, effectively identified various types of fraud behaviours, and overall provided the safety of customer funds.

(V) Internationalization and Integrated Operation

1. *Internationalization strategy*

- **During the Reporting Period, net profits of the Group's overseas banking institutions amounted to RMB2.405 billion.**

- **As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 9.18% over the end of the previous year to RMB1,053.229 billion, accounting for 11.30% of the Group's total assets, representing an increase of 0.63 percentage points over the end of the previous year.**

- **As at the end of the Reporting Period, the impaired loan balances of the Group's overseas banking institutions was RMB1.285 billion, and the impaired loans ratio was 0.30%.**

The Group actively responded to the national strategic deployment and continued to improve the global institutional layout including countries and regions along the "Belt and Road" strategy. The Group continuously optimized the business structure of foreign banks, promoted the cooperation between branches, subsidiaries and directly operating institutions in an all-round way, accelerated the transformation of high quality development, and enhanced the contribution of international development to the Group.

Overseas service network

The landscape of overseas service network was making a steady progress. On 29 January 2018, the wholly-owned subsidiary of the Bank, the Bank of Communications (Hong Kong) Limited officially opened. On 2 February 2018, the acquired subsidiary in Brazil was officially approved to be renamed as Bank of Communications (Brazil) Co., Ltd., and its operation and management had a smooth transition. Toronto branch of Canada, Prague branch of Czech and the Johannesburg branch of South Africa were actively preparing for the setup. As at the end of the Reporting Period, the Group set up 21 overseas subsidiaries, branches and representative offices in 16 countries and regions. They were Hong Kong Branch/Bank of Communications (Hong Kong) Limited, 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/Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited/Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd. and Toronto representative office, with a total of 66 overseas operating outlets (excluding the representative offices). The Group established agency relationship with 1,515 banks in over 142 countries and regions, set up 242 cross-border Renminbi interbank accounts for 122 overseas agent banks in 35 countries and regions, and opened 83 foreign currency settlement accounts in 26 major currencies with 64 banking institutions in over 31 countries and regions.

Domestic and overseas synergetic businesses

The Group took advantages of domestic and overseas network, relied on the professional synergetic businesses service platform, and provided domestic and overseas financial services such as the syndicated loan, the export buyer's credit, the overseas merger and acquisition, the project financing and the issuance of direct debt financing instruments for the "Going Global" enterprises in the field of international business. During the Reporting Period, the total transaction amount of the synergetic businesses was USD19.707 billion, and its accumulated revenue reached USD0.188 billion.

Cross-border Renminbi transactions

The Group promoted the standardized construction of the cross-border RMB business development, and obtained the highest level of class A in the special assessment of foreign exchange self-discipline and foreign exchange market standards in 2017 by the Self-discipline Mechanism of the National Foreign Exchange Market. As the leading underwriter and bookkeeper, the Group deepened to promote the development of "Bond Connect", and successfully completed the underwriting and issuing of the fifth and sixth Medium Term Note (Bond Connect) of Central Huijin Investment Ltd. in 2018. During the Reporting Period, the transaction amount of the cross-border Renminbi settlements by domestic and overseas banking institutions amounted over RMB1.2 trillion.

Offshore services

The Group continuously cultivated the core customer groups and increased the intensity of business restructuring. During the Reporting Period, the number of new offshore high-quality customers increased by 47.2% and the net revenue of offshore intermediary business increased by 7.05%. As at the end of the Reporting Period, the total amount of offshore assets was RMB122.964 billion, the loan balance was RMB93.475 billion, and deposit balance was RMB70.534 billion.

2. *Integrated operation*

- **During the Reporting Period, net profits attributable to shareholders of the Bank from the subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited, Bank of Communications (Brazil) Co., Ltd., and Bank of Communications (Hong Kong) Limited, same applies hereinafter) amounted to RMB2.451 billion, representing a year-on-year increase of 17.10%, the proportion of which to the net profit of the Group increased by 0.64 percentage points to 6.01% on a year-on-year basis.**

- **As at the end of the Reporting Period, the total assets of the subsidiaries increased by 8.65% over the end of the previous year to RMB344.437 billion, the proportion of which to the total assets of the Group increased by 0.18 percentage points to 3.69% over the end of the previous year.**

The Group persisted in deepening reforms, improved top-level design, enhanced the efficiency of comprehensive operation, and stimulated the operating vitality of subsidiaries. All subsidiaries adhered to the Group's strategy, kept pace with market trends, accelerated the pace of transformation, enhanced the quality and efficiency of development, and maintained a good momentum of development.

Bank of Communications Financial Leasing Co., Ltd. deepened to promote the business in aviation and shipping, and the assets of aircrafts and ships amounted to RMB109.614 billion, accounting for 52.41% of all the leasing assets. During the Reporting Period, the company realized a net profit of RMB1.352 billion, with a year-on-year increase of 12.20%. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB209.134 billion, with an increase of 4.57% over the end of the previous year.

Bank of Communications International Trust Co., Ltd. accelerated the pace of business transformation, and vigorously promoted the active management, asset securitization, family trust and other business development. As at the end of the Reporting Period, its asset under management amounted to RMB857.762 billion.

Bank of Communications Schroder Fund Management Co., Ltd. bucked the trend and strived for a steady progress, and several public funds under the company achieved outstanding performance. Many funds such as BoCom Pharmaceutical Innovation, BoCom Alfa, BoCom Advantaged Industry and BoCom Technology Innovation were ranked top 5% among funds in term of performance. As at the end of the Reporting Period, its asset under management amounted to RMB471.924 billion (including two subsidiaries).

BoCommLife Insurance Company Limited steadily developed its business and continuously improved its asset quality. During the Reporting Period, the accumulated premium income amounted to RMB8 billion, of which renewal premiums amounted to RMB3.5 billion, with a year-on-year increase of 130%. The company continuously optimized the business structure, leading the industry in terms of the quality of insurance business with premium paid by installment. The premium paid by installment of the new insurance business accounted for 92%, while the persistency rate of premium paid by installment of 13 months in insurance business reached 95.9%, leading in the industry.

China BoCom Insurance Co., Ltd. continued to deepen the Group's synergetic businesses, promoted the main business of insurance service to be professional, excellent and powerful, and spared no effort to build a global professional service platform of the general insurance for the Group.

In accordance with the principle of marketization and legislation, BoCom Financial Asset Investment Co., Ltd. studied the comprehensive de-leverage scheme such as the combination of shares and debt and the majority of shares to effectively decrease the leverage ratio of enterprises. As at the end of the Reporting Period, it reached a preliminary cooperative intention with a number of pillar enterprises concerning national economy and the people's livelihood.

II. FINANCIAL STATEMENT ANALYSIS

(I) Analysis on Key Income Statement Items

1. Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB0.115 billion or 0.24% on a year-on-year basis to RMB47.470 billion, profit before tax was mainly derived from net interest income and net fee and commission income.

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

(in millions of RMB)

	For the six months ended 30 June	
	2018	2017
Net interest income	**60,658**	61,333
Net fee and commission income	**21,182**	21,261
Credit impairment losses on loans	**(15,202)**	(14,805)
Profit before tax	**47,470**	47,355

2. Net interest income

During the Reporting Period, the Group's net interest income decreased by RMB0.675 billion on a year-on-year basis to RMB60.658 billion, accounting for 59.45% of the Group's operating income, becoming a major component of the Group's income.

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

(in millions of RMB unless otherwise stated)

	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
	Average balance	Interest income/ (expense)	Annualized average rate of return (cost) (%)	Average balance	Interest income/ (expense)	Annualized average rate of return (cost) (%)
Assets						
Cash and balances with central banks	938,141	6,785	1.46	957,404	6,685	1.40
Due from banks and other financial institutions	831,837	12,868	3.12	735,912	9,559	2.60
Loans and advances to customers and receivables	4,602,049	109,686	4.81	4,316,050	97,350	4.51
Including: Corporate loans and receivables	2,998,226	66,890	4.50	2,972,984	62,645	4.21
Individual loans	1,460,221	39,316	5.43	1,207,046	32,184	5.33
Discounted bills	143,602	3,480	4.89	136,020	2,521	3.71
Investment securities	2,333,251	41,207	3.56	2,190,236	38,984	3.56
Interest-bearing assets	8,705,278	170,546	3.95	8,199,602	152,578	3.72
Non-interest-bearing assets	652,648			519,004		
Total assets	9,357,926			8,718,606		
Liabilities and shareholders' equity						
Due to customers	5,681,819	63,620	2.26	5,387,258	54,883	2.04
Including: Corporate deposits	3,902,427	42,465	2.19	3,740,354	37,660	2.01
Individual deposits	1,779,392	21,155	2.40	1,646,904	17,223	2.09
Due to banks and other financial institutions	2,124,818	35,401	3.36	2,092,921	30,544	2.92
Debt securities issued and others	553,702	10,867	3.96	319,432	5,818	3.64
Interest-bearing liabilities	8,360,339	109,888	2.65	7,799,611	91,245	2.34
Shareholders' equity and non-interest-bearing liabilities	997,587			918,995		
Total liabilities and shareholders' equity	9,357,926			8,718,606		
Net interest income		60,658			61,333	
Net interest spread[1]			1.30			1.38
Net interest margin[2]			1.41			1.50
Net interest spread[1]			1.46[3]			1.53[3]
Net interest margin[2]			1.57[3]			1.64[3]

Notes:

1. Represented the difference between the annualized average rate of return on total average interest-bearing assets and the annualized average cost of total average interest-bearing liabilities.
2. Represented the annualized net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bond investments.
4. Due to changes in the presentation basis on the items in financial statements, the comparative data of the corresponding periods has been restated to the current presentation basis. Same applies hereinafter.

During the Reporting Period, the Group's net interest income decreased by 1.10% on a year-on-year basis. The net interest spread and net interest margin decreased by 8 basis points and 9 basis points on a year-on-year basis to 1.30% and 1.41%, respectively. The net interest spread and net interest margin in the second quarter both increased by 9 basis points as compared to those in the first quarter.

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

(in millions of RMB)

	Comparison between January to June 2018 and January to June 2017 Increase/(decrease) due to		
	Amount	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	(134)	234	100
Due from banks and other financial institutions	1,237	2,072	3,309
Loans and advances to customers and receivables	6,396	5,940	12,336
Investment securities	2,223	–	2,223
Changes in interest income	9,722	8,246	17,968
Interest-bearing liabilities			
Due to customers	2,980	5,757	8,737
Due to banks and other financial institutions	462	4,395	4,857
Debt securities issued and others	4,229	820	5,049
Changes in interest expenses	7,671	10,972	18,643
Changes in net interest income	2,051	(2,726)	(675)

During the Reporting Period, the Group's net interest income decreased by RMB0.675 billion on a year-on-year basis, of which the increase of RMB2.051 billion was due to changes in the average balances of assets and liabilities and the decrease of RMB2.726 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 RMB17.968 billion or 11.78% on a year-on-year basis to RMB170.546 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 RMB12.336 billion or 12.67% on a year-on-year basis to RMB109.686 billion, which was largely due to the impact on the average balance of loans and advances to customers and receivables increased by 6.63% on a year-on-year basis and the annualized average rate of return increased by 30 basis points on a year-on-year basis.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB2.223 billion or 5.70% on a year-on-year basis to RMB41.207 billion, which was largely due to the year-on-year increase of 6.53% in the average balance of investment securities.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks increased by RMB100 million on a year-on-year basis to RMB6.785 billion, which was largely due to that the annualized average rate of return from cash and balances with central banks increased by 6 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 RMB3.309 billion or 34.62% on a year-on-year basis to RMB12.868 billion, which was largely due to the year-on-year increase of 13.03% in the average balances due from banks and other financial institutions and the year-on-year increase of 52 basis points in the annualized rate of return of balances due from banks and other financial institutions.

(2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB18.643 billion or 20.43% on a year-on-year basis to RMB109.888 billion.

A. Interest expenses on due to customers

Due to customers were the Group's main source of funding. During the Reporting Period, interest expenses on due to customers increased by RMB8.737 billion or 15.92% on a year-on-year basis to RMB63.620 billion, accounting for 57.90% of total interest expenses. The increase in interest expenses of due to customers was largely due to a year-on-year increase of 22 basis points in the annualized rate of cost of due to customers.

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 RMB4.857 billion or 15.90% on a year-on-year basis to RMB35.401 billion, which was largely due to a year-on-year increase of 44 basis points in the annualized rate of cost of balances due to banks and other financial institutions.

C. Interest expenses on debt securities issued and other interest-bearing liabilities

During the Reporting Period, interest expenses on debt securities issued and other interest-bearing liabilities increased by RMB5.049 billion or 86.78% on a year-on-year basis to RMB10.867 billion, which was largely due to a year-on-year increase of 73.34% in average balance of debt securities issued and other interest-bearing liabilities and a year-on-year increase of 32 basis points in the annualized rate of cost.

3. Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously improved the quality and efficiency of intermediary business development, vigorously facilitated 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 decreased by RMB0.079 billion or 0.37% on a year-on-year basis to RMB21.182 billion. Bank cards were the main drivers of the Group's intermediary businesses.

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

(in millions of RMB)

	For the six months ended 30 June	
	2018	2017
Bank cards	**9,301**	7,763
Management services	**6,511**	7,236
Investment banking	**2,470**	2,813
Agency services	**1,736**	2,183
Guarantee and commitment	**1,400**	1,531
Settlement services	**1,170**	1,058
Others	**158**	461
Total fee and commission income	**22,746**	23,045
Less: fee and commission expense	**(1,564)**	(1,784)
Net fee and commission income	**21,182**	21,261

Fee income from bank card services increased by RMB1.538 billion or 19.81% on a year-on-year basis to RMB9.301 billion, which was mainly due to an increase of issued volume and card consumption business.

Fee income from management services decreased by RMB0.725 billion or 10.02% on a year-on-year basis to RMB6.511 billion, which was mainly due to a decrease of volume in brokerage wealth management and investment management services.

Fee income from investment banking decreased by RMB0.343 billion or 12.19% on a year-on-year basis to RMB2.470 billion, which was mainly due to a decrease of consulting services.

Fee income from brokerage services decreased by RMB0.447 billion or 20.48% on a year-on-year basis to RMB1.736 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 RMB0.131 billion or 8.56% on a year-on-year basis to RMB1.400 billion, which was mainly due to a decrease of bill risk exposure management fee.

Fee income from settlement services increased by RMB0.112 billion or 10.59% on a year-on-year basis to RMB1.170 billion, which was mainly due to an increase in fee income from settlement services for overseas banking operations.

4. *Operating costs*

During the Reporting Period, the Group's operating costs increased by RMB1.553 billion or 5.75% on a year-on-year basis to RMB28.573 billion. The Group's cost-to-income ratio was 29.26%, representing a year-on-year increase of 2.30 percentage points.

The table below illustrates the breakdown of the Group's operating costs for the periods:

(in millions of RMB)

	For the six months ended 30 June	
	2018	2017
Staff costs and welfare	**12,778**	12,484
Operating expenses	**12,999**	11,614
Depreciation and amortization	**2,796**	2,922
Total operating costs	**28,573**	27,020

5. *Credit impairment losses on loans*

The Group's impairment losses on assets included the provision for impairment losses on loans and advances to customers, financial investments, other receivables and foreclosed assets.

During the Reporting Period, the Group's credit impairment losses on loans and advances to customers increased by RMB397 million or 2.68% on a year-on-year basis to RMB15.202 billion. During the Reporting Period, credit cost ratio decreased by 0.03 percentage points on a year-on-year basis to 0.63%.

6. *Income tax*

During the Reporting Period, the Group's income tax expenses decreased by RMB1.657 billion or 20.37% on a year-on-year basis to RMB6.476 billion. The effective tax rate of 13.64% was 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.

(II) Analysis on Key Balance Sheet Items

1. *Assets*

As at the end of the Reporting Period, the Group's total assets increased by RMB284.453 billion or 3.15% over the end of the previous year to RMB9,322.707 billion.

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

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	4,669,207	50.08	4,473,255	49.49
Investment securities	2,632,770	28.24	2,474,348	27.38
Cash and balances with central banks	917,282	9.84	938,571	10.38
Lendings to banks and other financial institutions	733,308	7.87	782,468	8.66
Total assets	9,322,707		9,038,254	

(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 increased by RMB214.709 billion or 4.69% over the end of the previous year to RMB4,793.965 billion, among which the Renminbi loans from domestic branches increased by RMB208.478 billion or 5.33% over the end of the previous 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.

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

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**118,875**	**2.48**	114,010	2.49
Manufacturing				
– Petroleum and chemical	**108,495**	**2.26**	110,087	2.40
– Electronics	**77,815**	**1.62**	76,261	1.67
– Steel	**34,942**	**0.73**	36,377	0.79
– Machinery	**100,927**	**2.11**	96,532	2.11
– Textile and clothing	**28,340**	**0.59**	30,043	0.66
– Other manufacturing	**211,131**	**4.41**	231,606	5.06
Electricity, gas and water production and supply	**187,042**	**3.90**	180,471	3.94
Construction	**124,499**	**2.60**	112,544	2.46
Transportation, storage and postal services	**574,378**	**11.98**	576,156	12.58
Telecommunication, IT services and software	**32,267**	**0.67**	26,229	0.57
Wholesale and retail	**259,614**	**5.42**	283,654	6.19
Accommodation and catering	**34,228**	**0.71**	35,531	0.78
Finance	**130,516**	**2.72**	118,533	2.59
Real estate	**204,522**	**4.27**	189,295	4.13
Services	**394,425**	**8.23**	358,956	7.84
Water conservancy, environmental and other public utilities	**272,039**	**5.67**	265,073	5.79
Education, science, culture and public health	**88,571**	**1.85**	82,780	1.81
Others	**107,501**	**2.24**	106,278	2.32
Discounted bills	**136,318**	**2.84**	138,958	3.03
Total corporate loans	**3,226,445**	**67.30**	3,169,374	69.21
Mortgage loans	**952,652**	**19.87**	897,264	19.60
Credit card overdraft	**497,920**	**10.39**	399,004	8.71
Others	**116,948**	**2.44**	113,614	2.48
Total individual loans	**1,567,520**	**32.70**	1,409,882	30.79
Gross amount of loans and advances to customers before impairment allowances	**4,793,965**	**100.00**	4,579,256	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB57.071 billion or 1.80% over the end of the previous year to RMB3,226.445 billion. Among them, the four most concentrated industries were transportation, storage and postal services, manufacturing, services, and water conservancy, environmental and other public utilities, which accounted for 55.87% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB157.638 billion or 11.18% over the end of the previous year to RMB1,567.520 billion. The proportion of individual loans to total loans and advances to customers increased by 1.91 percentage points over the end of the previous year to 32.70%.

Loan concentration by borrowers

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for 1.85% of the Group's net capital, and the total loans of Top 10 customers accounted for 12.42% of the Group's net capital, which were in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

	30 June 2018		
	Type of industry	**Loan balances**	**Percentage of total loans and advances (%)**
Customer A	**Transportation, storage and postal service**	**14,468**	**0.30**
Customer B	**Services**	**14,000**	**0.28**
Customer C	**Transportation, storage and postal service**	**12,302**	**0.26**
Customer D	**Mining**	**10,000**	**0.21**
Customer E	**Transportation, storage and postal service**	**9,436**	**0.20**
Customer F	**Transportation, storage and postal service**	**8,980**	**0.19**
Customer G	**Construction**	**7,500**	**0.16**
Customer H	**Manufacturing – other manufacturing**	**7,000**	**0.15**
Customer I	**Wholesale and retail**	**6,740**	**0.14**
Customer J	**Transportation, storage and postal service**	**6,725**	**0.14**
Total of Top 10 Customers		**97,151**	**2.03**

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 34.54%, 16.32% and 7.67% respectively, and the loan balances in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta increased by 7.87%, 3.12% and 4.37% respectively over the end of the previous year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio decreased by 0.01 percentage point to 1.49%. The provision coverage of impaired loans increased by 16.25 percentage points over the end of the previous year to 170.98%. The provision ratio increased by 0.24 percentage points over the end of the previous year to 2.55%.

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)

	30 June 2018	31 December 2017
Impaired loans	**71,512**	68,506
Overdue loans for more than 90 days	**65,111**	76,841
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**1.49**	1.50

(2) Investment securities

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB158.422 billion or 6.40% over the end of the previous year to RMB2,632.770 billion. Return on the Group's investment securities reached 3.56%. Under the situation of current credit diversification, the Group's investment securities in bond sector will mainly be structured by local government bonds and national governance bonds, properly increase the proportion of high credit rating bonds, and closely monitor the default risk during the investment period. For the bond duration, the Group continues the research and assessment regarding the changes of macroeconomic situation and monetary policy, properly adjusts the duration of bond portfolio, to prevent the interest rate risk resulting from monetary policy changes.

Breakdown of the Group's investment securities

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

– By intention of holding

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	271,998	10.33	173,102	7.00
Financial investments at fair value through other comprehensive income	395,133	15.01	Not applicable	Not applicable
Financial investments at amortized cost	1,965,639	74.66	Not applicable	Not applicable
Financial investments – loans and receivables	Not applicable	Not applicable	387,733	15.67
Financial investments – available-for-sale	Not applicable	Not applicable	402,138	16.25
Financial investments – held-to-maturity	Not applicable	Not applicable	1,511,375	61.08
Total	2,632,770	100.00	2,474,348	100.00

– By issuers

(in millions of RMB unless otherwise stated)

	30 June 2018		31 December 2017	
	Balance	Proportion (%)	Balance	Proportion (%)
Governments and central banks	1,404,398	53.34	1,306,610	52.80
Public sector entities	75,160	2.85	35,663	1.44
Banks and other financial institutions	765,509	29.08	730,088	29.51
Corporate entities	387,703	14.73	401,987	16.25
Total	2,632,770	100.00	2,474,348	100.00

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
2018 policy bank bonds	6,900	4.99	24/01/2023	2.07
2017 policy bank bonds	6,590	4.39	08/09/2027	1.95
2018 policy bank bonds	6,510	4.82	24/01/2021	1.93
2015 policy bank bonds	5,860	3.74	10/09/2025	0.90
2017 policy bank bonds	5,710	4.44	09/11/2022	0.85
2018 policy bank bonds	5,070	4.53	07/02/2020	0.76
2018 policy bank bonds	4,730	4.98	12/01/2025	1.42
2018 policy bank bonds	4,510	4.83	22/01/2021	0.66
2018 policy bank bonds	4,450	4.97	29/01/2023	0.66
2017 banks and non-bank financial institutions bonds	4,400	4.20	17/04/2020	0.88

2. *Liabilities*

As at the end of the Reporting Period, the Group's total liabilities increased by RMB290.663 billion or 3.48% over the end of the previous year to RMB8,652.646 billion. Among them, due to customers increased by RMB187.562 billion over the end of the previous year, which accounted for 66.26% of total liabilities and represented a decrease of 0.06 percentage points over the end of the previous year. Balance due to banks and other financial institutions decreased by RMB113.390 billion over the end of the previous year, which accounted for 23.03% of total liabilities and represented a decrease of 2.16 percentage points over the end of the previous year.

Due to customers

Due to customers were the Group's main source of funding. As at the end of the Reporting Period, the Group's due to customers balance increased by RMB187.562 billion or 3.38% over the end of the previous year to RMB5,732.928 billion. In terms of the Group's customer structure, the proportion of corporate due to customers accounted for 68.84%, representing a decrease of 0.70 percentage points over the end of the previous year. The proportion of individual deposits was 31.12%, representing an increase of 0.72 percentage points over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 1.56 percentage points over the end of the previous year to 43.67%, while the proportion of time deposits increased by 1.58 percentage points over the end of the previous year to 56.29%.

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

(in millions of RMB)

	30 June 2018	31 December 2017
Corporate deposits	**3,946,825**	3,856,119
Including: Corporate demand deposits	**1,826,003**	1,852,676
Corporate time deposits	**2,120,822**	2,003,443
Individual deposits	**1,783,778**	1,685,792
Including: Individual demand deposits	**677,373**	655,559
Individual time deposits	**1,106,405**	1,030,233

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB22.130 billion over the end of the previous year to RMB251.049 billion.

The net cash inflows from operating activities increased by RMB30.697 billion on a year-on-year basis to RMB76.207 billion, which was mainly resulted from a year-on-year increase of cash inflows due to the net decrease in financial assets purchased under reverse repurchase agreements.

The net cash outflows from investing activities decreased by RMB21.373 billion on a year-on-year basis to RMB69.800 billion, which was mainly due to a year-on-year decrease in net cash outflows related to investment securities activities.

The net cash inflows from financing activities decreased by RMB17.654 billion on a year-on-year basis to RMB14.792 billion, which was mainly due to a year-on-year decrease in the cash inflows related to the issuance of bonds.

(IV) Segment Analysis

1. *Operating results by geographical segments*

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

(in millions of RMB)

	For the six months ended 30 June			
	2018		2017	
	Profit before tax	**Net operating income[1]**	Profit before tax	Net operating income[1]
Northern China	**8,113**	**10,688**	6,552	11,536
North Eastern China	**(1,535)**	**3,439**	1,420	3,796
Eastern China	**15,970**	**36,987**	14,019	41,882
Central and Southern China	**12,541**	**18,651**	11,145	18,272
Western China	**3,830**	**8,342**	4,736	8,492
Overseas	**3,551**	**5,952**	3,875	5,964
Head Office	**5,000**	**17,974**	5,608	13,998
Total[2]	**47,470**	**102,033**	47,355	103,940

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investment, insurance business income, net investment income of associates and joint ventures and other operating income. Same applies hereinafter.
2. Including profit or loss attributable to non-controlling interests. Same applies hereinafter.

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

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

(in millions of RMB)

	30 June 2018		31 December 2017	
	Deposit balances	**Loans and advances balances**	Deposit balances	Loans and advances balances
Northern China	**978,813**	**602,592**	959,447	588,224
North Eastern China	**292,983**	**211,363**	288,765	207,142
Eastern China	**2,044,891**	**1,677,290**	1,974,271	1,625,585
Central and Southern China	**1,343,662**	**903,167**	1,254,785	851,780
Western China	**662,275**	**451,424**	661,326	447,924
Overseas	**406,846**	**414,266**	402,687	424,852
Head Office	**3,458**	**533,863**	4,085	433,749
Total	**5,732,928**	**4,793,965**	5,545,366	4,579,256

3. *Operating results by business segments*

The Group's four main business segments were 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 53.21% 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)

	For the six months ended 30 June 2018			
	2018		2017	
	Profit before tax	**Net operating income**	Profit before tax	Net operating income
Corporate banking	**25,258**	**48,632**	23,415	48,645
Personal banking	**11,103**	**35,475**	15,504	34,012
Treasury businesses	**9,714**	**11,059**	6,861	8,237
Other businesses	**1,395**	**6,867**	1,575	13,046
Total	**47,470**	**102,033**	47,355	103,940

(V) Capital Adequacy Ratio

1. *Measurement method of the capital adequacy ratio*

The Group calculated the capital adequacy ratio pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and the relevant requirements. The Group adopted the Advanced Measurement Approach of Capital Management upon the approval of the CBIRC. The credit risk was assessed by the internal rating based approach, the market risk by the internal model approach and the operational risk by the standardized approach.

2. *Measurement scope of capital adequacy ratio*

The calculation of capital adequacy ratio included the Group's domestic and overseas branches and subsidiaries of those financial institutions (excluding insurance companies).

3. *Measurement result of capital adequacy ratio*

As at the end of the Reporting Period, pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC, the Group's capital adequacy ratio, Tier 1 Capital adequacy ratio and Core Tier 1 Capital adequacy ratio were 13.86%, 11.69% and 10.63% respectively, all of which met the regulatory requirements.

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC

(in millions of RMB unless otherwise stated)

Item	The Group	The Bank
Net Core Tier 1 Capital	599,954	535,889
Net Tier 1 Capital	659,959	595,766
Net Capital	782,132	714,584
Core Tier 1 Capital adequacy ratio (%)	10.63	10.02
Tier 1 Capital adequacy ratio (%)	11.69	11.13
Capital adequacy ratio (%)	13.86	13.35

Note: Pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*, the above calculation excluded China BoCom Insurance Co., Ltd. and BoCommLife Insurance Company Limited.

Calculated pursuant to the *Administrative Measures for the Capital Adequacy Ratio of Commercial Banks* issued by the CBIRC and relevant requirements

Item	The Group	The Bank
Core Capital adequacy ratio (%)	9.98	9.75
Capital adequacy ratio (%)	12.96	12.48

4. Risk-weighted assets

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

(in millions of RMB)

Item	30 June 2018
Credit risk-weighted asset	5,104,527
Market risk-weighted asset	203,392
Operational risk-weighted asset	337,152
Additional risk-weighted assets due to use of capital floor	–
Total risk-weighted assets	**5,645,071**

5. Credit risk exposure

(1) Exposure to default risk under the internal rating approach

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and relevant requirements

(in millions of RMB)

Item	30 June 2018
Corporate risk exposure	3,614,700
Financial institution risk exposure	952,278
Retail risk exposure	1,925,174
Total	**6,492,152**

(2) Credit risk exposure not covered under the internal rating approach

Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and relevant requirements

(in millions of RMB)

Item	30 June 2018
On-balance-sheet credit risk	3,654,469
Including: Asset securitization	20,094
Off-balance-sheet credit risk	49,561
Counterparty credit risk	65,001
Total credit risk exposure not covered under the internal rating approach	**3,769,031**

6. *Market risk capital requirement*

The Group's market risk capital requirement was assessed using internal model approach and for those market risk not covered by internal model approach, the Group assessed via standardized approach. The table below states the market risk capital requirements of the Group.

(in millions of RMB)

Risk type	Capital requirement
Market risk under internal model approach	12,871
Market risk not covered under internal model approach	3,400
Total	16,271

7. *Value at risk (VaR)*

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

(in millions of RMB)

Item name	January to June 2018	
	Value at risk (VaR)	Stressed value at risk (SVaR)
VaR of market risk as at the end of the Reporting Period	**1,893**	**1,893**
Maximum VaR during the Reporting Period	**1,995**	**2,323**
Minimum VaR during the Reporting Period	**1,601**	**1,791**
Average VaR during the Reporting Period	**1,843**	**2,060**

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

(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 CBIRC in January 2015. As at the end of the Reporting Period, the Group's leverage ratio was 6.58%, which met the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

Item	30 June 2018	31 March 2018	31 December 2017	30 September 2017
Net Tier 1 Capital	659,959	661,344	669,429	656,403
Balance of adjusted on-and-off-balance sheet assets	10,026,128	10,010,549	9,731,368	9,654,624
Leverage ratio (%)	6.58	6.61	6.88	6.80

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

(VII) Liquidity Coverage Ratio

Pursuant to the *Measures for Disclosure of Liquidity Coverage Ratio of Commercial Banks*, commercial banks should disclose the daily average liquidity coverage ratio within the quarter since 2017. The daily average liquidity coverage ratio of the Group in the second quarter of 2018 was 110.85% (the daily average within the quarter is the arithmetic average of daily data of the quarter, the number of average of daily data is 91). The ratio decreased by 7.57 percentage points from the last quarter mainly due to decrease of cash inflows due within a month. The details of average monthly liquidity coverage ratio in the second quarter are listed as follows:

(in millions of RMB unless otherwise stated)

Serial number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,488,601
Cash Outflow			
2	Retail deposits, small business deposits, including:	1,403,847	133,244
3	Stable deposit	139,305	6,790
4	Less stable deposit	1,264,542	126,454
5	Unsecured wholesale funding, including:	3,902,949	1,665,096
6	Business relationship deposit (excluding agency business)	2,425,527	605,046
7	Non-business relationship deposit (including all counterparties)	1,469,975	1,052,603
8	Unsecured wholesale funding	7,447	7,447
9	Secured funding		14,126
10	Other items, including:	1,339,483	590,033
11	Cash outflow relates to derivatives and other derivatives and collateral/pledged assets	546,472	546,216
12	Cash outflow relates to loss of funding on asset-blocked securities	98	98
13	Committed credit and liquidity facilities	792,913	43,719
14	Other contractual obligation to extend funds	35,904	35,904
15	Contingent funding obligations	962,185	30,998
16	Total expected cash outflow		2,469,401
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	51,773	46,736
18	Committed facilities	802,720	511,772
19	Other cash inflow	583,662	567,193
20	Total expected cash inflow	1,438,155	1,125,701
			Amount after adjustment
21	The qualified high-quality liquid assets		1,488,601
22	Net cash outflow		1,343,700
23	Liquidity coverage ratio (%)		110.85

(VIII) Others

1. During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures in the Group.

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

III. BUSINESS INNOVATION AND NEW PRODUCTS

During the Reporting Period, the Bank constantly improved the innovation system mechanism. In January 2018, the Bank held the first "Youth Innovation Competition" of Bank of Communications, attracting nearly 10,000 employees to collect 68 ideas in the fields of corporate, retail, interbank and risk prevention and control. In February, the Bank held the first "Innovation Conference" to honor outstanding innovative products award winners. Chairman Peng Chun attended the conference and made an important speech. The Bank issued the *Evaluation Measures for the Innovation Index of BoCom (2018)*, which made the evaluation indicators of Innovation Index closely related to the strategy of the Bank and the development of the main business, and comprehensively reflected the innovation scale, innovation efficiency and innovation driving level of the various operating units.

(I) Corporate Financial Business Innovation

1. *Corporate business*

The Bank innovated to launch BoCom's e-payment platform, and created five functional sections of "Smart Service, Smart Finance, Smart Security, Smart Payment and Smart Accounts" to realize the electronic collection process. The Bank launched an agent settlement product named "Delivery and Guarantee" to promote the trade of small and medium-sized enterprises. Meanwhile, the Bank promoted the construction of enterprise mobile banking and corporate WeChat public account, and provided enterprise customers with mobile reconciliation, settlement and consulting financial services with multi-channel-tasks connected.

2. *Investment banking business*

The Bank supported the development of national housing rental business, and registered the first debt financing instruments for rental housing. The Bank issued "Jiao Yuan" first credit card installment asset-backed securities backed by credit and installment assets of RMB16.95 billion in 2018, which was the largest single-issue credit asset-backed securities in China, the first issuance of credit card installment asset-backed securities introducing foreign investors through the Bond Connect and the first issuance of credit assets securitization by use of the Shanghai Headquarters Bookkeeping Room of Central Clearing Company for bookkeeping and issuing.

(II) Personal Financial Business Innovation

1. Credit card business

The Bank made use of the existing resources and advantages of the two platforms of platinum card and Y-Power card, issued the YouthElite platinum credit card for the young and high-end customers, which provided a precise and customized consumer finance solution for the outstanding young people in the new era. Three weeks after promotion, the number of issued cards exceeded 300 thousand. In addition, the Bank also launched 8 new products of co-branded cards and theme cards namely Jingdong baitiao card, Sohu video card, Shumen mobile game card, JX 3 card, Zetianji mobile game card, Wuxi city life card, Joy card and football-themed card, covering consumer finance, Internet video, IP games, life benefit, insurance and hot spots in world cup, further enriching the credit card product system.

2. Channel construction

The Bank innovated to launch online customer manager service like "OTO Financial Advisor" and "My Account Manager". With customer demand and experience as core business, the Bank comprehensively promoted the intelligent construction of telephone channels, and provided the customers precisely with the services like products information, expiration reminder, publicity and so on.

(III) Interbank and Financial Market Business Innovation

1. Interbank business

The Bank obtained many operation qualifications and deepened the cooperation of financial market. During the Reporting Period, the Bank completed the oil futures listing work of the Shanghai International Energy Center, which resulted in that the scale of security deposit of oil futures in the market was in the lead. The Bank was the first batch to obtain the depository qualification for overseas customers' deposits in the Dalian Commodity Exchange and provided foreign investors with the foreign currency deposit service when they participate in the domestic iron ore futures trading. The Bank exploited its international and comprehensive advantages, introduced foreign investors to participate in oil and iron ore futures trading, and helped specific commodity varieties to be priced in RMB. The Bank completed the first batch of market credit default swap centralized liquidation transaction, full participated in the central counterparties clearing of the Shanghai Clearing House for interest rates, exchange rates, commodities and credit derivatives. The Bank participated in the pilot project of Dalian Commodity Exchange OTC Option for the first time and successfully concluded.

2. Asset management business

The Group built a brand new net worth product framework backboned by cash management products, featured by "Fixed Income+" medium and long-term wealth management products, and highlighted by theme products. The Group successfully several issued special theme products with flexible redemption mechanism and excellent earnings performance such as "Enjoying Private Banking for 28 Days". The Group promoted the long-term wealth management products from 1 to 3 years, and prepared to issue a variety of net worth products, such as the selection of rights and interests, the mix of stock and bond and the enhancement of the index to serve the customers in the medium and long term value preservation and appreciation, as well as individualized investment demand.

3. *Precious metal business*

During the Reporting Period, the Bank became the first batch of pilot members of the forward curve quotation group of the silver inquiry market of the Shanghai Gold Exchange, and the first batch which obtained the qualification of gold option implied volatility quotation. The Bank completed the first day deal of the silver inquiry business of the Shanghai Gold Exchange.

IV. RISK MANAGEMENT

In the first half of 2018, the Group continued to take "full coverage, whole process, accountability and risk management culture" as the core, refined risk management framework, optimized its credit investment structure and strengthened risk management controls over key areas including credit, market, liquidity, operational, compliance, reputational and geopolitical risk management practices, which has laid a solid foundation and support for the in-depth reform and transformational development strategy of the Group.

(I) Risk Appetite

The Group adhered to the bottom line of compliance, insisted on the prudential style of risk management, conscientiously implemented external regulatory requirements, actively served the real economy, strictly controlled kinds of risks, constantly and comprehensively deepened the reform, thus upholding the bottom line of preventing the occurrence of systematic financial risks. In the first half of 2018, the Group's all indicators of the risk tolerance levels and risk limits were stable.

(II) Risk Management Framework

The Board of Directors of the Group assumes the ultimate responsibility and serves the highest function of decision-making and control of the Group's risk management through its Risk Management and Related Party Transaction Control 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. Each Tier 1 branch, overseas branch, subsidiary and directly operating institution correspondingly established simplified and practical Risk Management Committees referring to the aforementioned 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.

(III) Risk Management Tool

The Group laid great importance to the establishment and application of risk management tools, information systems and econometric models. Risk management was supported by financial technologies. The Group actively explored the application of big data, artificial intelligence, cloud computing and graph computing in the field of risk management, initiated the construction of the Group's risk data application in ecological system and created a unified risk monitoring system covering the entire Group. During the Reporting Period, through innovative data mining, the ability of information consolidation was strengthened and the controls of credit risk management were enhanced. The Group enhanced monitoring of middle office over market risk, interest rate risk of bank account 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 to improve the effectiveness of risk management continuously.

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 normalization, 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, upon the approval of the CBIRC, the Group ended the parallel run period of the Advanced Approach of Capital Management and expanded the application scope. The Group continued to optimize the econometric models and management systems, which covered all kinds of key risks. The Group consistently implemented operation model in monitoring and analysis, optimized the model and deepened the application of measuring results extensively in strategic planning, structural adjustment, business decision, performance appraisal as well as business management.

(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, reporting, 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 the decisions and deployments of the central government and the State Council. In response to the State's policies and market fluctuations, the Group issued and dynamically updated an outline regarding the risk of credit authorization policy and guidelines on industrial or regional direction. The Group also proactively served the real economy, constantly optimized credit assets structure, supported national strategies, focused on industrial transformation and advancement, and made good use of both existing and additional monetary and financial resources. The increase in corporate credit 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.

The Group emphasized on risk control in key areas. The Group focused on key areas, key branches, key projects, improved level, classified and categorized management and inventory management to improve the management level. The Group also constantly carried out inspection and monitoring on government business, large private groups, credit bonds, and bills, and proactively dealt with the risks of external internet finance and illegal fund-raising.

The Group 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.

The Group put efforts into the disposal of risks, proactively made use of different disposal strategies to solve the stock risk in timely manner. In the first half of 2018, the total amount of disposal of non-performing loans was RMB36.5 billion, among which the amount of write-off loans was RMB27.8 billion.

According to the regulatory requirements stated in the *Guidance for the Risk-based Loan Categorization* issued by CBIRC, the Group classified credit assets into five categories (pass, special mention, sub-standard, doubtful and loss) based on their risk level, in which the last three categories are regarded as non-performing loans. The nature of the categories refers to the possibility of timely and full repayment of the principal and interest of credit assets. In relation to corporate credit assets, the Group specified the risk attributes and measurements of the aforementioned five categories, with reference to internal ratings and provisions for each loan. All of these ensured that various factors affecting the quality of credit assets were considered by the Group, so that the Group could perform risk classification in a prudent manner. For retail credit assets, including credit cards, the Group adopted a loan classification system, which considered both the aging schedule of overdue loans and the types of guarantees provided.

As at the end of the Reporting Period, the Group's balance of non-performing loans increased by RMB3.006 billion over the end of the previous year to RMB71.512 billion; the impaired loans ratio decreased by 0.01 percentage point over the end of the previous year to 1.49%. As at the end of the Reporting Period, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities is as follows:

(in millions of RMB unless otherwise stated)

Categories	30 June 2018 Balance	30 June 2018 Proportion (%)	31 December 2017 Balance	31 December 2017 Proportion (%)	31 December 2016 Balance	31 December 2016 Proportion (%)
Pass loan	4,598,016	95.91	4,378,840	95.62	4,031,560	95.52
Special mention loan	124,437	2.60	131,910	2.88	125,842	2.98
Total performing loan balance	4,722,453	98.51	4,510,750	98.50	4,157,402	98.50
Sub-standard loan	11,591	0.24	18,723	0.41	18,346	0.43
Doubtful loan	35,281	0.74	24,865	0.54	26,950	0.64
Loss loan	24,640	0.51	24,918	0.55	17,937	0.43
Total non-performing loan balance	71,512	1.49	68,506	1.50	63,233	1.50
Total	4,793,965	100.00	4,579,256	100.00	4,220,635	100.00

Note: Due to changes in the presentation basis on the items in financial statements, the comparative data of the corresponding periods has been restated to the current presentation basis.

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

Loan migration rates (%)	**June 2018**	2017	2016
Pass loan	1.04	2.09	2.80
Special mention loan	24.16	21.62	24.60
Sub-standard loan	88.77	53.59	50.04
Doubtful loan	22.40	26.86	33.72

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

(V) Market Risk Management

Interest rate risk and exchange rate risk (including gold) are the major market risks encountered by the Group. 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. 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.

During the Reporting Period, the Group further improved its market risk management system, and continued to optimize the market risk management information system, including the construction of the large and middle stage of the capital product management system, establishing new valuation models, parameters and market data for new businesses and new products. In addition, the newly established models were tested independently, the risk management models and configurations were constantly updated and the data quality was reviewed on a regular basis. Based on the daily risk analysis, monitoring and management, the Group made a further analysis and study on macro-economy, regulatory policy and financial market situation, evaluated the risk and influence caused by the market fluctuations in time and improved the prospect and effectiveness of market risk management.

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, using the historical simulation method, 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. 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 revealed that the market risk measurement model was able to capture the changes in financial market in a timely manner and objectively reflected market risk encountered by the Group.

(VI) Liquidity Risk Management

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. Through the mechanism of quarterly market and liquidity risk committee meetings, monthly liquidity management meetings and weekly business communication meetings, the Group evaluated the liquidity risk, prospectively forecast business development and market price trend, and actively carried out the readjustment and optimization of the assets and liabilities business structure. According to the requirements of the *Rules on Liquidity Risk Management of Commercial Group* issued by the CBIRC, the Group strengthened the intraday liquidity risk management, interbank business liquidity risk management and liquidity consolidated risk management, regularly carried out the liquidity risk stress testing, balanced the liquidity and profitability of funds by using FTP tools flexibly, rolling forecast the liquidity gap and made arrangements ahead of time to make sure the coordinated development of the source and the utilization of funds, as well as the liquidity safety and the achievement of liquidity risk management goals.

(VII) Operational Risk Management

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

During the Reporting Period, the Group strengthened operational risk management. The Group amended series of operational risk basic systems, and continuously consolidated the management foundation. The Group conducted operational risk and control assessment regularly in key areas to identify weaknesses and compensate controls. The Group promoted the integration construction of business continuity management in domestic and overseas branches, and successfully implemented the first comprehensive emergency plan of city disasters after implementing the new system of overseas branches. The Group strengthened out-site inspection of centralized outsourcing, supervised outsourcing service providers to effectively monitor contract execution management to prevent the risk of outsourcing.

(VIII) Legal Compliance and Anti-Money Laundering

The Group constantly improved legal compliance management system and optimized the legal compliance management mechanism, strengthened the risk management and control of key areas, key parts and key links, and provided strong legal protection for the "deepening reform, transformation and development" of the whole Group.

During the Reporting Period, the Group adhered to the management concept of "compliance creates value", continued to improve the long-term mechanism of domestic compliance management, and constantly promoted the normalization and institutionalization of overseas compliance management. The Group continuously strengthened the legal support for the major projects, innovative business and various operation and management activities of the whole Group, and fully promoted the management quality and effectiveness of the legal compliance.

The Group constantly optimized the management system of Anti-Money Laundering, improved the organization construction and internal control system of Anti-Money Laundering, promoted the risk assessment project of Anti-Money Laundering, and strengthened the weak links of Anti-Money Laundering management. The Group further consolidated the management foundation of Anti-Money Laundering to enhance the level and quality of customer identity recognition and large suspicious transaction reports, as well as the capacity building of Anti-Money Laundering.

(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.

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

The Group established cross-industry and 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 strengthened the cross-industry and cross-border risk management. The Group carried out risk assessment of overseas banking institutions, promoted overseas institutions to fully implement the *Opinions on Further Strengthening Risk Management of Overseas Institutions under the New Situation*. The Group improved the consolidation management, formulated the unified risk view of the Group, supervised the governance of affiliated institutions, and mapped out the ownership relationship of the Group. The Group also strengthened the management of country risk, adjusted and optimized the system of country risk limit, with major support on the development of the national and regional business of "Belt and Road".

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 non-market-based approaches.

V. OVERVIEW OF MAJOR SUBSIDIARIES

Bank of Communications Schroder Fund Management Co., Ltd. It 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 investment securities fund and asset management services for specific clients, investment management, asset management, industrial investment, investment advisory, etc.

As at the end of the Reporting Period, the company's total assets and net assets were RMB3.664 billion and RMB2.810 billion respectively, and the company's net profits during the Reporting Period were RMB248 million.

Bank of Communications International Trust Co., Ltd. It officially opened 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, M&A and restructuring, corporate finance and financial advisory services. Furthermore, the company also conducts securities underwriting services entrusted by the State Council, intermediary services, consulting and credit investigation. 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 fixed assets.

As at the end of the Reporting Period, the company's total assets and the assets under management (AUM) were RMB11.566 billion and RMB857.8 billion respectively, and the company's net profits during the Reporting Period were RMB530 million.

Bank of Communications Financial Leasing Co., Ltd. As the Bank's wholly-owned subsidiary, it officially opened in December 2007 with a registered capital of RMB8.5 billion. The business scope includes financial leasing businesses, receipt of lessees' lease security deposits, investment in fixed-income securities, the transfer and acquisition of assets under finance leases, time deposits acceptance with maturity of 3 months or longer from non-bank shareholders, interbank deposits and withdrawals, loans from financial institutions, overseas loans, sales and handling of leaseholds, and economic consulting. Furthermore, the company established project companies in domestic bonded zones to carry out financial leasing businesses and provide guarantees for the external financing of its controlling subsidiaries and project companies.

As at the end of the Reporting Period, the company's total assets and net assets were RMB218.565 billion and RMB20.236 billion respectively, and the company's net profits during the Reporting Period were RMB1.352 billion.

BoCommLife Insurance Company Limited It was set up in January 2010 with a registered capital of RMB5.1 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 provinces, autonomous regions and municipalities directly under the Central Government where the branches were established.

As at the end of the Reporting Period, the company's total assets and net assets were RMB38.405 billion and RMB5.018 billion respectively, and the company's net profits during the Reporting Period were RMB69 million.

BoCom International Holdings Company Limited It was set up on 3 June 1998 (formerly known as Communications Securities Co., Ltd.), and it changed its name to BoCom International Holdings Company Limited on 2 May 2007. It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at the end of the Reporting Period, The Bank's shareholding in BoCom International Holdings Company Limited was 73.14%. The main business of BoCom International Holdings Company Limited 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 Holdings Company Limited, please refer to the performance report of BoCom International Holdings Company Limited published on the Hong Kong Stock Exchange on 20 August 2018.

China BoCom Insurance Co., Ltd. As a wholly-owned subsidiary of the Bank, China BoCom Insurance Co., Ltd. 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, the company's total assets and net assets were HKD755 million and HKD544 million respectively, and the company's net profits during the Reporting Period were HKD7.57 million.

BoCom Financial Asset Investment Co., Ltd. As a wholly-owned subsidiary of the Bank, BoCom Financial Asset Investment Co., Ltd. was set up in December 2017 with a registered capital of RMB10 billion. The business scope includes focusing on debt-to-equity conversion and supporting services, raising funds from qualified social investors to implement debt-to-equity conversion in accordance with the laws and regulations, issuing financial bonds, special funds for debt-to-equity conversion and other businesses approved by the CBIRC.

As at the end of the Reporting Period, the company's total assets and net assets were RMB10.168 billion and RMB10.143 billion respectively, and the company's net profits during the Reporting Period were RMB138 million.

Dayi BoCom Xingmin Rural Bank Co., Ltd. It officially opened in September 2008, with a registered capital of RMB60 million. The Bank holds 61% of its shares.

Zhejiang Anji BoCom Rural Bank Co., Ltd. It officially opened in April 2010, with a registered capital of RMB180 million. The Bank holds 51% of its shares.

Xinjiang Shihezi BoCom Rural Bank Co., Ltd. It officially opened in May 2011, with a registered capital of RMB150 million. The Bank holds 51% of its shares.

Qingdao Laoshan BoCom Rural Bank Co., Ltd. It officially opened in September 2012, with a registered capital of RMB150 million. The Bank holds 51% of its shares.

The business scope of the four rural banks includes absorbing deposits from the public, granting short-term, medium-term and long-term loans, processing domestic settlement, operating bill acceptance and discounting, engaging in interbank lending and card business, carrying out agency issuance and agency settlement and other businesses approved by the CBIRC.

As at the end of the Reporting Period, the four rural banks' total assets, net assets, the balance due to customers and the balance of loans to customers were RMB7.026 billion, RMB723 million, RMB5.610 billion and RMB4.829 billion respectively.

VI. OUTLOOK

In the second half of 2018, the macro-economy remains stable but with changes and there are more uncertain factors in the economy, which lead to frequent changes in the market. The State adheres to implement the proactive and stable fiscal and monetary policies in order to maintain the liquidity at a reasonable level. Deepening reform of economic structure and continuous strengthening supervision and control attribute to the improvement of commercial banking's business environment and transformation development, together with various practical challenges.

On one hand, the supply side structure reform effectively promotes the transformation and upgrading of traditional business, and creates more business opportunities of strategic emerging industries and infrastructure construction. The regulatory environment welcomes the orderly operation of the financial market and the steady operation of commercial banks. The expansion of opening-up policy and “Belt and Road” bring more opportunities of cross-border financial services to the banking industry. The application of Fintech provides innovation energy for the transformation of banking industry and expands the boundaries and markets of financial services. On the other hand, under the upgrading impact of Sino-US economic and trade conflicts, the uncertainty of economic operation significantly increases, and the fluctuation of financial market becomes intensified, which brings comprehensive challenges to the management and operation of banks. The financial regulatory environment, the competitive environment and the technological environment are currently undertaking significant changes. The banking industry enters into differentiation. New competition of in-depth transformation becomes more intense, resulting in urgent needs for banks to build up strategic position, change business models, and create operating characteristics as well as core advantages.

In the second half of 2018, the Group will closely monitor the economic situation, monetary policy and changes in regulation and market environment. The Group has strong confidence and takes responsibilities and proactive actions in order to enhance operating efficiency and competitive capacities. Specifically, the Group will focus on the following areas. Firstly, continuing to serve the entities. The Group will continue to increase the financial support under the State’s key strategic area, enhance inclusive finance integration, comprehensive services and operational management, and result in self-achievement of structure optimization and high quality while transforming and upgrading. Secondly, maintaining risk prevention. The Group will implement the overall risk management responsibilities, enhance precise risk controls in key areas, and strengthen risk prevention to succeed in the battle of forestalling and defusing the financial risks. Thirdly, continuing the transformation and innovation. The Group will utilize the strategic advantage of “BoCom Strategy” to create a platform covering investing and financing functions of domestic, overseas and onshore and offshore businesses, to speed up the pace of innovating products and service as well as business model, and to enhance the speed and efficiency of the transformation of “two engines” of “branch operation and divisional structure operation”. Fourthly, continuing the technology leadership. The Group will strengthen the application of Fintech, steadily promote the intelligent transformation projects, enhance the service efficiency both online and offline, and promote business development.

BOCOM-HSBC STRATEGIC COOPERATION

Being strategic partners for 14 years, the Bank and HSBC continuously improved the strategic cooperation in multi dimensions, level and directions by exchanging insights on business operations and expertise, resulting in effective collaboration and cooperation. Both banks not only further promoted cooperation in traditional business areas, but also actively grasped the cooperating opportunities arising from "Belt and Road" and "Guangdong-Hong Kong-Macao Bay Area", worked together by utilizing the mutual advantages to explore potential cooperating areas and achieved a win-win situation.

The top management maintained a system for smooth and effective communications and controlled the overall tone and direction of cooperation. Initiating the changes from highest level of the senior management as the starting point, both banks maintained high-level and high-frequency communication, which concreted a foundation for promoting the cooperation between the two banks in all key areas via a top-down approach. During the Reporting Period, the two banks held summit conference and executive chairman regular meeting, exchanged views and shared experiences on global economic and market conditions, together contributed plans to "Belt and Road" and "Guangdong-Hong Kong-Macao Bay Area" and enhanced cooperation. Besides, both banks' senior management held unofficial meetings to discover potential opportunities in overseas and cross-border businesses as well as Chinese enterprises along the "Belt and Road".

The regular communication mechanism for global business cooperation operated smoothly and the implementation outcome became increasingly apparent. Under the leadership and promotion of the Consultant of BoCom-HSBC Strategic Cooperation, Mr. Ng Siu On, the two banks continuously maintained smooth communication in the global business cooperation framework. During the Reporting Period, the two banks held four meetings of cooperation between cross-border branch businesses, one meeting of cooperation between businesses on "Belt and Road" and one interactive activity between key customers and banking corporations. The strengthened team cooperation has been effectively exercised to ensure the achievement of common objectives.

The key areas of cooperation achieved steady progress, leading to increasingly significant cooperative results. Both of the two banks maintained favorable cooperative attitude in key initiatives such as "1+1" global financial services", overseas syndicate and bond issuance, refinancing projects, fund custody and consignment, collaboration and exchange of technical expertise and social welfare. The cooperation has produced good results as follows:

— Actively supported the Chinese enterprise to expand out of China. The two banks utilized the advantages from customers, funds and licenses under the mode of BoCom-HSBC "1+1" to provide cross-border integrated financial services to both domestic and foreign customers. During the Reporting Period, the two banks provided overseas syndicate and bond issuance services to 2 Chinese enterprises, amounting to USD898 million.

— Effectively enhanced the advantages of overseas business cooperation. During the Reporting Period, the two banks worked together on 5 syndicated loans and 11 bond issuances in Hong Kong, in a total of USD13.867 billion. Meanwhile, the two banks also cooperated on a syndicated loan of USD2.616 billion. The two banks also cooperated on 2 loans in Frankfurt and Luxembourg.

— Conducted in-depth refinancing projects. During the Reporting Period, HSBC participated in the bond issuance project involved by Bank of Communications Financial Leasing Co., Ltd. and the Bank's Hong Kong Branch, with a total of USD3.186 billion. HSBC also participated in the issuance of certificate of deposit by the Bank's Singapore and Macau branches, amounting to USD6.948 billion.

— Promoted the solid cooperation in custodies and fund consignment. During the Reporting Period, both banks cooperated on custodies through mutual referrals, amounting to RMB71.864 billion. The bank succeeded in consignment of 18 HSBC JinTrust Funds domestically, representing an amount of RMB1.969 billion. Meanwhile, the Bank consigned 37 HSBC Global Investment Funds in Hong Kong, amounting to HKD0.123 billion.

— Promoted the sharing of experience of the mutual collaboration and exchange in technical expertise. During the Reporting Period, both banks mainly involved in exchange of operating experience, risk compliance and back office support. These involvements of mutual assistance aimed to boost the collaboration and exchange in technical expertise under the TCE framework. As at the end of the Reporting Period, both banks organized 29 exchange seminars in areas such as senior management training, "to expand out/1+1 global financial services", micro business operation, interest spread management and human resource management to ensure the compliance of experts communication.

— The public service cooperation highlighted the social responsibility. During the Reporting Period, "BoCom-HSBC Shanghai Yi Le Action Plan" was undertaken. During the year, the two banks will establish society fund in 9 streets in Shanghai, which will benefit up to 90 thousand citizens. Through the launching of elderly education on financial knowledge, establishment of elderly volunteer organization and development of various charity projects, both banks actively served for the elderly to realize the corporate social responsibility.

— Proactively integrated the updates from national policy; discover new cooperation model from "Belt and Road", "Guangdong-Hong Kong-Macao Bay Area", private banking business and the Bank's subsidiaries.

Looking forward, based on the concrete cooperation foundation, the two banks will continue effective communications, expand and deepen their business cooperation and expertise exchange, explore potential cooperation opportunities, enhance the strategic cooperation, to achieve the win-win situation on the basis of solid shareholding relationship.

CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

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 2017		Changes (+/-) during the Reporting Period					30 June 2018	
	Number of shares (share)	Percentage (%)	Newly issued	Bonus share	Conversion from reserves	Others	Sub-total	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	–	–	–	–	–	–	–	–	–
II. Shares not subject to sales restrictions	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00
1. Renminbi ordinary shares	39,250,864,015	52.85	–	–	–	–	–	39,250,864,015	52.85
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
III. Total	**74,262,726,645**	**100.00**	**-**	**-**	**-**	**-**	**-**	**74,262,726,645**	**100.00**

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

As at the end of the Reporting Period, the total number of holders of ordinary shares of the Bank was 364,695, of which 329,321 were holders of A shares and 35,374 were holders of H shares.

Shareholdings of Top 10 Ordinary Shareholders

Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Number of shares pledged or frozen[1]	Nature of shareholders
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	4,963,192	14,959,462,463	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	297,374,619	2,702,127,637	3.64	A Share	Nil	State-owned legal person
Capital Airport Holding Company	–	1,246,591,087	1.68	A Share	Nil	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	A Share	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	A Share	Nil	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.	–	745,305,404	1.00	A Share	Nil	State-owned legal person
China FAW Group Corporation	–	663,941,711	0.89	A Share	Nil	State-owned legal person

Notes:

1. 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 related relationship among the above shareholders, or whether they are parties acting in concert as defined in *Provisional Measures on Equity Management of Commercial Banks*.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure forms of interests filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the *Securities and Futures Ordinance* ("**SFO**")" for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the Bank's register of members, the SSF held 1,877,513,451 A shares and 1,405,555,555 H shares of the Bank as at the end of the Reporting Period. 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, SSF held additional 7,639,224,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 611,447,000 H shares were indirectly held by certain asset managers (including Hong Kong Stock Connect). As at the end of the Reporting Period, SSF held a total of 10,922,293,783 A shares and H shares of the Bank, representing 14.71% of the Bank's total ordinary shares issued.

III. CONTROLLING SHAREHOLDERS/ACTUAL CONTROLLERS

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

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

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (excluding 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 (share)	Nature of interests[1]	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance	Beneficial owner	15,148,693,829[2]	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451[3]	Long position	4.78	2.53

Name of substantial shareholders	Capacity	Number of H shares (share)	Nature of interests[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	9,044,780,332[3]	Long position	25.83	12.18
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interests of controlled corporations	2,674,232[4]	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interests of controlled corporations	14,138,310,845[5]	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250[6]	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[7]	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held 9,044,780,332 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. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC holds 62.14% of equity interests in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
5. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC is wholly owned by HSBC Asia Holdings BV, which is wholly owned by HSBC Asia Holdings (UK) Limited. Furthermore, HSBC Asia Holdings (UK) Limited is wholly owned by HSBC Holdings BV, which is in turn wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC.
6. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, 94.90% of which is owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to own the interests associated with the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. According to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, 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 Reporting Period, no other 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.

INFORMATION OF PREFERENCE SHARES

I. PREFERENCE SHAREHOLDERS AND THEIR SHAREHOLDINGS

(I) Total Number of Preference Shareholders

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

(II) Top 10 Domestic Preference Shareholders and Their Shareholdings as at the End of the Reporting Period

	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		Nature of shareholders
					Status of shares	Number of shares	
China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Unknown	–	State-owned legal person
AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
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
Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
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
Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	18,000,000	4.00	Domestic preference share	Unknown	–	Others
China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Unknown	–	State-owned legal person
China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Unknown	–	Others
China Citic Bank Corporation Limited – LeYing Series of CITIC Banking Service	–	14,000,000	3.11	Domestic preference share	Unknown	–	Others

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

(III) Overseas Preference Shareholders and Their Shareholdings as at the End of the Reporting Period:

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		Nature of shareholders
					Status of shares	Number of shares	
DB Nominees (Hong Kong) Limited	–	122,500,000	100.00	Overseas preference share	Unknown	–	Foreign legal person

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

II. DIVIDENDS DISTRIBUTION OF PREFERENCE SHARES

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 15th meeting of the 8th Session of the Board of Directors of the Bank was held on 27 April 2018, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares was considered, and approved to distribute dividends of overseas preference shares on 30 July 2018, and to distribute dividends of domestic preference shares on 7 September 2018.

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. 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 dividends distribution of preference shares. The above dividends were fully paid in cash on 30 July 2018.

The dividends on domestic preference shares were calculated at the nominal dividend yield of 3.90% and amounted to RMB1,755,000,000, which will be distributed on 7 September 2018.

III. REDEMPTION AND CONVERSION OF PREFERENCE SHARES

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

IV. RESTORATION AND EXERCISE OF VOTING RIGHTS

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

V. 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 preference shares issued by the Bank met the requirements to be recognized as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

I. PROFILE OF DIRECTORS

As at the date of this report, the members of the Board of Directors of the Bank are as below:

Name	Position	Name	Position
Peng Chun	Chairman of the Board of Directors and Executive Director	Liu Hanxing	Non-executive Director
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	Luo Mingde	Non-executive Director
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	Liu Haoyang	Non-executive Director
Hou Weidong	Executive Director and Executive Vice President	Yu Yongshun	Independent Non-executive Director
Shen Rujun	Executive Director and Executive Vice President	Li Jian	Independent Non-executive Director
Wang Taiyin	Non-executive Director	Liu Li	Independent Non-executive Director
Song Guobin	Non-executive Director	Jason Yeung Chi Wai	Independent Non-executive Director
He Zhaobin	Non-executive Director	Raymond Woo Chin Wan	Independent Non-executive Director
Helen Wong Pik Kuen	Non-executive Director	Cai Haoyi	Independent Non-executive Director

Notes:

1. Mr. Peng Chun has no longer served as the President of the Bank since 1 February 2018. Mr. Peng Chun performed the President's duties from 1 February to 5 August 2018.
2. Mr. Ren Deqi has served as the Vice Chairman of the Board of Directors, Executive Director and President of the Bank since 6 August 2018.
3. Mr. Shen Rujun and Mr. Cai Haoyi have served as the Executive Director and Independent Non-executive Director respectively since 3 August 2018. In accordance with the resolution of the 2017 Shareholders' General Meeting, Mr. Chen Zhiwu has no longer served as the Independent Non-executive Director of the Bank since 3 August 2018.

II. PROFILE OF SUPERVISORS

As at the date of this report, the members of the Board of Supervisors of the Bank are as below:

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

Note: Mr. Fan Jun has no longer served as the Employee Representative Supervisor of the Bank since 1 August 2018.

III. PROFILE OF SENIOR MANAGEMENT

As at the date of this report, the members of the Senior Management of the Bank are as below:

Name	Position	Name	Position
Ren Deqi	President	Guo Mang	Executive Vice President
Hou Weidong	Executive Vice President	Xu Min	Commissioner of Discipline Inspection
Shen Rujun	Executive Vice President	Gu Sheng	Secretary of the Board of Directors
Wu Wei	Executive Vice President and Chief Financial Officer	Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant

Notes:

1. Mr. Guo Mang has served as the Executive Vice President of the Bank since 11 July 2018 and no longer served as the Director of Corporate Banking.
2. Since 27 July 2018, Mr. Xu Min has served as the Commissioner of Discipline Inspection of the Bank, while Mr. Shou Meisheng no longer served as the Commissioner of Discipline Inspection of the Bank.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	New Position	Change
Directors, Supervisors and Senior Management Appointed/Elected		
Peng Chun	Chairman of the Board of Directors	Elected by the Board of Directors
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	The position of Director was elected at General Meeting and the position of Senior Management was appointed by the Board of Directors
Shen Rujun	Executive Director	Elected at General Meeting
Cai Haoyi	Independent Non-executive Director	Elected at General Meeting
Guo Mang	Executive Vice President	Appointed by the Board of Directors
Xu Min	Commissioner of Discipline Inspection	Newly Appointed
Gu Sheng	Secretary of the Board of Directors	Appointed by the Board of Directors

Name	Ex-position	Change
Directors, Supervisors and Senior Management Resigned/Retired		
Niu Ximing	Ex-Chairman of the Board of Directors and Ex-Executive Director	Retired (due to job arrangement)
Yu Yali	Ex-Executive Director and Ex-Executive Vice President	Retired (due to retirement)
Chen Zhiwu	Ex-Independent Non-executive Director	Retired (due to election of new session of the Board of Directors)
Fan Jun	Ex-Employee Representative Supervisor	Retired (due to retirement)
Shou Meisheng	Ex-Commissioner of Discipline Inspection	Retired (due to retirement)
Du Jianglong	Ex-Secretary of the Board of Directors	Resigned (due to personal reason)

V. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Shareholdings during the Reporting Period

Name	Position	Class of shares	Number of shares held at the beginning of the year (share)	Changes of shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of share changes
Peng Chun	Chairman of the Board of Directors and Executive Director	A share	150,000	–	150,000	–
		H share	50,000	–	50,000	–
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	A share	–	–	–	–
		H share	–	–	–	–
Song Shuguang	Chairman of the Board of Supervisors	A share	130,000	–	130,000	–
		H share	50,000	–	50,000	–
Hou Weidong	Executive Director and Executive Vice President	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Shen Rujun	Executive Director and Executive Vice President	A share	–	–	–	–
		H share	20,000	–	20,000	–
Wang Taiyin	Non-executive Director	A share	80,000	–	80,000	–
		H share	30,000	–	30,000	–
Song Guobin	Non-executive Director	A share	–	–	–	–
		H share	–	–	–	–
He Zhaobin	Non-executive Director	A share	–	–	–	–
		H share	–	–	–	–
Chen Qing	Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Du Yarong	Employee Representative Supervisor	A share	60,000	–	60,000	–
		H share	20,000	–	20,000	–
Xu Ming	Employee Representative Supervisor	A share	40,000	30,000	70,000	Purchased from secondary market
		H share	–	–	–	–
Wu Wei	Executive Vice President and Chief Financial Officer	A share	46,000	–	46,000	–
		H share	20,000	–	20,000	–
Guo Mang	Executive Vice President	A share	50,000	–	50,000	–
		H share	–	–	–	–

Name	Position	Class of shares	Number of shares held at the beginning of the year (share)	Changes of shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of share changes
Gu Sheng	Secretary of the Board of Directors	A share	46,100	–	46,100	–
		H share	21,000	–	21,000	–
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	A share	–	–	–	–
		H share	30,000	–	30,000	–
Directors, Supervisors and Senior Management Resigned/Retired						
Niu Ximing	Ex-Chairman of the Board of Directors and Ex-Executive Director	A share	210,000	–	210,000	–
		H share	180,000	–	180,000	–
Yu Yali	Ex-Executive Director and Ex-Executive Vice President	A share	80,000	–	80,000	–
		H share	20,000	–	20,000	–
Fan Jun	Ex-Employee Representative Supervisor	A share	40,000	–	40,000	–
		H share	20,000	–	20,000	–
Shou Meisheng	Ex-Commissioner of Discipline Inspection	A share	79,100	–	79,100	–
		H share	20,000	–	20,000	–
Du Jianglong	Ex-Secretary of the Board of Directors	A share	80,000	–	80,000	–
		H share	–	–	–	–

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) Changes of Shareholdings after the Reporting Period

From 10 July to 12 July 2018, part of the Directors and Senior Management purchased shares of the Bank from the secondary market with their own funds, which was a significant step to implement the deepening reform of BoCom approved by the State Council and to lead and deepen the reform of long term incentive and restraint mechanism for core management of the Bank. The share purchase reflected the management's confidence towards BoCom with a century history as well as its mid-to-long term investment value. The details of the increase in shareholdings are as follows:

Name	Position	Class of shares	Number of shares held at the end of the Reporting Period (share)	Changes of shareholdings after the Reporting Period (share)	Number of shares held as at the date of this report (share)	Reason of share changes
Peng Chun	Chairman of the Board of Directors and Executive Director	A share	150,000	100,000	250,000	Purchased from secondary market
Ren Deqi	Vice Chairman of Board of Directors, Executive Director and President	H share	–	100,000	100,000	Purchased from secondary market
Shen Rujun	Executive Director and Executive Vice President	H share	20,000	20,000	40,000	Purchased from secondary market
Wang Taiyin	Non-executive Director	H share	30,000	20,000	50,000	Purchased from secondary market
Song Guobin	Non-executive Director	A share	–	20,000	20,000	Purchased from secondary market
He Zhaobin	Non-executive Director	A share	–	20,000	20,000	Purchased from secondary market
Wu Wei	Executive Vice President and Chief Financial Officer	A share	46,000	50,000	96,000	Purchased from secondary market
Gu Sheng	Secretary of the Board of Directors	A share	46,100	20,000	66,100	Purchased from secondary market

VI. BASIC INFORMATION OF EMPLOYEES AND THE ENTITIES

As at the end of the Reporting Period, the Bank had a total of 88,605 domestic and overseas employees, of which 86,151 employees were based domestically and 2,454 were local employees in overseas banks. There were 2,858 employees in the Bank's major subsidiaries.

(I) Employees' Remuneration Policy

Under the nationwide deepening reform and the Group's strategic goals, the Bank actively carried out the assessment of employees, remuneration and performance under the remuneration and performance management system which was "integrating position value and performance value based on position", motivated staff incentives and enhanced input and output efficiency of resources.

(II) Employees' Training Management

During the Reporting Period, the Bank closely focused on the deepening reform, transformation and development, strictly followed the tasks of the Party and strengthened the training of cadres and talents. The Bank carried out the series of trainings of the 19th National Congress of the Communist Party of China Spirit, special trainings for persons in charged from institutions under the Bank, Main Class of Party Institute for Bank employees with deputy positions, and trainings for secretary of the Party Committee from provincial cities as well as series of trainings for presidents from village regions. Additionally, the Bank carried out trainings on talent plan, professional experts, management trainees, talent reserves from Head Office and overseas. The Bank promoted the construction of educational training system, and enhanced the educational training basis on training resources, programs, methods, foundation and systems used. The Bank also strengthened the management and innovation of educational training to improve the accuracy, effectiveness and precision of the training. During the Reporting Period, the Bank organized over 4,000 trainings of various kinds for 0.52 million employees.

	30 June 2018					
	Asset (in millions of RMB)	Proportion (%)	Entities	Proportion (%)	Employees	Proportion (%)
Northern China	1,141,620	12.25	505	15.19	11,020	12.44
North Eastern China	335,053	3.59	395	11.88	8,998	10.16
Eastern China	2,640,781	28.33	1,169	35.15	36,214	40.87
Central and Southern China	1,485,438	15.93	702	21.11	17,435	19.67
Western China	692,229	7.43	487	14.65	9,721	10.97
Overseas	987,493	10.59	66	1.99	2,454	2.77
Head Office	4,190,021	44.94	1	0.03	2,763	3.12
Eliminated and unallocated assets	(2,149,928)	(23.06)				
Total	9,322,707	100.00	3,325	100.00	88,605	100.00

CORPORATE SOCIAL RESPONSIBILITIES

During the Reporting Period, based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society", the Bank integrated the concepts of corporate social responsibility into management practice, proactively fulfilled its corporate social responsibilities and strived for the coordination of economic, environmental and social responsibilities, aiming at maximizing the benefits of shareholders, customers, employees, and other stakeholders. During the Reporting Period, the Bank was awarded the "Award of the Most Social Responsible Financial Institution of the Year" and "Award of Charity Project of the Year" by the China Banking Association, "Innovation Award of 2017 Financial Enterprise Poverty Alleviation" by the Sina Finance and "Award of Financial Poverty Alleviation" by the Listed Companies Association of Shanghai.

I. TARGETED POVERTY ALLEVIATION

During the Reporting Period, the Bank earnestly put the State's targeted poverty alleviation policies into practice, firmly promoted the poverty alleviation work and achieved remarkable results. As at the end of the Reporting Period, the Bank's balance of loans on targeted financial poverty alleviation was RMB21.622 billion, increased by RMB5.566 billion, or 34.67%, from the end of last year, in which the Bank contributed in 12 more poverty alleviation donation projects and the total donation amounted to RMB17.186 million.

(I) The Group Strengthened Organizational Leadership, and Set up Long-term Poverty Alleviation Mechanisms. On 12 March 2018, the Bank's Chairman, Mr. Peng Chun, led a team to conduct in-depth site visit for poverty alleviation, including advising poverty alleviation works and visiting poor households. During the Reporting Period, the Bank organised poverty alleviation conference, formulated annual work plan and established various poverty alleviation policies. The Bank also appointed 5 poverty alleviation cadres to perform supporting work in poverty alleviation regions.

(II) The Group Promoted Project Implementation and Enhanced Poverty Alleviation Effectiveness. The Bank contributed RMB2 million in the poverty alleviation project in Litang village in Sichuan province, RMB0.65 million in the construction of poverty alleviation supermarket and RMB0.35 million in e-commerce talents training programme; the Bank contributed RMB2.6 million in the dry pail latrine renovation project in Dachaigou village, Tianzhu village in Gansu Province, RMB0.2 million in tourism training programme and RMB0.2 million in e-commerce poverty alleviation business training programme.

(III) The Group Innovated Poverty Alleviation model – Covering all Aspects Including Individuals, Industries and Projects, and Enhanced the Effectiveness of Target Poverty Alleviation. Regarding the individual poverty alleviation, the Bank probed the effectiveness of implementing the means of both providing employment opportunities and monetary supports. Regarding the industrial poverty alleviation, the Bank combined the financial needs of the enterprises that meet the conditions of agricultural industrialization with the corresponding industrial chain business model as well as the target poverty alleviation specific to the evaluation scope of financial poverty alleviation set up by the People's Bank of China. Regarding the project poverty alleviation, the Bank fully supported the construction projects with clear poverty alleviation target and stable source of repayment.

The Bank emphasised on the Renovation Project of Shanty Towns as the extension of poverty alleviation work. During the Reporting Period, 14 new projects with a total amount of RMB8.242 billion had been approved. A total amount of RMB7.84 billion has been injected into 12 projects. As at the end of the Reporting Period, the Renovation Project of Shanty Towns has covered 18 provinces, autonomous regions and municipalities.

II. ECONOMIC RESPONSIBILITY

During the Reporting Period, the Bank proactively put the State's macro-economic policies into practice, actively implemented overall policies and optimized the credit structure, aiming at enhancing the quality and efficiency of the real economy.

(I) The Group Strictly Followed the State's Policies and Continuously Served Major National Strategies. The Bank actively provided supports to the Renovation Project of Shanty Towns, which followed the commercial sustainable development principle. As at the end of Reporting Period, the Bank recorded RMB63.322 billion in loan balance of security housing projects (including the Renovation Project of Shanty Towns), with an increase of RMB13.411 billion over the end of the previous year.

The Bank provided financial service to "Agriculture, Rural areas and Farmers". The Bank invested in agricultural and cultivation industries, including development projects of Modern Agricultural Industrial Park and Agricultural Science and Technology Park. The Bank supported the construction of infrastructure in rural area and increased the credit limit of various projects, including water and electricity supply to rural area, road network construction, environmental improvement, ecological protection, agricultural products logistic and storage. The Bank increased the level of reserve for several superior projects, including agricultural business with advantages and characteristics, infrastructure construction in rural areas and environmental-friendly production. As at the end of the Reporting Period, the Bank recorded RMB576.402 billion loan balance of agriculture related enterprises, with an increase of RMB17.205 billion or 3.08%, compared to the beginning of the year. The Bank successfully fulfilled the financial need of "Agriculture, Rural areas and Farmers".

(II) The Group Deepened and Continuously Reformed the Inclusive Finance Development Committee, Aiming at Further Strengthening the Service to Small and Micro Enterprises. The strengthened pricing management and persistently reduced fees in the benefits of the enterprises. Moreover, the Bank deepened reform of the Inclusive Finance Development Committee, enhanced the mechanism construction of "five special systems" including special integrated service, special statistical accounting, special risk management, special resource allocation and special assessment. The Bank also emphasized on networking, for the purpose of optimizing the inclusive financial service. Last but not least, the Bank strengthened the risk management mechanism and optimized the credit structure. As at the end of the Reporting Period, the Bank recorded RMB95.4 billion loan balance of inclusive finance[1], with an increase of RMB9.6 billion (including restored write-off loans) or 10.83%, which is 5.50 percentage points higher than the domestic average growth rate of all loans. The number of loan clients increased by 5,745 (including restored write-off loans) to 67,819, representing that the Bank achieved a target of two increase of the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers periodically.

"1. Two increase" assessments of the growth rate of loans to small and micro-enterprise and the number of small and micro-enterprise borrowers by the CBIRC.

III. ENVIRONMENTAL RESPONSIBILITY

During the Reporting Period, the Bank actively innovated green financial products and services, continuously promoted the construction of the green credit policy system, and speeded up to support for the green economy, the low-carbon economy and the recycling economy. The Bank vigorously developed e-channel businesses, enriched e-banking products and services, reduced customer time cost and conserved social resources.

(I) The Bank Deepened the Involvement in the Green Credit around the New Concept of Green Finance. The Bank integrated the concept of green development into the investment policy of asset business, formulated the investment policy of energy saving and environmental protection industry, and actively supported a variety of energy saving, emission reduction, waste treatment and other environmental protection industry enterprises. The Bank established an assessment mechanism, refined the statistical system, continued to improve the fund-raising duration management level of green financial bond, and strengthened the capacity building of green credit in the whole bank.

(II) The Bank Pushed Forward Online and Offline Channel Connection and Online Channel Remote Services to Meet Individual Needs of Customers. As at the end of the Reporting Period, the diversion rate and replacement rate of domestic e-channels increased by 1.63 and 3.47 percentage points respectively, reaching 96.17% and 89.74% respectively. The Bank innovated network service mode, with 3,133 networks starting as pilots of innovated service model, which achieved remarkable results in reducing the average waiting time for customers and realizing online and offline channel coordination.

(III) The Bank Strengthened to Construct the "Trinity" Network. As at the end of the Reporting Period, the total amount of domestic banking institutions outlets decreased by 11 over the end of the previous year to 3,259, of which 15 were newly opened and 26 low-yield ones were integrated. The Bank's network covered 239 cities at or above the prefectural level, with the coverage ratio of 71.56% at prefecture and municipal-level cities, which remained stable at the beginning of the year. In particular, the coverage ratio in Western China was 45.97%. The Bank further pushed forward the transformation and promotion of its network, slowed down the pace of opening traditional outlets, promoted the construction of light networks, strengthened the management and control of the network area, as well as distributed and decreased the numbers of operating personnel of the network. The Bank vigorously promoted the construction of multi-channel platforms, at the same time continuously enhanced the comprehensive and collaborative management capabilities of e-channels.

IV. SOCIAL RESPONSIBILITY

The Bank not only carried out steady operations and rewarded its shareholders with good financial results, it also actively addressed the concerns of various stakeholders and achieved new progress in areas such as customer services, employees caring and public welfare.

(I) The Bank Constantly Improved Customer Satisfaction by Protecting Customers' Rights. In addition to the "Top 1000" outlet assessment organized by the China Banking Association, the Bank showed its image as high quality service provider by offering training, establishing linkage mechanism and facilitating peer evaluations to enhance the network construction. The Bank also carried out a campaign named "Universalizing financial knowledge, holding on to pocket money" launched by the People's Bank of China, aiming to enhance the protection on customers' rights. Given the concerns on customers' complaints, the Bank monitored the flow of handling complaints and published the newly formulated procedure manual on settling the customers' complaints on the operating website. Meanwhile, the Bank engaged a new system to manage new customers, highly improving the work efficiency.

(II) The Bank Constructed of a Harmonious Environment and Assisted Employees in Their Career Development. It focused on promoting the expert talent team building, carried out all kinds of key talent training projects, and improved the dual sequence position system of "management + professional" so as to provide staff with the career development opportunities of "vertically promotable and horizontally transformable". The Bank constantly push forward the talent training work such as Talent Plan and Management Trainee Programs. Focusing on the values of company culture, democratic management, welfare guarantee, honor incentive and career development, the Bank fostered a happy-working environment in BoCom for the employees to enjoy the success of reform and development of BoCom and grow together with the Bank.

(III) The Bank Focused on Employees' Welfare, Aiming at the Building of the Happy BoCom Family. The Bank provided various statutory insurance benefits and corporate supplementary welfare for the employees. Additionally, the Bank enhanced the employees' green access to medical services for serious diseases, at the same time it initialized happy outlets and activities with theme of "Caring of Employees' Health", as well as organized a series of activities related to culture, arts, and sports. By establishing the cultural system with the labor union and actively serving employees by every small, practical and specific matter, the Bank successfully made the labor union a home of employees.

(IV) The Bank Played an Active Role in Public Charity, Continuously Invested in Elderly Care and Educational Assistance. With sustained bank-wide management with respect to public charity projects, the Bank approved 17 donation projects in total during the Reporting Period, amounting to RMB12,040,400.

SIGNIFICANT EVENTS

I. CORPORATE GOVERNANCE

The Bank strictly complied with *Company Law, Securities Law, Commercial Bank Law of the People's Republic of China* and other relevant laws, regulations and rules. The Bank actively explored the corporate governance model of large commercial banks with Chinese characteristics. The Bank consistently enhanced the level of corporate governance to protect the rights of both domestic and foreign investors as well as relevant stakeholders.

In compliance with Code A.2.1 of the *Corporate Governance Code* in Appendix 14 of the Hong Kong Listing Rules, on 1 February 2018, the Board of Directors of the Bank appointed 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 and approved by the CBIRC, Mr. Peng Chun temporarily performed the duties of the President. On 12 June 2018, the Board of Directors of the Bank appointed Mr. Ren Deqi as the President of the Bank. As of the date of his qualification approved by the CBIRC on 6 August 2018, Mr. Peng Chun ceased to temporarily perform the duties of the President.

Save as disclosed above, the Board of Directors confirmed that the Bank fully complied with the principles and provisions under the *Corporate Governance Code* as set out in Appendix 14 of the Hong Kong Listing Rules, and adhered to majority of the recommended best practices as set out in the *Corporate Governance Code* during the Reporting Period.

II. SHAREHOLDER'S GENERAL MEETING

On 29 June 2018, the Bank held the 2017 Annual General Meeting, the 2018 First A Share Shareholders' Class Meeting and the 2018 First H Share Shareholders' Class Meeting. In the 2017 Annual General Meeting, 16 proposals were reviewed and approved, including the *2017 Work Report of the Board of Directors*, the *2017 Report of the Board of Supervisors* and the *2017 Report of Financial Accounts*. In the 2018 First A Share Shareholders' Class Meeting and the 2018 First H Share Shareholders' Class Meeting, 20 sub-proposals of the *proposal for public issuance of A share convertible bonds* were reviewed and approved. The resolution announcements for all Shareholders' General Meetings have been disclosed on the websites of SSE, HKEx News and the Bank, and they were published as well in news outlets designated by the CSRC.

III. PROFIT DISTRIBUTION

(I) Execution of the Profit Distribution Plan of Ordinary Share during the Reporting Period

Pursuant to 2017 Profit Distribution Plan approved at the 2017 Annual General Meeting on 29 June 2018, a cash dividend of RMB0.2856 (before tax) for each share, totaling RMB21.209 billion, calculated based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2017. The aforementioned dividend income has been distributed to shareholders of A share and shareholders of H share on 16 July 2018 and 30 July 2018 respectively.

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

The Bank will not distribute an interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2018.

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

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

IV. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group was not involved in any material litigation and arbitration. 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 RMB3.650 billion (excluding overseas subsidiaries and branches). The Group is of the view that these litigations will not have any material negative effect on the financial position of the Group.

V. MATERIAL CONTRACTS AND EXECUTION

(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 course of business. During the Reporting Period, the Group did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

(III) Other Material Contracts

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

VI. ENVIRONMENTAL INFORMATION

The Bank adhered to the concept of green development, substantively developed green services and implemented green operations. The Bank integrated the concept of green and low-carbon into the whole process of financial services, actively innovated green products, improved service quality, and reduced waste of resources and negative environmental impacts. The Bank encouraged the implementation of green office, networked and electronic operations, used recyclable and environmental friendly products as much as possible, to create the atmosphere of green and low-carbon office throughout the business operation process. The Bank also increased investments of green credit, actively implemented green finance, and supported green economic development through comprehensively deepened the green credit work. During the Reporting Period, the details of the implementation of environmental responsibilities are disclosed in the section of "Corporate Social Responsibilities" of this report.

VII. 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 transactions incurred during the Reporting Period. On 28 April 2017, the Board of Directors agreed to renew the *Interbank Master Agreement* with HSBC, relevant resolution announcements have been disclosed on the websites of SSE, HKEx News and the Bank.

As at the end of the Reporting Period, details of continuing related party transactions of the Group are disclosed in Note 42 to the Consolidated Financial Statements set out in the report. As at the end of the Reporting Period, Directors, Supervisors and Senior Management of the Bank had outstanding loan balance of RMB0.558 million in the Bank.

VIII. AUDIT COMMITTEE

The setup of Audit Committee of the Bank strictly complied with Hong Kong Listing Rules. The 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, the 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. Mr. Liu Li, an Independent Non-executive Director, served as the Chairman of the Audit Committee. The Audit Committee and Senior Management reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting including this Report.

IX. 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.

X. 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 adopted a set of codes of conduct for securities trading by the Directors and Supervisors no less stringent than the standards set out in 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.

XI. APPOINTMENT OF ACCOUNTING FIRM

With the approval at the 2017 Annual General Meeting, the Bank has continued to appoint PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Group in accordance with China Accounting Standards, the internal control and other related professional services, and appoint PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Bank in accordance with IFRSs and to provide other related professional services. The term of appointment starts upon the approval on the date of the Bank's 2017 Annual General Meeting, and ceases at the end of day of 2018 Annual General Meeting. The overall remuneration is RMB34.85 million.

XII. DISCIPLINARY ACTIONS

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.

XIII. INTEGRITY

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.

XIV. OTHER SIGNIFICANT EVENTS

(I) On 29 January 2018, the Hong Kong Branch's retail business and private banking business of the Bank were transferred to Bank of Communications (Hong Kong) Limited and came into effect. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 14 July, 24 November 2017 and 29 January 2018.

(II) On 5 February 2018, BoCom Financial Asset Investment Co., Ltd., which is a wholly-owned subsidiary of the Bank, officially started its business. It 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 SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 19 January, 26 September, 28 December 2017 and 5 February 2018.

(III) On 8 April 2018, the revision on the *Articles of Association* has been approved by the CBIRC and came into effect. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 12 April 2018.

(IV) On 31 May 2018, the Board of Directors approved to set up BoCom Asset Management Co., Ltd, which is a wholly-owned subsidiary of the Bank, in Shanghai, with a registered capital not higher than RMB8 billion. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018.

(V) On 31 May 2018, the Board of Directors approved to invest RMB3 billion in the China National Investment & Guaranty Co., Ltd. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018.

(VI) On 7 June 2018, BoCom Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank, increased capital of BoCom Aviation and Shipping Financial Leasing Company Limited by RMB7 billion with its own funds. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 1 February, 23 May and 7 June 2018.

(VII) On 29 June 2018, the Annual General Meeting passed the several proposals, including the proposal of public issuance of A share convertible bonds. According to the aforementioned proposal, the Bank proposed to publicly issue no more than RMB60 billion A share convertible bonds with par value of RMB100 each in SSE, for the purposes of raising increasing capital adequacy, enhancing the capability of guarding against risk and solidifying the capital base for substantive development. After deducting the cost of issuance, the raised fund will be used for business development in the future. After the conversion of the convertible bonds, the Bank will comply with relevant regulations and increase the Core Tier 1 Capital. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 27 April, 3 May, 13 June and 29 June 2018.

(VIII) On 29 June 2018, the plan of increasing the capital of the Bank of Communications (Hong Kong) Limited by not exceeding HKD10 billion with the Bank's funds has been approved by CBIRC. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 27 October 2017 and 29 June 2018.

LIST OF DOMESTIC AND OVERSEAS BRANCHES AND MAJOR SUBSIDIARIES

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

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, Jianghan 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) and click on "Branch Inquiry" for relevant information.

List of Overseas Banking Institutions

No.	Name	Address
1	Hong Kong Branch/Bank of Communications (Hong Kong) Limited	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/Bank of Communications (UK) Co., Ltd.	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
12	Luxemburg Branch/Bank of Communications (Luxembourg) Co., Ltd.	7 Ruede la Chapelle, Luxembourg, L-325
13	Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3
14	Bank of Communications (Luxembourg) S.A. Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
15	Bank of Communications (Luxembourg) S.A. Rome Branch	3rd floor, Piazza Barberini 52, Rome. 00187
16	Bank of Communications (Brazil) Co., Ltd.	Praca Pio X, 98. 7 andar 20091 040 Rio de Janeiro RJ, Brazil

LIST OF DOMESTIC AND OVERSEAS BRANCHES AND MAJOR SUBSIDIARIES (CONTINUED)

List of Major Subsidiaries

No.	Name	Address
1	Bank of Communications Schroder Fund Management Co., Ltd.	No. 8 Century Avenue, Pudong New District, Shanghai
2	Bank of Communications International Trust Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai No. 847 Jianshe Avenue Wuhan
3	Bank of Communications Financial Leasing Co., Ltd.	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
4	BoCommLife Insurance Company Limited	No. 333 Lujiazui Ring Road, Pudong New District, Shanghai
5	BoCom International Holdings Company Limited	No. 68 Des Voeux Road Central, Central, Hong Kong
6	China BoCom Insurance Co., Ltd.	No. 8 Cotton Tree Drive, Central, Hong Kong
7	BoCom Financial Asset Investment Co., Ltd.	No. 1111 Shangfeng Road, Shanghai
8	Dayi BoCom Xingmin Rural Bank Co., Ltd.	No. 168-170 Central Fumin Road, Dayi County, Chengdu City, Sichuan Province
9	Zhejiang Anji BoCom Rural Bank Co., Ltd.	Tower 1, Changshuo Square, Changshuo Street, Anji County, Huzhou City, Zhejiang Province
10	Xinjiang Shihezi BoCom Rural Bank Co., Ltd.	No. 127 Dongyi Road, Shihezi City, Xinjiang Uygur Autonomous Region
11	Qingdao Laoshan BoCom Rural Bank Co., Ltd.	101, Building 1, No. 156, Shenzhen Road, Laoshan District, Qingdao, Shandong, China

Report on Review of Interim Financial Information

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)

INTRODUCTION

We have reviewed the interim financial information set out on pages 90 to 209, which comprises the condensed consolidated interim statement of financial position of Bank of Communications Co., Ltd (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated interim statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2018

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

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

	Notes	Six months ended 30 June 2018	2017
Interest income		170,546	152,578
Interest expense		(109,888)	(91,245)
Net interest income	4	60,658	61,333
Fee and commission income	5	22,746	23,045
Fee and commission expense	6	(1,564)	(1,784)
Net fee and commission income		21,182	21,261
Net gains arising from trading activities	7	8,273	1,564
Net gains arising from financial investments		17	2,655
Net gains/(losses) on derecognition of financial assets measured at amortised cost		17	N.A.
Share of profits of associates and joint venture		140	51
Insurance business income		4,122	10,768
Other operating income	8	7,641	6,308
Credit impairment losses on loans and advances to customers	9	(15,202)	(14,805)
Insurance business expense		(3,723)	(9,862)
Other operating expenses	10	(35,638)	(31,918)
Profit before tax		47,470	47,355
Income tax	13	(6,476)	(8,133)
Net profit for the period		40,994	39,222

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

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

	Notes	Six months ended 30 June 2018	2017
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income			
Net gains recorded in equity		1,458	N.A.
Net gains reclassified from equity to profit or loss		4	N.A.
Available-for-sale financial assets			
Changes in fair value recorded in equity		N.A.	(39)
Changes in fair value reclassified from equity to profit or loss		N.A.	(1,789)
Net gains/(losses) arising from cash flow hedge			
Changes in fair value recorded in equity		94	2
Changes in fair value reclassified from equity to profit or loss		(59)	68
Others		(5)	–
Translation difference on foreign operations		344	(583)
		1,836	(2,341)
Items that will not be reclassified subsequently to profit or loss:			
Net gains on equity investments designated at fair value through other comprehensive income		161	N.A.
Actuarial gains/(losses) on pension benefits		(15)	20
Change in fair value attributable to change in the credit risk of financial liabilities at fair value through profit or loss		6	N.A.
Other comprehensive income for the period	37	1,988	(2,321)
Comprehensive income for the period		42,982	36,901
Net profit attributable to:			
Shareholders of the Bank		40,771	38,975
Non-controlling interests		223	247
		40,994	39,222
Total comprehensive income attributable to:			
Shareholders of the Bank		42,713	36,672
Non-controlling interests		269	229
		42,982	36,901
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	0.51	0.49

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

The dividends distributed or proposed to be distributed are detailed in Note 34.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 30 June 2018	As at 31 December 2017
ASSETS			
Cash and balances with central banks	15	917,282	938,571
Due from banks and other financial institutions	16	733,308	782,468
Financial assets at fair value through profit or loss	17	346,935	261,037
Loans and advances to customers	19	4,669,207	4,473,255
Financial investments – fair value through other comprehensive income	20	395,133	N.A.
Financial investments – available-for-sale	20	N.A.	402,138
Financial investments – amortised cost	20	1,965,639	N.A.
Financial investments – loans and receivables	20	N.A.	387,733
Financial investments – held-to-maturity	20	N.A.	1,511,375
Investment in associates and joint venture	21	3,379	3,357
Property and equipment	22	140,056	132,492
Deferred income tax assets	23	26,278	16,456
Other assets	24	125,490	129,372
Total assets		9,322,707	9,038,254
LIABILITIES			
Due to banks and other financial institutions	25	1,992,802	2,106,192
Financial liabilities at fair value through profit or loss	26	42,396	60,308
Due to customers	27	5,732,928	5,545,366
Certificates of deposits issued	28	318,805	150,482
Current tax liabilities		7,239	7,943
Deferred income tax liabilities	23	598	520
Debt securities issued	29	304,583	287,662
Other liabilities	30	253,295	203,510
Total liabilities		8,652,646	8,361,983
EQUITY			
Share capital	31	74,263	74,263
Preference shares	32	59,876	59,876
Capital surplus	31	113,663	113,663
Other reserves		311,938	298,827
Retained earnings		103,913	124,514
Equity attributable to shareholders of the bank		663,653	671,143
Non-controlling interests		6,408	5,128
Total equity		670,061	676,271
Total equity and liabilities		9,322,707	9,038,254

The condensed consolidated interim financial information was approved and authorized for issuance by the Board of Directors on 23 August 2018 and signed on its behalf by:

Chairman and Executive Director: Peng Chun *Vice Chairman, Executive Director and President: Ren Deqi*

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

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

				Other reserves												
	Share capital Note 31	Preference shares Note 32	Capital surplus Note 31	Statutory reserve Note 33	Discretionary reserve Note 33	Statutory general reserve Note 33	Revaluation reserve for financial assets at fair value through other comprehensive income/ Financial investments – available-for-sale Note 33	Revaluation reserve for the changes in credit risk of the financial liabilities measured at FVPL Note 33	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 33, 34	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2018	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	-	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact on adoption of IFRS 9 (see Note 2.1.1)	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
Balance at 1 January 2018 (restated)	74,263	59,876	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	40,771	40,771	223	40,994
Other comprehensive income	-	-	-	-	-	-	1,566	6	35	355	(15)	(5)	-	1,942	46	1,988
Total comprehensive income	-	-	-	-	-	-	1,566	6	35	355	(15)	(5)	40,771	42,713	269	42,982
Capital contribution by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(59)	(21,268)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	102	24	9,158	-	-	-	-	-	-	(9,284)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(4)	(4)	(1)	(5)
Balance at 30 June 2018	74,263	59,876	113,663	57,563	139,791	113,628	1,092	-	42	(1,520)	20	1,322	103,913	663,653	6,408	670,061
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	-	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	38,975	38,975	247	39,222
Other comprehensive income	-	-	-	-	-	-	(1,827)	-	70	(566)	20	-	-	(2,303)	(18)	(2,321)
Total comprehensive income	-	-	-	-	-	-	(1,827)	-	70	(566)	20	-	38,975	36,672	229	36,901
Purchase of non-controlling interests	-	-	291	-	-	-	-	-	-	-	-	-	-	291	1,678	1,969
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(20,162)	(20,162)	(14)	(20,176)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,693)	(2,693)	-	(2,693)
Transfer to reserves	-	-	-	88	4	16,170	-	-	-	-	-	-	(16,262)	-	-	-
Balance at 30 June 2017	74,263	59,876	113,683	50,738	139,768	103,902	5	-	(44)	(857)	24	1,336	100,556	643,250	5,158	648,408

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

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

	Notes	Six months ended 30 June 2018	2017
Cash flows from operating activities:			
Net Profit before tax:		47,470	47,355
Adjustments for:			
Provision for credit impairment losses on loans and advances to customers		15,202	14,805
Provision for impairment of financial investments		163	107
Provision for/(Reversal of) impairment of other receivables		363	29
Provision for/(Reversal of) impairment of interest receivables		935	–
Provision for impairment on foreclosed assets		3	1
Provision for/(Reversal of) insurance contracts reserve		(1,379)	6,895
Depreciation and amortisation		4,958	4,498
Provision for/(Reversal of) outstanding litigation and unsettled obligation		(12)	(5)
Net gains on disposal of property and equipment		(11)	(18)
Net gains on disposal of foreclosed assets		–	(1)
Interest income from financial investments		(41,207)	(38,984)
Unwind of discount on allowances during the period		(927)	(905)
Fair value losses/(gains)		(5,052)	3,277
Share of profits of associates and joint venture		(140)	(51)
Net gains arising from financial investments		(17)	(2,655)
Interest expense on debt securities issued		5,494	4,512
Operating cash flows before movements in operating assets and liabilities		25,843	38,860
Net decrease/(increase) in mandatory reserve deposits		37,371	(6,664)
Net decrease/(increase) in due from banks and other financial institutions		53,491	(120,952)
Net increase in financial assets at fair value through profit or loss		(41,753)	(21,001)
Net increase in loans and advances to customers		(244,317)	(281,439)
Net decrease/(increase) in other assets		2,732	(11,979)
Net increase in due to banks and other financial institutions		54,933	80,053
Net decrease in financial liabilities at fair value through profit or loss		(5,404)	(20,832)
Net increase in due to customers		187,562	377,990
Net increase in other liabilities		13,064	20,134
Net increase/(decrease) in VAT and other taxes		802	253
Income tax paid		(8,117)	(8,913)
Net cash flows from operating activities		76,207	45,510

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

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

	Notes	Six months ended 30 June 2018	2017
Cash flows from investing activities:			
Purchase of financial investments		(527,983)	(298,774)
Disposal or redemption of financial investments		427,821	176,973
Dividends received		109	257
Interest received from financial investments		42,136	42,147
Acquisition of intangible assets and other assets		(204)	(379)
Disposal of intangible assets and other assets		112	6
Purchase and construction of property and equipment		(11,981)	(11,829)
Disposal of property and equipment		190	426
Net cash flows from investing activities		(69,800)	(91,173)
Cash flows from financing activities:			
Cash received on debt securities issued		21,056	56,096
Interest paid for issuance of debt securities		(2,435)	(1,549)
Capital contribution by non-controlling interests		1125	1,969
Repayment of principals of debt securities and certificates of deposit issued		(4,895)	(24,056)
Dividends paid to non-controlling interests		(59)	(14)
Net cash flows from financing activities		14,792	32,446
Effect of exchange rate changes on cash and cash equivalents		931	(3,272)
Net increase/(decrease) in cash and cash equivalents		22,130	(16,489)
Cash and cash equivalents at the beginning of the period		228,919	316,396
Cash and cash equivalents at the end of the period	38	251,049	299,907
Net cash flows from operating activities include:			
Interest received		125,667	116,511
Interest paid		(98,254)	(80,929)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

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 236 branches in Mainland China and 21 branches (sub-branches), subsidiary banks and representative offices overseas including Hong Kong Branch/Bank of Communications (Hong Kong) Limited, 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/Bank of Communications (UK) Co., Ltd., Luxembourg Branch/ Bank of Communications (Luxembourg) Co., Ltd., Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd. and Toronto Representative Office. The Bank's A shares are listed on SSE 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 debt-to-equity conversion and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

These unaudited condensed consolidated interim financial statements of the Group should be read in conjunction with the 2017 annual consolidated financial statements.

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

Except as described below, the Group's accounting policies applied in preparing these unaudited condensed consolidated financial statements are consistent with those policies applied in preparing the 2017 annual consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies

The Group has adopted the following international financial report standards which are relevant to the Group:

International Financial Report Standard 9	Financial instruments
International Financial Report Standard 15	Revenue from contracts with customers

The Group has adopted *International Financial Report Standard 9 "Financial Instruments"* ("IFRS 9") as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which composed changes in accounting policies and resulted in adjustments to the amounts previously recognised in the financial statements. No early adoption of IFRS 9 is applied in prior period by the Group.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *"Financial Instruments: Disclosures"*.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 2.1.2 below.

The adoption of IFRS 15 has no material effects on the Group's financial statements.

For the six months ended 30 June 2018
(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 Changes in accounting policies *(Continued)*

(a) Classification and measurement of financial instruments

The measurement category and the carrying amounts of financial assets in accordance with IAS 39 and IFRS 9 as at 1 January 2018 are compared as follows:

The Group	31 December 2017	Reclassifications	Remeasurements	1 January 2018 (Restated)
Financial assets				
Cash and balances with central banks	938,571	–	–	938,571
Due from banks and other financial institutions	782,468	–	(1,717)	780,751
Financial assets at fair value through profit or loss (a)	261,037	44,423	(151)	305,309
Loans and advances to customers	4,473,255	–	(32,052)	4,441,203
Financial investments – fair value through other comprehensive income	N.A.	372,629	–	372,629
Financial investments – available-for-sale	402,138	(402,138)	–	N.A.
Financial investments – amortised cost	N.A.	1,884,194	(736)	1,883,458
Financial investments – loans and receivables	387,733	(387,733)	–	N.A.
Financial investments – held-to-maturity	1,511,375	(1,511,375)	–	N.A.
Other financial assets	96,097	–	(1,239)	94,858
Subtotal	8,852,674	–	(35,895)	8,816,779

Note: (a) Except for derivatives designated in cash flow hedging relationships where, to the extent that the hedge is effective, changes in fair value are taken to the hedging reserve through other comprehensive income. Any ineffectiveness is recognised in profit or loss.

For the six months ended 30 June 2018
(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 Changes in accounting policies *(Continued)*

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

At amortised Cost	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	938,571			938,571
Due from banks and other financial institutions				
Opening balance under IAS 39	782,468			
Remeasurement: ECL allowance			(1,717)	
Closing balance under IFRS 9				780,751
Other financial assets				
Opening balance under IAS 39	96,097			
Remeasurement: ECL allowance			(1,239)	
Closing balance under IFRS 9				94,858
Loans and advances to customers				
Opening balance under IAS 39	4,473,255			
Subtraction: To FVOCI		(163,962)		
Remeasurement: ECL allowance for loans and advances to customers			(32,095)	
Closing balance under IFRS 9				4,277,198

For the six months ended 30 June 2018
(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 Changes in accounting policies *(Continued)*

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)*

At amortised Cost	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Financial investments – loans and receivables				
Opening balance under IAS 39	387,733			
Subtraction: To financial investment – amortised cost		(375,078)		
Subtraction: To financial assets at fair value through profit or loss		(12,655)		
Closing balance under IFRS 9				N.A.
Financial investments – held-to-maturity				
Opening balance under IAS 39	1,511,375			
Subtraction: To financial investment – amortised cost		(1,509,116)		
Subtraction: To financial assets at fair value through profit or loss		(2,259)		
Closing balance under IFRS 9				N.A.
Financial investments – amortised cost				
Opening balance under IAS 39	N.A.			
Addition: From financial investment – loans and receivables (IAS 39)		375,078		
Addition: From financial investment – held-to-maturity (IAS 39)		1,509,116		
Remeasurement: ECL allowance			(736)	
Closing balance under IFRS 9				1,883,458
Total Financial assets at amortised cost	8,189,499	(178,876)	(35,787)	7,974,836

For the six months ended 30 June 2018
(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 Changes in accounting policies (Continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)*

At fair value through profit or loss	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Financial assets at fair value through profit and loss				
Opening balance under IAS 39	214,300			
Addition: From financial investment – loans and receivables		12,655		
Addition: From financial investments – held-to-maturity		2,259		
Remeasurement: From amortised cost to fair value			(151)	
Addition: From available-for-sale – debt instruments (IAS 39)		24,430		
Addition: From available-for-sale – fund investments (IAS 39)		2,583		
Addition: From available-for-sale – equity instruments (IAS 39)		2,496		
Closing balance under IFRS 9				258,572
Designated at fair value through profit and loss				
Opening balance under IAS 39 and closing balance under IFRS 9	12,730			12,730
At fair value through profit or loss (derivatives) (a)				
Opening balance under IAS 39 and closing balance under IFRS 9	34,007			34,007
Total financial assets measured at fair value through profit or loss	261,037	44,423	(151)	305,309

For the six months ended 30 June 2018
(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 Changes in accounting policies (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

At fair value through other comprehensive income (FVOCI)	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Financial investments – available-for-sale				
Opening balance under IAS 39	402,138			
Subtraction: To financial assets at fair value through profit and loss – debt instruments		(24,430)		
Subtraction: To financial assets at fair value through profit and loss – fund investments		(2,583)		
Subtraction: To financial assets at fair value through profit and loss – equity instruments		(2,496)		
Subtraction: To financial investment – FVOCI – debt instruments		(369,318)		
Subtraction: To financial investment – FVOCI – equity instruments		(3,311)		
Closing balance under IFRS 9				N.A.
Financial investments – at FVOCI				
Opening balance under IAS 39	N.A.			
Addition: From financial investments – available-for-sale – debt instruments		369,318		
Addition: From financial investments – available-for-sale – equity instruments		3,311		
Closing balance under IFRS 9				372,629
Loans and advances to customers				
Opening balance under IAS 39	N.A.			
Addition: From loans and advances to customers (IAS 39)		163,962		
Remeasurement: From amortised cost to fair value			43	
Closing balance under IFRS 9				164,005
Total financial assets measured at FVOCI	402,138	134,453	43	536,634
Total financial assets	8,852,674	–	(35,895)	8,816,779

Note (a): Except for derivatives designated in cash flow hedging relationships where, to the extent that the hedge is effective, changes in fair value are taken to the hedging reserve through other comprehensive income. Any ineffectiveness is recognised in profit or loss.

(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 Changes in accounting policies *(Continued)*

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018:

Measurement category	Impairment allowance under IAS 39/ Provision under IAS 37	Reclassification	ECL	ECL Allowance under IFRS 9
Amortised cost				
Loans and advances to customers	106,001	(807)	32,095	137,289
Due from banks and other financial institutions	–	–	1,717	1,717
Financial investments – loans and receivables	2,608	(2,608)	–	–
Financial investments – held-to-maturity	355	(355)	–	–
Financial investments – amortised cost	–	2,963	736	3,699
Other assets	1,907	–	1,239	3,146
Subtotal	110,871	(807)	35,787	145,851
FVOCI				
Loans and advances to customers	–	807	1,189	1,996
Financial investments – available-for-sale	1,537	(1,537)	–	–
Financial investments – at FVOCI	–	454	438	892
Total	112,408	(1,083)	37,414	148,739

Due to the adoption of IFRS 9, the Group's opening retained earnings reduced from RMB124,514 million to RMB96,257 million, and the opening other reserves increased from RMB298,827 million to RMB300,712 million, and deferred tax assets increased from RMB16,456 million to RMB25,927 million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies

2.1.2.1 Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.1 Financial assets and liabilities (Continued)

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.1 Financial assets and liabilities (Continued)

Financial assets *(Continued)*

(i) Classification and subsequent measurement *(Continued)*

Debt instruments (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains arising from investment activities'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net gains arising from trading activities' in the period in which it arises.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group managers its mortgage loans as to hold and collect the contractual cash flows. Only when the Group issues asset-backed securities can these loans been sold to SPVs which are included in the scope of consolidated financial statements. The transactions does not lead to the derecognition of financial assets within the Group. For another example, the Group holds portfolios for liquidity management, the business model of which includes both connection of contractual cash flows and sale of assets.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.1 Financial assets and liabilities (Continued)

Financial assets *(Continued)*

(i) Classification and subsequent measurement *(Continued)*

Debt instruments (Continued)

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to sell. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Net gains arising from trading activities' when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net gains arising from trading activities' line in the statement of profit or loss.

(ii) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 3.1.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.1 Financial assets and liabilities *(Continued)*

Financial assets *(Continued)*

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.1 Financial assets and liabilities (Continued)

Financial assets *(Continued)*

(iv) Derecognition other than on a modification *(Continued)*

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.1 Financial assets and liabilities (Continued)

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as liabilities measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.1.2.1(iv); and

- Financial guarantee contracts and loan commitments (refer to Note 2.1.2.2).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is more than 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.2 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note 2.1.1); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 2.1.1). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as an ECL allowance.

2.1.2.3 Derivatives and hedging activities

The Group has elected to apply the hedge accounting requirements of IFRS 9.

The Group has not provided comparative information for periods before the date of initial application of IFRS 9 for the new disclosures introduced by IFRS 9 as a consequential amendment to IFRS 7, as permitted by IFRS 7 paragraph 44Z.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Significant accounting policies *(Continued)*

2.1.2.3 *Derivatives and hedging activities* (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges); or

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Critical accounting estimates and judgments in applying accounting policies

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

In preparing this condensed consolidated interim financial information, except for the below mentioned amendment, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.1.2, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.2.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and the latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors. The Subordinate Risk Management Department (Asset Preservation Department) at Head Office undertakes the leading risk management functions of the Group. The risk management division in each operation department at Head Office, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Group are credit risk, liquidity risk, market risk and operational risk, etc. Market risk also includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations. Credit risk arises principally from loans and advances to customers, financial investments, derivative instruments and due from banks and other financial institutions. There is also credit risk in off-balance sheet items such as loan commitments, financial guarantees, acceptances and letters of credit. Credit risk is a major risk to which the Bank is exposed. Therefore, the Group manages and controls the overall credit risk in a prudent manner and reports regularly to the senior management and the Board of Directors of the Group.

3.1.1Credit risk management

The Group's credit risk management is assumed by major functions such as Corporate Business Department, Inclusive Finance Department, Personal Finance Business Department, Credit Card Centre, Credit Authorisation Department and Risk Management Department (Asset Preservation Department), which are responsible for the standardised management of corporate and retail credit businesses in terms of credit investment, credit investigation and report, credit approval, loan granting, post-loan monitoring and NPL management.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(a) Loans and advances to customers

As for corporate loans, the Group's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk suffered by applicants and relevant businesses, and completing initial internal rating. The Group adopts the hierarchical approval system at the branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations. The Group keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries. It strengthens daily risk pre-warning, monitoring and specific risk investigation to identify customers under major risks and material potential risk points. With improvements in post-loan management, the Group enhanced the refinement of post-loan management in a practical manner. The independent loan granting centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Group's relationship manger is the person primarily responsible for post-loan management. The Group adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans. To minimise the losses arising from credit risks, the Group manages NPLs mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantor; (4) litigation or arbitration; and (5) write-off pursuant to regulations and requirements.

For retail credit assets, the Group grasps the overall risk profile of retail credit business through on-site review and adoption of reporting system on material matters, strengthens daily risk monitoring and pre-warning through optimising management system, standardises operation process of retail credit business through working out manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks in a timely manner through strengthening risk monitoring and pre-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using press testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and applies list management to key risk projects through risk monitoring, guidance, collection and mitigation.

The Group adopts categorised management for retail credit assets on the basis of overdue ageing and guarantee mode. With regard to the retail credit customers without overdue loans, the Group will pay regular visit to strengthen management and include the customers with material potential risks in supervision list for specific management. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days. Retail credit businesses overdue by a certain period shall be managed as impaired assets and relevant impairment allowance shall be provided for such assets.

Credit Card Centre accounted for independently by the Group is in charge of the operation and management of credit card business. Credit Card Centre of the Group adopts various supervisory and preventive measures simultaneously. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line on high risk customers through secondary credit investigation to enter into the collection process earlier than scheduled, deploys collection strength in a proper manner to significantly enhance collection efficiency, and optimises data analytic system to further propel the refined management of credit card business.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(b) Treasury business

For treasury business (including debt investments), the Group chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Group adopts hierarchical credit and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt investments, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt investments and bills. The investment in those debts 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.

For fund trust scheme and asset management plan established by banks and other financial institutions, the Group applies rating and admission system to such partners as trust companies, securities companies and fund companies. Meanwhile, the Group sets credit limit on repurchase party of beneficial right of trust and ultimate financing party of targeted asset management plan by making reference to internal rating as well as performs subsequent risk management regularly.

As for 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.

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.

(c) Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods, and therefore is subject to lower risk compared with direct loans. Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(d) Credit risk quality

In accordance with the *Guideline for Loan Credit Risk Classification* issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), 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 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.

Regarding risk, the treasury business is classified into five categories based on five categories of loan classification.

(e) Credit risk measurement

Based on the requirements of supervisory guidelines issued by the Basel Committee on Banking Supervision (the "Basel Committee") and the CBIRC, the Group has established an internal rating system to measure credit risk arising from default events.

Default refers to non-performance of contractual obligations by debtors on a timely basis due to disability or unwillingness. Regarding internal rating, default is defined uniformly within the Group. Each of the following circumstances could be considered as default:

(1) A substantial debt is overdue for 90 days or above or the obligations of a contract or an agreement to the Group have not been performed for 90 days or above. Where a debtor makes an overdraft over the limit or the reauthorised limit is lower than current balance, any overdraft exceeding the latest credit limit would be considered overdue.

(2) The Group believes that a debtor may be unable to perform contractual or agreed obligations to it or unable to repay debts in full amount to it unless recourse measures (such as realisation of collaterals) are taken.

The credit risk internal rating system includes three risk factors: (i) the "probability of default" by debtors (or debts); (ii) the "exposure at default" to be recognised by the Group based on the current exposure and the future potential development of debtors (or debts); (iii) the extent of loss from risk exposure in the event of default (the "loss given default").

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(e) Credit risk measurement (Continued)

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, the anticipated usage of unused 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 debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

The Group summarised a series of financial and other related factors to build the internal credit rating model to measure the probability of default and the loss given default, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients/debts before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default and the loss given default, and then matches the probability of default and the loss given 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/loss data from customers. In practice, the monitoring and back testing has been performed quarterly.

The above credit risk factors are considered for the measurement of possible credit losses to be incurred, and applied in the daily operations of the Group.

3.1.2 Credit risk losses

The Group measures the expected credit losses of financial instrument measured at amortised cost or fair value through other comprehensive income.

The Group divides them into 3 stages. Stage 1 is "not credit-impaired on initial recognition", at which the Group only needs to measure the expected credit losses ("ECL") in next 12 months. Stage 2 is "financial assets with significant increase in credit risk" and stage 3 is "credit-impaired financial assets", at both of which the Group needs to measure lifetime ECL.

The Group has developed impairment models as to calculate ECL. The Group has established regression models through a top down approach to analyse the linkage between risk parameters and macro-economic indicators including value-added of real estate industry, PPI and measures ECLs under the above multiple scenarios through impairment models.

Stage classification

The Group makes the three classifications at the level of facilities. For financial instruments, those are "not credit-impaired on initial recognition" will be classified in stage 1, at which the ECL in next 12 months is calculated. If "a significant increase in credit risk" is identified, the financial instrument will be moved to stage 2. If a financial instrument is credit-impaired, the financial instrument will be moved to stage 3, at which the lifetime ECL is calculated.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Credit risk losses *(Continued)*

Stage classification (Continued)

The criteria for the determination of "credit-impaired" includes but is not limited to the following factors:

(1) Principal (including the advances, hereinafter inclusive) or interest is overdue for more than 90 days;

(2) Issuer or obligor is in significant financial difficulty, or has already been insolvent;

(3) It is becoming probable that the borrower will enter bankruptcy;

(4) An active market for that financial asset has disappeared because of financial difficulties of issuers;

(5) Other objective evidence indicating impairment of the financial asset.

The criteria for the determination of "a significant increase in credit risk" includes but is not limited to the following factors;

(1) Principal (including the advances) or interest is overdue for more than 30 days;

(2) Credit rating of obligor changes significantly. Credit rating is based on the Group's internal rating results, and a significant increase in credit risk is determined when internal rating during the reporting period is below the Group's credit access standard or significant downgrading occurs as compared with initially recognized internal rating;

(3) Key financial indicators of obligor deteriorate;

(4) Significant adverse issuers have negative impacts on obligator's repayment ability;

(5) Other risk alarm indicators imply growing potential risk, and could cause losses of financial assets to the Group.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Credit risk losses *(Continued)*

Establishment of impairment model

The Group has established macro-economic forecast model including three economic scenarios (i.e., optimistic scenario, basic scenario and pessimistic scenario), so as to forecast multiple macro-economic indicators including value-added of real estate industry, PPI, M2 and price indices of primary assets. The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the assets impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better or worse than basic scenario respectively, and can also become a source of sensitivity test.

The impairment models are under a top down approach through grouping of models. The models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as value-added of real estate industry, PPI and M2) and risk parameters. The result of macro-economic indicators forecasts will form the basis for impairment calculation and represent "forward looking" elements of credit risk allowance in different scenarios.

Where impairment models cannot be established due to unavailability of data support, the Group endeavours to select appropriate methods in order to make prospective estimation. Firstly, the Group makes prospective adjustments to impairment calculation of overseas branches regularly based on macro-forecast data from authoritative institutions (such as IMF and the World Bank). For asset portfolios not covered by impairment models, expected loss rate is set by referring to that of similar asset portfolios with impairment models established.

Management also makes adjustments to asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models (such as government financing vehicles, group clients and real estates).

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk

3.1.3.1 Maximum exposure to credit risk – financial instruments included in impairment assessment

	30 June 2018			31 December 2017
	Group total	ECL	Group carrying amount	Group carrying amount
On-balance sheet item				
Cash and balances with central banks (Stage 1)	903,445	–	903,445	921,948
Loans and advances to customers				
– at amortised cost	4,630,328	(120,543)	4,509,785	4,473,255
Stage 1	4,415,350	(30,547)	4,384,803	
Stage 2	143,466	(45,602)	97,864	
Stage 3	71,512	(44,394)	27,118	
– FVOCI	163,093	–	163,093	N.A.
Stage 1	151,124	–	151,124	
Stage 2	11,969	–	11,969	
Stage 3	–	–	–	
Due from banks and other financial institutions (Stage 1)	734,997	(1,689)	733,308	782,468
Financial investments – amortised cost	1,969,294	(3,655)	1,965,639	N.A.
Stage 1	1,967,915	(3,108)	1,964,807	
Stage 2	840	(88)	752	
Stage 3	539	(459)	80	
Financial investments – loans and receivables			N.A.	387,733
Financial investments – held-to-maturity			N.A.	1,511,375
Financial investments-fair value through other comprehensive income	391,652	–	391,652	N.A.
Stage 1	390,855	–	390,855	
Stage 2	797	–	797	
Stage 3	–	–	–	
Financial investments – available-for-sale			N.A.	393,748
Other financial assets – amortised cost	99,874	(4,210)	95,664	96,726
Stage 1	95,129	(2,092)	93,037	
Stage 2	2,731	(868)	1,863	
Stage 3	2,014	(1,250)	764	
On-balance sheet total	8,892,683	(130,097)	8,762,586	8,567,253
Financial guarantees and credit related commitments				1,412,703
Stage 1	1,470,825	(4,014)	1,466,811	
Stage 2	3,166	(201)	2,965	
Off-balance sheet total	1,473,991	(4,215)	1,469,776	1,412,703
Total	10,366,674	(134,312)	10,232,362	9,979,956

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.2 Maximum exposure to credit risk – financial instruments not included in impairment assessment

The analysis of credit risk exposure of those financial assets which are not included in the impairment evaluation, financial assets at FVPL, is as follows:

	Maximum exposure to credit risk	
	As at 30 June 2018	As at 31 December 2017
Financial assets at fair value through profit or loss		
Loans and advances to customers	544	–
Debt securities	143,235	88,930
Derivative financial instruments	31,523	34,007
Total	175,302	122,937

3.1.3.3 Collaterals and other credit enhancements

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collaterals. The principal types of collaterals for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collaterals for corporate loans and individual loans are as follows:

Collaterals	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements (Continued)

(a) Collaterals *(Continued)*

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	54,482	(31,574)	22,908	16,172
Loans to individuals	17,030	(12,820)	4,210	12,027
Financial investments				
Financial investments – at Amortised cost	539	(459)	80	–
Credit-impaired assets Total	72,051	(44,853)	27,198	28,199

(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.

3.1.4 Derivative instruments

The Group undertakes its transactions in foreign exchange, commodity and interest rate derivative contracts and others with other financial institutions and customers. The management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk-weighted amounts

	As at 30 June 2018	As at 31 December 2017
Counterparty credit risk-weighted amount	24,378	26,223

The credit risk-weighted amounts are the amounts calculated with reference to the guidelines issued by the CBIRC 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.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers

	As at 31 December 2016	
	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	4,477,651	782,468
Past due but not impaired	33,099	–
Impaired	68,506	–
Gross	4,579,256	782,468
Less: Allowances for impairment losses	(106,001)	–
Net	4,473,255	782,468

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

As at 30 June 2018, the Group's total loans and advances to customers increased by 4.69% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

(a) Loans and advances neither past due nor impaired

	As at 31 December 2017		
	Normal	Special-mention	Total
Corporate loans and advances	2,992,212	101,351	3,093,563
Individual loans and advances	1,383,815	273	1,384,088
Total	4,376,027	101,624	4,477,651

(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					
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days	Total	Fair value of collaterals
Corporate entities						
– Commercial loans	8,388	2,507	1,621	10,687	23,203	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
Total	15,253	4,299	2,732	10,815	33,099	20,643
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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(c) *Loans and advances individually impaired*

As at 30 June 2018, impaired loans and advances to customers before taking into consideration the collaterals held is RMB71,512 million (31 December 2017: RMB68,506 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
Impaired loans and advances to customers	
Corporate entities	52,608
Individuals	15,898
Total	68,506
Fair value of collaterals	
Corporate entities	15,175
Individuals	11,356
Total	26,531

3.1.6 Foreclosed assets

	As at 30 June 2018	As at 31 December 2017
Buildings	925	991
Land use rights	25	25
Others	19	19
Gross	969	1,035
Less: Impairment allowances	(131)	(129)
Net	838	906

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Concentration risk analysis for financial assets with credit risk exposure

The group mainly manages concentration risk for loans and advances to customers by industry sectors and also manages concentration risk for financial assets by geographical sectors.

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 30 June 2018				
Financial assets				
Balances with central banks	870,332	3,294	29,819	903,445
Due from banks and other financial institutions	628,331	43,136	61,841	733,308
Financial assets at fair value through profit or loss (debt securities and derivatives)	142,665	9,698	22,395	174,758
Loans and advances to customers	4,379,698	195,596	218,671	4,793,965
Financial investments – fair value through other comprehensive income	137,711	105,132	148,809	391,652
Financial investments – amortised cost	1,944,843	2,449	18,347	1,965,639
Other financial assets	66,131	15,850	8,363	90,344
	8,169,711	375,155	508,245	9,053,111
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	598,543	9,807	17,235	625,585
Other credit related commitments	798,466	23,019	26,921	848,406
	1,397,009	32,826	44,156	1,473,991

	Mainland China	Hong Kong	Others	Total
As at 31 December 2017				
Financial assets				
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	4,154,404	216,345	208,507	4,579,256
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	83,441	5,767	6,889	96,097
	7,921,300	338,619	535,643	8,795,562
Off-balance sheet exposures				
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
	1,328,161	31,644	52,898	1,412,703

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

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

	As at 30 June 2018		As at 31 December 2017	
		%		%
North of China (1)	602,592	12.57	588,224	12.85
Northeast (2)	211,363	4.41	207,142	4.52
East of China (3)	2,211,153	46.12	2,059,334	44.97
South and middle of China (4)	903,167	18.84	851,780	18.60
West of China (5)	451,424	9.42	447,924	9.78
Overseas (6)	414,266	8.64	424,852	9.28
Gross amount of loans and advances	4,793,965	100.00	4,579,256	100.00

Note:

(1) Including Beijing, Tianjin, Hebei province, Shanxi province and Inner Mongolia Autonomous Region.

(2) Including Liaoning province, Jilin province and Heilongjiang province.

(3) Including Shanghai, Jiangsu province, Zhejiang province, Anhui province, Fujian province, Jiangxi province and Shandong province.

(4) Including Henan province, Hunan province, Hubei province, Guangdong province, Guangxi Autonomous Region and Hainan province.

(5) Including Chongqing, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province, Xinjiang Autonomous Region and Ningxia Autonomous Region.

(6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, United Kingdom, San Francisco, Luxembourg, Taiwan, Toronto, Brisbane, Paris, Rome and Brazil.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(b) Industry analysis

	As at 30 June 2018	%	As at 31 December 2017	%
Corporate loans				
Mining	118,875	2.48	114,010	2.49
Manufacturing				
– *Petroleum and chemical*	108,495	2.26	110,087	2.40
– *Electronics*	77,815	1.62	76,261	1.67
– *Steel*	34,942	0.73	36,377	0.79
– *Machinery*	100,927	2.11	96,532	2.11
– *Textile and clothing*	28,340	0.59	30,043	0.66
– *Other manufacturing*	211,131	4.41	231,606	5.06
Electricity, gas and water production and supply	187,042	3.90	180,471	3.94
Construction	124,499	2.60	112,544	2.46
Transportation, storage and postal service	574,378	11.98	576,156	12.58
Telecommunication, computer service and software	32,267	0.67	26,229	0.57
Wholesale and retail	259,614	5.42	283,654	6.19
Accommodation and catering	34,228	0.71	35,531	0.78
Financial institutions	130,516	2.72	118,533	2.59
Real estate	204,522	4.27	189,295	4.13
Services	394,425	8.23	358,956	7.84
Water conservancy, environmental and other public services	272,039	5.67	265,073	5.79
Education, science, culture and public health	88,571	1.85	82,780	1.81
Others	107,501	2.24	106,278	2.32
Discounted bills	136,318	2.84	138,958	3.03
Total corporate loans	3,226,445	67.30	3,169,374	69.21
Individual loans				
Mortgages	952,652	19.87	897,264	19.60
Credit cards	497,920	10.39	399,004	8.71
Others	116,948	2.44	113,614	2.48
Total individual loans	1,567,520	32.70	1,409,882	30.79
Gross amount of loans and advances before impairment allowances	4,793,965	100.00	4,579,256	100.00

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rates, currencies, commodities and equity products, all of which are exposed to market fluctuations and changes in interest rates, foreign exchange rates, commodities and equity products prices.

In accordance with the requirements of the CBIRC, the Group's financial instrument positions 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 has continuously improved the management system of market risk. The Group conducted stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group's major market risk factors. The Group has realised automatic collection of trading data and market data in the system. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's portfolios is as follows:

Items	Six months ended 30 June 2018			
	30 June 2018	Average	Maximum	Minimum
VaR	582	554	621	467
– Interest rate risk	69	185	212	68
– Foreign exchange risk	582	520	613	454

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

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. The Group calculates the impact of a parallel shift of 100 basis points interest rates on the net interest income and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact to net interest income of the coming year of the Group based on the structure of interest bearing assets and liabilities as at 30 June 2018 and 31 December 2017, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Expected changes in net interest income	
	As at 30 June 2018	As at 31 December 2017
+100 basis points parallel shift in yield curves	8,696	13,747
-100 basis points parallel shift in yield curves	(8,696)	(13,747)

For the six months ended 30 June 2018
(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 30 June 2018 and 31 December 2017, caused by a parallel shift of 100 basis points in RMB, USD and HKD interest rates:

	Changes in other comprehensive income	
	As at 30 June 2018	As at 31 December 2017
+100 basis points parallel shift in yield curves	(5,579)	(6,414)
-100 basis points parallel shift in yield curves	5,872	6,800

The results of the interest rate sensitivity tests set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the projected impact to the net interest income and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions are to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities denominated in different currencies. On an assumption of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5%, the Group calculates the changes in net profit and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

	Expected changes in net profit/(loss)	
	Six months ended 30 June 2018	Year ended 31 December 2017
5% appreciation of RMB	(2,514)	(4,187)
5% depreciation of RMB	2,514	4,187

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	
	Six months ended 30 June 2018	Year ended 31 December 2017
5% appreciation of RMB	(361)	(684)
5% depreciation of RMB	361	684

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. The PBOC established RMB benchmark interest rates for loans with a floor and such policy was eliminated with effect 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.

Pricing of discounted bills are highly market-oriented. In the case of tight credit markets, such interest rate may be higher than that of loans with the same 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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2018							
Assets							
Cash and balances with central banks	894,980	–	44	–	–	22,258	917,282
Due from banks and other financial institutions	356,874	110,816	237,838	27,050	730	–	733,308
Financial assets at fair value through profit or loss	18,672	22,593	48,831	43,539	45,815	167,485	346,935
Loans and advances to customers	1,411,438	537,330	2,462,421	191,223	66,795	–	4,669,207
Financial investments – fair value through other comprehensive income	62,387	72,504	54,978	161,714	40,069	3,481	395,133
Financial investments – amortised cost	38,749	46,620	241,342	1,143,002	495,926	–	1,965,639
Other assets	8,158	–	–	–	–	287,045	295,203
Total assets	2,791,258	789,863	3,045,454	1,566,528	649,335	480,269	9,322,707
Liabilities							
Due to banks and other financial institutions	(721,831)	(416,996)	(814,849)	(21,147)	(17,979)	–	(1,992,802)
Financial liabilities at fair value through profit or loss	(2,791)	(3,126)	(3,704)	(5,459)	–	(27,316)	(42,396)
Due to customers	(3,703,727)	(379,000)	(882,798)	(753,284)	(210)	(13,909)	(5,732,928)
Other liabilities	(46,464)	(143,327)	(141,007)	(186,340)	(137,305)	(230,077)	(884,520)
Total liabilities	(4,474,813)	(942,449)	(1,842,358)	(966,230)	(155,494)	(271,302)	(8,652,646)
Total interest sensitivity gap	(1,683,555)	(152,586)	1,203,096	600,298	493,841	208,967	670,061

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017							
Assets							
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	2,248,285	494,381	1,482,830	186,508	61,251	–	4,473,255
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	7,073	–	–	–	–	274,604	281,677
Total assets	3,713,082	729,230	2,006,177	1,499,870	659,460	430,435	9,038,254
Liabilities							
Due to banks and other financial institutions	(829,995)	(543,334)	(706,377)	(10,870)	(15,616)	–	(2,106,192)
Financial liabilities at fair value through profit or loss	(7,174)	(9,685)	(5,148)	(4,371)	–	(33,930)	(60,308)
Due to customers	(3,173,681)	(569,972)	(929,120)	(838,174)	(9,897)	(24,522)	(5,545,366)
Other liabilities	(28,964)	(46,373)	(88,693)	(166,847)	(139,935)	(179,305)	(650,117)
Total liabilities	(4,039,814)	(1,169,364)	(1,729,338)	(1,020,262)	(165,448)	(237,757)	(8,361,983)
Total interest sensitivity gap	(326,732)	(440,134)	276,839	479,608	494,012	192,678	676,271

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 *Foreign exchange risk*

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in USD, HKD and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates and changes on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. As at 30 June 2018, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.6166 (31 December 2017: RMB6.5342) and 1 HK dollar to RMB0.8431 (31 December 2017: RMB0.83591). The tables below summarise the Group's exposure to foreign exchange risk at the end of the period/year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, are categorised by the original currency.

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 30 June 2018					
Assets					
Cash and balances with central banks	864,323	26,740	2,889	23,330	917,282
Due from banks and other financial institutions	426,069	271,482	18,189	17,568	733,308
Financial assets at fair value through profit or loss	297,604	28,619	3,856	16,856	346,935
Loans and advances to customers	4,126,969	350,367	136,861	55,010	4,669,207
Financial investments – fair value through other comprehensive income	148,928	153,090	64,714	28,401	395,133
Financial investments – amortised cost	1,944,278	12,136	–	9,225	1,965,639
Other assets	173,755	104,732	12,271	4,445	295,203
Total assets	7,981,926	947,166	238,780	154,835	9,322,707
Liabilities					
Due to banks and other financial institutions	(1,597,800)	(344,767)	(6,578)	(43,657)	(1,992,802)
Financial liabilities at fair value through profit or loss	(25,626)	(1,027)	(7,132)	(8,611)	(42,396)
Due to customers	(5,074,076)	(429,332)	(203,775)	(25,745)	(5,732,928)
Other liabilities	(666,713)	(170,740)	(22,784)	(24,283)	(884,520)
Total liabilities	(7,364,215)	(945,866)	(240,269)	(102,296)	(8,652,646)
Net position	617,711	1,300	(1,489)	52,539	670,061
Financial guarantees and credit related commitments	1,273,727	156,359	25,262	18,643	1,473,991

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2017					
Assets					
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	3,914,731	363,558	143,396	51,570	4,473,255
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	189,986	84,823	4,632	2,236	281,677
Total assets	7,737,301	955,430	211,521	134,002	9,038,254
Liabilities					
Due to banks and other financial institutions	(1,668,277)	(379,647)	(12,057)	(46,211)	(2,106,192)
Financial liabilities at fair value through profit or loss	(32,412)	(17,745)	(7,214)	(2,937)	(60,308)
Due to customers	(4,885,189)	(424,411)	(202,002)	(33,764)	(5,545,366)
Other liabilities	(458,976)	(157,279)	(13,065)	(20,797)	(650,117)
Total liabilities	(7,044,854)	(979,082)	(234,338)	(103,709)	(8,361,983)
Net position	692,447	(23,652)	(22,817)	30,293	676,271
Financial guarantees and credit related commitments	1,228,550	145,088	21,199	17,866	1,412,703

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. Part of the equity investments arise from taking possession of foreclosed assets due to historical reasons and from the proprietary trading of the Group's subsidiaries which hold the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 30 June 2018, 15.5% (31 December 2017: 16.5%) of the Group's total RMB denominated due to customers and 5% (31 December 2017: 5%) of the total foreign currency denominated due to customers 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 banks reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolios.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 – 3.3.4).

Sources of funding are regularly reviewed by the Assets and Liabilities Management Department to maintain a wide diversification of fundings in terms of currency, geography, customer, product and maturity terms.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group related to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	Overdue	Undated	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 30 June 2018									
Liabilities									
Due to banks and other financial institutions	–	–	(410,994)	(312,303)	(423,131)	(838,765)	(23,247)	(22,707)	(2,031,147)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(714)	(2,795)	(3,088)	(3,841)	(5,896)	–	(16,334)
Due to customers	–	–	(3,339,253)	(419,760)	(400,077)	(928,896)	(791,749)	(171)	(5,879,906)
Certificates of deposit issued	–	–	–	(36,409)	(143,561)	(128,458)	(14,434)	–	(322,862)
Debt securities issued	–	–	–	(13,222)	(3,264)	(26,603)	(203,528)	(130,194)	(376,811)
Other financial liabilities	–	–	(28,117)	(168)	(165)	(1,504)	(4,519)	(24,699)	(59,172)
Total liabilities (contractual maturity dates)	–	–	(3,779,078)	(784,657)	(973,286)	(1,928,067)	(1,043,373)	(177,771)	(8,686,232)
Assets									
Cash and balances with central banks	–	784,714	132,524	–	–	44	–	–	917,282
Due from banks and other financial institutions	–	–	79,624	278,257	112,050	244,569	28,398	964	743,862
Non-derivative financial assets at fair value through profit or loss	270	128,763	6,929	3,590	17,601	52,890	62,955	67,436	340,434
Loans and advances to customers	44,727	–	–	643,060	316,755	1,277,299	1,486,729	2,395,076	6,163,646
Financial investments – fair value through other comprehensive income	–	3,481	–	43,255	25,300	68,249	241,944	52,868	435,097
Financial investments – amortised cost	80	–	–	29,799	42,419	242,242	1,203,881	483,057	2,001,478
Other financial assets	532	–	35,632	–	–	–	–	–	36,164
Assets held for managing liquidity risk (contractual maturity dates)	45,609	916,958	254,709	997,961	514,125	1,885,293	3,023,907	2,999,401	10,637,963
Net position	45,609	916,958	(3,524,369)	213,304	(459,161)	(42,774)	1,980,534	2,821,630	1,951,731

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

	Overdue	Undated	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2017									
Liabilities									
Due to banks and other financial institutions	–	–	(381,473)	(450,804)	(548,784)	(719,079)	(63,486)	(24,185)	(2,187,811)
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	–	–	(2,512,237)	(692,488)	(578,392)	(953,188)	(894,025)	(9,908)	(5,640,238)
Certificates of deposit issued	–	–	–	(23,916)	(46,388)	(72,225)	(8,503)	–	(151,032)
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)
Total liabilities (contractual maturity dates)	–	–	(2,923,536)	(1,179,594)	(1,182,918)	(1,779,057)	(1,185,134)	(193,005)	(8,443,244)
Assets									
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	52,025	–	–	559,298	321,251	1,217,456	1,485,862	2,233,973	5,869,865
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	121	–	41,416	–	–	–	–	–	41,537
Assets held for managing liquidity risk (contractual maturity dates)	52,496	901,823	251,968	980,269	502,581	1,825,520	3,111,150	2,921,216	10,547,023
Net position	52,496	901,823	(2,671,568)	(199,325)	(680,337)	46,463	1,926,016	2,728,211	2,103,779

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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

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

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

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

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 30 June 2018						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	3	24	94	–	–	121
– Interest rate contracts and others	97	217	898	2,621	317	4,150
Total	100	241	992	2,621	317	4,271
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	–	(1)	(45)	–	–	(46)
– Interest rate contracts and others	(39)	(143)	(560)	(1,410)	(22)	(2,174)
Total	(39)	(144)	(605)	(1,410)	(22)	(2,220)

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows* *(Continued)*

(a) Derivative settled on a net basis (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2017						
Assets						
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
Total	237	528	1,215	1,348	100	3,428
Liabilities						
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)
Total	(267)	(277)	(607)	(918)	(35)	(2,104)

(b) Derivative settled on a gross basis

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

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 30 June 2018						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(495,702)	(478,817)	(1,065,766)	(70,921)	(1,195)	(2,112,401)
– Inflow	494,805	479,651	1,067,729	71,045	2,801	2,116,031
Total	(897)	834	1,963	124	1,606	3,630

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2017						
Derivative financial instruments held for trading						
– 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)
Total	417	106	(1,417)	347	–	(547)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

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

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 30 June 2018									
Assets									
Cash and balances with central banks	132,524	–	–	44	–	–	–	784,714	917,282
Due from banks and other financial institutions	79,509	277,365	110,816	237,838	27,050	730	–	–	733,308
Financial assets at fair value through profit or loss	6,929	7,963	22,278	64,086	58,873	57,773	270	128,763	346,935
Loans and advances to customers	–	627,618	287,063	1,167,612	1,093,055	1,456,116	37,743	–	4,669,207
Financial investments – fair value through other comprehensive income	–	42,423	23,492	61,119	221,706	42,912	–	3,481	395,133
Financial investments – amortised cost	–	33,490	38,014	238,147	1,159,645	496,263	80	–	1,965,639
Other assets	46,583	9,699	13,077	12,565	38,028	8,312	532	166,407	295,203
Total assets	265,545	998,558	494,740	1,781,411	2,598,357	2,062,106	38,625	1,083,365	9,322,707
Liabilities									
Due to banks and other financial institutions	(410,910)	(310,921)	(416,996)	(814,849)	(21,147)	(17,979)	–	–	(1,992,802)
Financial liabilities at fair value through profit or loss	–	(7,559)	(8,564)	(17,642)	(7,885)	(32)	–	(714)	(42,396)
Due to customers	(3,321,603)	(397,599)	(379,146)	(884,157)	(750,253)	(170)	–	–	(5,732,928)
Other liabilities	(96,915)	(70,282)	(159,935)	(174,266)	(241,453)	(141,669)	–	–	(884,520)
Total liabilities	(3,829,428)	(786,361)	(964,641)	(1,890,914)	(1,020,738)	(159,850)	–	(714)	(8,652,646)
Net amount on liquidity gap	(3,563,883)	212,197	(469,901)	(109,503)	1,577,619	1,902,256	38,625	1,082,651	670,061

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis *(Continued)*

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2017									
Assets									
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	–	544,512	292,796	1,115,050	1,105,688	1,371,355	43,854	–	4,473,255
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	9,672	13,471	7,465	33,354	8,377	121	158,691	281,677
Total assets	261,079	975,757	479,248	1,676,757	2,556,401	1,984,174	44,325	1,060,513	9,038,254
Liabilities									
Due to banks and other financial institutions	(381,472)	(448,523)	(543,334)	(706,377)	(10,870)	(15,616)	–	–	(2,106,192)
Financial liabilities at fair value through profit or loss	(585)	(13,558)	(15,552)	(23,735)	(6,677)	(201)	–	–	(60,308)
Due to customers	(2,512,066)	(686,030)	(569,933)	(929,244)	(838,196)	(9,897)	–	–	(5,545,366)
Other liabilities	(47,566)	(53,545)	(65,062)	(117,156)	(217,476)	(149,312)	–	–	(650,117)
Total liabilities	(2,941,689)	(1,201,656)	(1,193,881)	(1,776,512)	(1,073,219)	(175,026)	–	–	(8,361,983)
Net amount on liquidity gap	(2,680,610)	(225,899)	(714,633)	(99,755)	1,483,182	1,809,148	44,325	1,060,513	676,271

3.3.6 Off-balance sheet items

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

	Up to 1 year	1-5 years	Over 5 years	Total
As at 30 June 2018				
Loan commitments and credit related commitments	**808,763**	**34,098**	**5,545**	**848,406**
Guarantees, acceptances and letters of credit	**496,408**	**111,346**	**17,831**	**625,585**
Total	**1,305,171**	**145,444**	**23,376**	**1,473,991**
As at 31 December 2017				
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
Total	1,235,605	157,250	19,848	1,412,703

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 securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposits without quotations from active market, precious metals, the second tier capital bonds and bond investments trading in inter-bank market, and loans and advances carried at FVOCI. 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 etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For financial investments – amortised cost, 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, unlisted funds, equity derivatives and part of loans and advances to customers 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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(b) Financial instruments not measured at fair value

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

	As at 30 June 2018		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments – amortised cost	1,965,639	1,936,433	N.A.	N.A.
Financial investments – loans and receivables	N.A.	N.A.	387,733	384,546
Financial investments – held-to-maturity	N.A.	N.A.	1,511,375	1,471,789
Financial liabilities				
Debt securities issued	(288,755)	(286,993)	(269,615)	(267,754)

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.

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 30 June 2018				
Financial assets				
Financial investments – amortised cost	15,151	1,683,270	238,012	1,936,433
Financial investments – loans and receivables	N.A.	N.A.	N.A.	N.A.
Financial investments – held-to-maturity	N.A.	N.A.	N.A.	N.A.
Financial liabilities				
Debt securities issued	–	(286,993)	–	(286,993)

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets				
Financial investments – loans and receivables	–	104,618	279,928	384,546
Financial investments – held-to-maturity	16,115	1,455,674	–	1,471,789
Financial liabilities				
Debt securities issued	–	(267,754)	–	(267,754)

The carrying amounts and fair values of these financial assets and liabilities including loans and advances, due to customers, due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted in accordance to changes in interest rates set by the PBOC and other regulatory bodies.

For the six months ended 30 June 2018
(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

	Level 1	Level 2	Level 3	Total
As at 30 June 2018				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	2,289	5,287	–	7,576
– Public sector entities	89	2,235	–	2,324
– Banks and other financial institutions	3,656	84,048	3,709	91,413
– Corporate entities	985	37,540	3,397	41,922
Fund investments	55	119,649	3,877	123,581
Equity securities	1,444	–	3,738	5,182
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	26,871	–	26,871
– Interest rate contracts and others	–	3,668	984	4,652
Precious metal contracts	–	34,783	–	34,783
Loans and advances to customers designated at fair value through profit or loss	–	–	544	544
	8,518	314,081	16,249	338,848
Financial investments designated at FVPL				
Loans to banks and other financial institutions	–	8,631	–	8,631
	–	8,631	–	8,631
Financial investments – FVOCI				
Investments in debt instruments measured at FVOCI				
– Governments and central banks	24,600	26,709	–	51,309
– Public sector entities	39,659	4,057	–	43,716
– Banks and other financial institutions	121,407	130,833	–	252,240
– Corporate entities	19,707	24,094	586	44,387
Investments in equity instruments designated at fair value through other comprehensive income	2,074	–	1,407	3,481
Loans and advances to customers designated at fair value through other comprehensive income	–	163,093	–	163,093
	207,447	348,786	1,993	558,226
Total assets	215,965	671,498	18,242	905,705
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued	–	(6,938)	–	(6,938)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(24,555)	–	(24,555)
– Interest rate contracts and others	–	(2,046)	–	(2,046)
Financial liabilities related to precious metal contracts	–	(8,857)	–	(8,857)
Debt securities issued	–	(15,828)	–	(15,828)
Total liabilities	–	(58,224)	–	(58,224)

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
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 investments designated at FVPL				
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
Total assets	172,229	481,871	9,075	663,175
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,485)	–	–	(2,485)
Certificates of deposits issued	–	(12,654)	–	(12,654)
Derivatives				
– 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)
Total liabilities	(2,485)	(75,870)	–	(78,355)

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(c) Financial assets and financial liabilities measured at fair value on a recurring basis *(Continued)*

Reconciliation of level 3 items

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Balance at 1 January 2018	14,107	1,577
Total gains or losses		
– Net gains arising from trading activities	375	14
– Other comprehensive income	–	(247)
Additions	5,737	811
Disposals and settlement	(3,970)	(162)
Transfer to other levels	–	–
Balance at 30 June 2018	16,249	1,993
Total gains/(losses) for consolidated financial assets/liabilities held at 30 June 2018		
– Realised gains/(losses)	16	14
– Unrealised gains/(losses)	359	(247)

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
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 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)

These financial instruments with fair values determined based on unobservable inputs are primarily convertible loans, unlisted equities, unlisted funds, equity derivatives and part of loans and advances to customers. The fair value of these financial instruments is determined primarily using market comparison method. These valuation methods involve inputs from various unobservable assumptions such as price over book ratio and marketability discounts.

As at 30 June 2018, 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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

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

As at 30 June 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

4 NET INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Interest income		
Loans and advances to customers	**109,686**	97,350
Financial investments	**41,207**	38,984
Due from banks and other financial institutions	**12,868**	9,559
Balances with central banks	**6,785**	6,685
	170,546	152,578
Interest expense		
Due to customers	**(63,620)**	(54,883)
Due to banks and other financial institutions	**(35,401)**	(30,544)
Certificates of deposits issued	**(5,373)**	(1,306)
Debt securities issued	**(5,494)**	(4,512)
	(109,888)	(91,245)
Net interest income	**60,658**	61,333
Including:		
Interest income on impaired financial assets	**927**	905

Note: The net interest income, before subtraction of those arising from financial assets and liabilities at fair value through profit or loss, is RMB63,262 million. On a year-on-year basis, net interest income in this period increased by 0.88%, or RMB554 million.

For the six months ended 30 June 2018

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

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018	2017
Bank cards	9,301	7,763
Management services	6,511	7,236
Investment banking	2,470	2,813
Agency services	1,736	2,183
Guarantee and commitment	1,400	1,531
Settlement services	1,170	1,058
Others	158	461
	22,746	23,045

	Six months ended 30 June	
	2018	2017
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	513	755
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,716	1,552

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2018	2017
Bank card business	1,048	1,193
Settlement services	344	370
Others	172	221
	1,564	1,784

	Six months ended 30 June	
	2018	2017
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	3	4

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2018	2017
Financial instrument at fair value through profit and loss	6,737	1,822
Foreign exchange	1,112	(103)
Interest rate instruments and others	424	(155)
	8,273	1,564

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

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

Net income arising from trading activities for the six months ended 30 June 2018 include an income of RMB60 million (for the six months ended 30 June 2017: an loss of RMB91 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2018	2017
Leasing income	4,951	4,079
Income from sales of precious metal merchandise	1,228	1,583
Revaluation of investment property	23	56
Profit on sales of property and equipment	11	34
Other miscellaneous income	1,428	556
	7,641	6,308

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

9 CREDIT IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Six months ended 30 June	
	2018	2017
Loans and advances to customers at amortised cost (Note 19.2)	15,469	14,805
Loans and advances carried at FVOCI	(267)	–
	15,202	14,805

For the six months ended 30 June 2018

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

10 OTHER OPERATING EXPENSE

	Six months ended 30 June	
	2018	2017
Credit impairment loss on financial assets other than loan and advances to customers:		
Due from banks and other financial institutions	(36)	N.A.
Financial investments	199	N.A.
Other financial assets	1,298	N.A.
Provision for impairment loss on financial investments	N.A.	107
Provision for impairment of other receivables	N.A.	29
Staff costs and benefits (Note 11)	12,778	12,484
General operational and administrative expense	12,999	11,614
Depreciations and amortisations	2,796	2,922
Leasing cost	2,697	1,576
Taxes and surcharges	1,256	1,198
Reversal of provision for outstanding litigations	(12)	(5)
Others	1,663	2,003
	35,638	31,918

11 STAFF COSTS AND BENEFITS

	Six months ended 30 June	
	2018	2017
Salaries and bonuses	9,075	8,862
Post-employment benefit (a)	1,559	1,591
Housing benefits and subsidies	23	20
Other social security and benefit costs	2,121	2,011
	12,778	12,484

(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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

11 STAFF COSTS AND BENEFITS *(Continued)*

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

Defined contribution plans *(Continued)*

The amount recognised in profit or loss is as follows:

	Six months ended 30 June	
	2018	2017
Expenses incurred for retirement benefit plans and unemployment insurance	1,176	1,200
Expenses incurred for annuity plan	382	381
Total	1,558	1,581

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

	As at 30 June 2018	As at 31 December 2017
Expenses incurred for retirement benefit plans and unemployment insurance	48	53
Expenses incurred for annuity plan	19	12
Total	67	65

Defined benefit plan

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

	As at 30 June 2018	As at 31 December 2017
Statement of financial position		
– Obligations for pension benefits	376	395

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

	Six months ended 30 June	
	2018	2017
Components of defined benefit costs recognised in profit or loss	17	10
Components of defined benefit costs recognised in other comprehensive income	15	(20)
Total	32	(10)

Past service cost and interest expense were recognised in general and administrative expenses in the income statement.

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

11 STAFF COSTS AND BENEFITS *(Continued)*

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

Defined benefit plans *(Continued)*

Movements in the unfunded obligations over the year are as follows:

The average duration of the supplementary retirement benefits plan at 30 June 2018 is 11.36 years (31 December 2017: 11.75 years).

The Group expects to make a contribution of RMB41 million (2017: 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 3.73% (31 December 2017: 4.05%) and 1.98% (31 December 2017: 1.58%) respectively as at 30 June 2018. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 30 June 2018, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2017: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2017: 28.70 years).

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

	Six months ended 30 June	
	2018	2017
Remuneration	5	5

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

For the six months ended 30 June 2018, RMB625,000 was accrued for independent non-executive directors' emolument (six months ended 30 June 2017: RMB625,000).

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

13 INCOME TAX

	Six months ended 30 June	
	2018	2017
Current tax		
– PRC enterprise income tax	6,632	10,620
– Hong Kong profits tax	485	492
– Overseas taxations	296	178
	7,413	11,290
Deferred income tax (Note 23)	(937)	(3,157)
	6,476	8,133

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2017: 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% (2017: 25%). The major reconciliation items are as follows:

	Six months ended 30 June	
	2018	2017
Profit before tax	47,470	47,355
Tax calculated at a tax rate of 25%	11,868	11,839
Effect of different tax rates in other countries (or regions)	(4)	33
Tax effect of expenses not deductible for tax purposes (1)	1,209	954
Tax effect of income not subject to tax (2)	(5,821)	(4,798)
Income tax adjustment for prior years	(776)	105
Income tax expense	6,476	8,133

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

(2) The income not subject to tax are mainly generated by PRC treasury bonds and municipal government bonds.

For the six months ended 30 June 2018
(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.

	Six months ended 30 June	
	2018	2017
Net profit attributable to shareholders of the Bank	40,771	38,975
Less: Net profit attributable to other equity holders of the Bank	(2,618)	(2,693)
Net profit attributable to ordinary shareholders of the Bank	38,153	36,282
Weighted average number of ordinary shares in issue (expressed in millions)	74,263	74,263
Basic and diluted earnings per share (expressed in RMB yuan per share)	0.51	0.49

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 32 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,618 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 30 June 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2018	As at 31 December 2017
Cash	13,837	16,623
Mandatory reserve deposits	776,338	802,012
Excess reserve deposits	118,686	112,534
Balances with central banks other than reserve deposits	8,421	7,402
	917,282	938,571

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

	As at 30 June 2018	As at 31 December 2017
Domestic mandatory reserve rate for deposits denominated in RMB	15.50	16.50
Domestic mandatory reserve rate for deposits denominated in foreign currencies	5.00	5.00

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018	As at 31 December 2017
Due from banks and other financial institutions		
– Banks operating in Mainland China	96,038	109,025
– Banks operating outside Mainland China	57,600	35,400
Less: ECL allowance	(210)	N.A.
Financial assets held under resale agreements		
– Securities	45,688	57,051
– Bills	10,717	10,226
Less: ECL allowance	(81)	N.A.
Placements with and loans to banks		
– Banks operating in Mainland China	164,775	194,348
– Banks operating outside Mainland China	54,234	98,342
Placements with and loans to other financial institutions operating in Mainland China		
– Placements with and loans to other financial institutions in Mainland China	298,825	274,307
– Placements with and loans to other financial institutions outside Mainland China	7,120	3,769
Less: ECL allowance	(1,398)	N.A.
	733,308	782,468

As at 30 June 2018, the Group's placement and financial assets held under resale agreements with certain wealth management products sponsored and not consolidated by the Group amounted to RMB104,122 million (31 December 2017: RMB110,662 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those arrangements approximated the carrying amount of the placements. The average exposure for the six months ended 30 June 2018 was RMB57,520 million and the weighted-average outstanding period were 6.91 days (The average exposure during 2017 was RMB51,429 million and the weighted-average outstanding period were 4.13 days). As at the approval date of these consolidated financial statements, the placements and amounts held under resale agreements have matured and the amounts have been fully repaid.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018	As at 31 December 2017
Derivative financial instruments (Note 18)	31,523	34,007
Financial assets at fair value through profit or loss		
Government bonds		
– Listed in Hong Kong	2,174	2,414
– Listed outside Hong Kong (a)	5,184	7,062
– Unlisted	218	2,606
Other debt securities		
– Listed in Hong Kong	11,101	6,178
– Listed outside Hong Kong (a)	119,509	69,894
– Unlisted – corporate entities	3,701	–
– Unlisted – public sector	1	–
– Unlisted – banking sector	1,347	776
Equity securities		
– Listed in Hong Kong	278	10
– Listed outside Hong Kong	1,167	–
– Unlisted	3,737	290
Fund investments and other asset management products		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	–	5
– Unlisted	123,581	83,867
Precious metal contracts	34,783	41,198
Subtotal	338,304	248,307
Financial assets designated at fair value through profit or loss		
Loans to banks and other financial institutions	8,631	12,730
Subtotal	8,631	12,730
Total	346,935	261,037

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

Debts securities and fund investments at fair value through profit or loss are analysed by issuer as follows:

	As at 30 June 2018	As at 31 December 2017
Financial investments – financial assets at fair value through profit or loss		
– Banks and other financial institutions	216,249	129,853
– Corporate entities	45,849	28,952
– Governments and central banks	7,576	12,082
– Public sector entities	2,324	2,215
	271,998	173,102

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.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for assuming foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

As at 30 June 2018	Contractual/ Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange and commodity contracts	2,409,798	26,871	(24,555)
Interest rate contracts and others	658,830	4,652	(2,046)
Total amount of derivative instruments recognised	3,068,628	31,523	(26,601)

As at 31 December 2017	Contractual/ Notional amount	Fair value	
		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)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

Notional amount of derivative financial instruments by original currency:

	As at 30 June 2018	As at 31 December 2017
RMB	1,519,846	1,518,866
USD	1,282,341	1,343,072
HKD	151,483	200,543
Others	114,958	131,914
Total	3,068,628	3,194,395

Hedge accounting

The Group applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate financial assets and financial liabilities (fair value hedge)
The Group holds a portfolio of long-term fixed rate financial assets and financial liabilities and therefore is exposed to changes in fair value due to movements in market rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate financial assets and financial liabilities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the financial assets or financial liabilities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

1) Differences between the expected and actual holding amount, as the Group hedges to the expected maturity date but may sell the bond investment according to trading strategies;

2) The credit risk of the counterparty impacts the fair value of interest rate swaps, but has no impacts on hedged items.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

Foreign exchange risk on foreign currency debt and interest rate risk on floating rate debt (cash flow hedge)
The Group obtain effective sources of funding from international markets. As part of this process, the Group assumes significant foreign currency exposure, principally USD, HKD, CNY and GBP. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange financial liabilities such as placements from banks and certificates of deposits issued in the foreign currency for financial liabilities in AUD, USD and GBP. These instruments are entered into to match the maturity profile of estimated repayments of the Group's debt instruments. This hedging strategy is applied to the portion of the exposure that is not naturally offset against matching asset positions held by the Group in financial investments also denominated in foreign currencies.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument.

The Group bears financial liabilities on floating interest rate and therefore is exposed to changes in fair value due to movements in market rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps. Only the interest rate risk element is hedged and therefore other risks are managed but not hedged by the Group. The interest rate risk component is determined as change in fair value of future cash flows due to changes in market interest rates.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts or interest rate contracts with changes in fair value of the hedged liabilities attributable to the hedged risk or changes in net present value of future cash flows using hypothetical derivative method.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

1) Differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;

2) The credit risk of the counterparty impacts the fair value of interest rate swaps, but has no impacts on hedged items.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

a) The following table sets out the maturity profile and average exchange rate/interest rate of the hedging instruments used in the Group's non-dynamic hedging strategies:

	Maturity					
As at 30 June 2018	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedge						
Interest rate						
Interest rate contract						
Notional	115	2	2,945	41,305	12,551	56,918
Average fixed interest rate	1.50%	2.10%	2.98%	3.16%	3.61%	
Cash flow hedge						
Foreign exchange						
Foreign exchange contract in CNY						
Notional	477	152	4,532	–	–	5,161
Average exchange rate of USD/CNY	6.32	6.63	6.59	–	–	
Average exchange rate of AUD/CNY	–	–	5.12	–	–	
Foreign exchange contract in HKD(a)						
Notional	1,465	1,099	3,347	1,309	–	7,220
Average fixed interest rate	–	–	–	2.68%	–	
Average exchange rate of USD/HKD	7.80	7.84	7.79	–	–	
Average exchange rate of AUD/HKD	6.02	5.80	5.99	–	–	
Average exchange rate of GBP/HKD	–	–	–	10.40	–	
Foreign exchange contract in USD (a)						
Notional	433	893	5,416	1,382	–	8,124
Average fixed interest rate	–	–	4.06%	3.08%	–	
Average exchange rate of USD/AUD	–	1.35	1.32	1.38	–	
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of USD/BRL	3.35	3.47				
Average exchange rate of USD/CNY			6.45			
Foreign exchange contract in GBP						
Notional	–	–	606	–	–	606
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of GBP/AUD	–	–	1.86	–	–	
Interest rate						
Interest rate contract						
Notional	–	–	–	1,029	5,310	6,339
Average fixed interest rate	–	–	–	4.75%	4.16%	

(a): Foreign exchange contracts include currency swap contracts and cross-currency swap contracts.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

b) The following table contains details of the hedging instruments used in the Group's hedging strategies:

As at 30 June 2018	Notional	Carrying amount		Line item on balance sheet	Fair value changes of the hedging instruments
		Assets	Liabilities		
Fair value hedge					
Interest rate					
Interest rate contract	56,918	1,690	(54)	Financial assets/liabilities at fair value through profit or loss	884
Cash flow hedge					
Foreign exchange					
Foreign exchange contract	21,111	225	(213)	Financial assets/liabilities at fair value through profit or loss	39
Interest rate					
Interest rate contract	6,339	105	(1)	Financial assets/liabilities at fair value through profit or loss	87

c) The following table contains details of the hedged exposures covered by the Group's hedging strategies:

As at 30 June 2018	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Line item on balance sheet	Fair value changes of the hedged items	Cash flow hedge reserves
	Assets	Liabilities	Assets	Liabilities			
Fair value hedge							
Interest rate							
Bond Investments	54,694	–	(1,574)	–	Financial investments – fair value through other comprehensive income	(787)	N.A.
Deposits from other banks and other financial institutions	–	(631)	–	31	Due from banks and other financial institutions	16	N.A.
Certificates of deposits issued	–	(31)	–	(3)	Certificates of deposits issued	–	N.A.
Loans and advances to customers	2,362	–	(104)	–	Loans and advances to customers	(56)	N.A.
Placement from banks	–	(822)	–	(85)	Loans from banks and other financial institutions	(91)	N.A.
Cash flow hedge							
Foreign exchange	N.A.	N.A.	N.A.	N.A.	N.A	(39)	(38)
Interest rate	N.A.	N.A.	N.A.	N.A.	N.A	(87)	80

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

d) The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

				Amounts reclassified from reserves to profit and loss due to following reasons		
Six months ended 30 June 2018	Gains/(loss) Recognized in Other Comprehensive Income	Hedge Ineffectiveness recognised in profit and loss	Profit and loss line item that includes hedge ineffectiveness	Hedged cash flows no longer occurred	Hedged item affected profit and loss	Profit and loss line item that includes reclassified amount
Fair value hedge						
Interest rate	N.A.	(34)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Cash flow hedge						
Foreign exchange	39	–	Net gains arising from trading activities	(9)	(70)	Net gains arising from trading activities
Interest rate	87	–	Net gains arising from trading activities	–	–	Net gains arising from trading activities/Interest expenses

The derivative financial instruments include those designated as hedging instruments by the Group in 2017 as follows:

		Fair values	
As at 31 December 2017	Contractual/ notional amount	Assets	Liabilities
Derivative financial instruments designated as hedging instruments in cash flow hedges	73,235	927	(129)
Derivative financial instruments designated as hedging instruments in fair value hedges	24,414	401	(228)
Total	97,649	1,328	(357)

(a) Fair value hedge

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

	As at 30 June 2017
Net losses on hedging instruments	(359)
Net gains on hedged items attributable to the hedge risk	296
Net losses from fair value hedges	(63)

(b) Cash flow hedge

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

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

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers		
– Carried at amortised cost	4,630,328	4,579,256
– Carried at FVOCI	163,093	–
– Carried at FVPL	544	–
Less: ECL allowance	(124,758)	(106,001)
	4,669,207	4,473,255

19.2 Movements of ECL allowance

	Six months ended 30 June, 2018		
	Corporate Loan	Individual Loan	Total
Loss allowance as at 1 January 2018 (Restated)	116,081	21,208	137,289
Provision for impairment	30,932	6,984	37,916
Reversal of impairment allowances	(21,281)	(1,166)	(22,447)
Written-off and disposal	(24,718)	(3,097)	(27,815)
Recoveries of loans written-off in previous years	500	221	721
Unwind of discount	(840)	(87)	(927)
Sub-total	100,674	24,063	124,737
Exchange differences	14	7	21
Loss allowance as at 30 June 2018	100,688	24,070	124,758

	As at 31 December 2017		
	Collectively assessed	Individually assessed	Total
Balance at the beginning of the period	66,629	30,503	97,132
Net impairment allowances for loans charged to profit or loss	14,909	15,252	30,161
– Impairment allowances for loans	14,909	16,849	31,758
– Reversal of impairment allowances for loans	–	(1,597)	(1,597)
Recoveries of loans written-off in previous periods	–	917	917
Unwind of discount on allowances during the year	–	(1,812)	(1,812)
Loans written off during the year as uncollectible	–	(19,554)	(19,554)
Other transfer (out)/in	(10,596)	10,178	(418)
Exchange differences	(275)	(150)	(425)
Balance at the end of the period	70,667	35,334	106,001

	As at 31 December 2017		
	Corporate Loan	Individual Loan	Total
Balance at the beginning of the period	78,263	18,869	97,132
Net impairment allowances for loans charged to profit or loss	27,597	2,564	30,161
– Impairment allowances for loans	28,910	2,848	31,758
– Reversal of impairment allowances for loans	(1,313)	(284)	(1,597)
Recoveries of loans written-off in previous periods	436	481	917
Unwind of discount on allowances during the year	(1,589)	(223)	(1,812)
Loans written off during the year as uncollectible	(17,191)	(2,363)	(19,554)
Other transfer (out)/in	–	(418)	(418)
Exchange differences	(348)	(77)	(425)
Balance at the end of the period	87,168	18,833	106,001

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.3 Loans and advances to customers analysed by security type

	As at 30 June 2018	As at 31 December 2017
Unsecured loans	1,594,380	1,437,854
Guaranteed loans	899,310	908,119
Collateralised and other secured loans	2,300,275	2,233,283
Including: Loans secured by collateral	1,693,676	*1,631,954*
Pledged loans	606,599	*601,329*
Gross amount of loans and advances before impairment allowances	4,793,965	4,579,256

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

20 FINANCIAL INVESTMENTS

	As at 30 June 2018	As at 31 December 2017
Financial Investments – at FVOCI		
Debt securities		
– Listed in Hong Kong	79,744	N.A.
– Listed outside Hong Kong	218,526	N.A.
– Unlisted	93,382	N.A.
Equity securities		
– Listed in Hong Kong	964	N.A.
– Listed outside Hong Kong	1,109	N.A.
– Unlisted	1,408	N.A.
Financial Investments – at FVOCI	395,133	N.A.
Available-for-sale debt securities – at fair value		
– Listed in Hong Kong	N.A.	66,827
– Listed outside Hong Kong	N.A.	222,352
– Unlisted	N.A.	104,569
Available-for-sale debt securities	N.A.	393,748
Available-for-sale equity securities – at fair value		
– Listed in Hong Kong	N.A.	1,263
– Listed outside Hong Kong	N.A.	1,895
– Unlisted	N.A.	2,649
Available-for-sale equity securities	N.A.	5,807
Available-for-sale fund investments and others – at fair value		
– Listed in Hong Kong	N.A.	–
– Listed outside Hong Kong	N.A.	247
– Unlisted	N.A.	2,336
Available-for-sale fund investments and others	N.A.	2,583
Total available-for-sale financial assets	N.A.	402,138
Financial investments – at amortised cost		
– Listed in Hong Kong	4,976	N.A.
– Listed outside Hong Kong	1,698,209	N.A.
– Unlisted	266,109	N.A.
Less: ECL allowance	(3,655)	N.A.
Financial investment – at amortised cost (net)	1,965,639	N.A.
Held-to-maturity debt securities – at amortised cost		
– Listed in Hong Kong	N.A.	2,158
– Listed outside Hong Kong	N.A.	1,506,878
– Unlisted	N.A.	2,694
Impairment allowance	N.A.	(355)
Held-to-maturity investments (net)	N.A.	1,511,375
Loans and receivables – at amortised cost		
– Listed outside Hong Kong	N.A.	109,888
– Unlisted	N.A.	280,453
Less: Impairment allowance	N.A.	(2,608)
Loans and receivables (net)	N.A.	387,733

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

20 FINANCIAL INVESTMENTS *(Continued)*

The movements in ECL of financial investments are summarised as follows:

	Financial investments – fair value through other comprehensive income			Financial investments – amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for ECL							
As at 1 January 2018	438	–	454	3,214	10	475	4,591
Provision for impairment	268	36	–	325	78	–	707
Reversal of impairment allowances	(53)	–	(8)	(431)	–	(16)	(508)
Transfers in	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Written-off	–	–	–	–	–	–	–
Recovery after written-off	–	–	–	–	–	–	–
Exchange differences	(7)	–	5	–	–	–	(2)
As at 30 June 2018	646	36	451	3,108	88	459	4,788

	Loans and receivables	Financial investments – available-for-sale	Financial investments – held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2017	(2,803)	(1,175)	(350)	(4,328)
Provision for impairment	(262)	(438)	(10)	(710)
Reversal of impairment allowances	–	–	–	–
Transfers in	457	26	6	489
Disposals	–	43	–	43
Written-off	–	2	–	2
Recovery after written-off	–	(26)	–	(26)
Exchange differences	–	31	(1)	30
As at 31 December 2017	(2,608)	(1,537)	(355)	(4,500)

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20 FINANCIAL INVESTMENTS *(Continued)*

Financial investments analysed by issuer are as follows:

	As at 30 June 2018	As at 31 December 2017
Financial Investments – at FVOCI		
– Governments and central banks	51,309	N.A.
– Public sector entities	43,716	N.A.
– Banks and other financial institutions	253,204	N.A.
– Corporate entities	46,904	N.A.
Total	395,133	N.A.
Available-for-sale financial assets		
– Banks and other financial institutions	N.A.	307,246
– Corporate entities	N.A.	52,758
– Governments and central banks	N.A.	37,783
– Public sector entities	N.A.	4,351
Total	N.A.	402,138
Financial investment – at amortised cost		
– Governments and central banks	1,346,215	N.A.
– Public sector entities	29,147	N.A.
– Banks and other financial institutions	296,843	N.A.
– Corporate entities	297,089	N.A.
Less: Credit impairment losses	(3,655)	N.A.
Financial investment – at amortised cost (net)	1,965,639	N.A.
Held-to-maturity investments		
– Governments and central banks	N.A.	1,152,116
– Banks and other financial institutions	N.A.	280,352
– Corporate entities	N.A.	50,165
– Public sector entities	N.A.	29,097
Less: Impairment allowance	N.A.	(355)
Held-to-maturity investments (net)	N.A.	1,511,375
Loans and receivables		
– Governments and central banks	N.A.	104,630
– Banks and other financial institutions	N.A.	12,646
– Corporate entities	N.A.	273,065
Less: Impairment allowance	N.A.	(2,608)
Loans and receivables (net)	N.A.	387,733

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

20 FINANCIAL INVESTMENTS *(Continued)*

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

	As at 30 June 2018	As at 31 December 2017
Financial investment at FVPL		
– Listed in Hong Kong	701	N.A.
– Listed outside Hong Kong	4,576	N.A.
– Unlisted	32,149	N.A.
	37,426	N.A.
Available-for-sale financial assets (at fair value)		
– Listed in Hong Kong	N.A.	795
– Listed outside Hong Kong	N.A.	11,863
– Unlisted	N.A.	40,603
	N.A.	53,261

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

	As at 30 June 2018	As at 31 December 2017
Within 3 months	6,141	29,686
3 months to 12 months	22,779	16,314
1 year to 5 years	8,506	7,261
	37,426	53,261

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	As at 30 June 2018	As at 31 December 2017
Investment in associates		
Investment cost	2,811	2,891
Net profit adjusted by the equity method	579	439
Changes in other equity	23	26
Dividend income	(36)	–
Sub-total	3,377	3,356
Investment in joint venture	2	1
Total	3,379	3,357

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

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,223 million, and the principal activities of the entity are commercial banking activities. The Group held 9.00% of equity interest in this associate as at 30 June 2018 (31 December 2017: 9.00%).

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURE *(Continued)*

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank 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.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,018 million, and the principal activities of the entity are commercial banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2018 (31 December 2017: 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.

22 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2018	58,158	4,286	25,184	82,885	7,961	178,474
Additions	32	438	286	11,214	21	11,991
Transfer in from investment properties	417	–	–	–	–	417
Disposals	(155)	–	(311)	(11)	(2)	(479)
Construction in progress transfer in	250	(286)	–	–	36	–
Other transfers in/(out)	(17)	(10)	–	–	17	(10)
As at 30 June 2018	58,685	4,428	25,159	94,088	8,033	190,393
Accumulated depreciation						
As at 1 January 2018	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Charge for the period	(919)	–	(1,144)	(2,221)	(371)	(4,655)
Transfer out to investment properties	–	–	–	–	–	–
Transfers in	6	–	–	–	(6)	–
Disposals	29	–	261	9	2	301
As at 30 June 2018	(15,890)	–	(20,490)	(9,230)	(4,626)	(50,236)
Allowance for impairment losses						
As at 1 January 2018	–	(16)	–	(84)	–	(100)
Provision for impairment	–	–	–	–	–	–
Decrease	–	–	–	(1)	–	(1)
As at 30 June 2018	–	(16)	–	(85)	–	(101)
Net book value						
As at 30 June 2018	42,795	4,412	4,669	84,773	3,407	140,056

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

22 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2017	53,391	7,120	25,174	61,627	7,122	154,434
Additions	600	1,799	2,250	22,264	359	27,272
Transfers 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)	–	–	–	–	–	–
As at 31 December 2017	58,158	4,286	25,184	82,885	7,961	178,474
Accumulated depreciation						
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
As at 31 December 2017	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Allowance for impairment losses						
As at 1 January 2017	–	(16)	–	(5)	–	(21)
Provision for impairment	–	–	–	(80)	–	(80)
Decrease	–	–	–	1	–	1
As at 31 December 2017	–	(16)	–	(84)	–	(100)
Net book value						
As at 31 December 2017	43,152	4,270	5,577	75,783	3,710	132,492

As at 30 June 2018, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB84,700 million (31 December 2017: RMB75,689 million).

As at 30 June 2018, the property and equipment with re-registration procedure not completed amounted to RMB203 million (31 December 2017: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

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

23 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2018 (for the year ended 31 December 2017: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2017: 16.5%).

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

	Impairment losses on loans and advances to customers	Outstanding litigations and unsettled obligation	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of financial assets designated at FVOCI	Change in fair value of derivative instruments	Change in fair value of investment property	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
Balance at 1 January 2018	12,844	110	99	664	–	(163)	(522)	916	1,988	15,936
Impact of adoption of IFRS 9 on opening balance	9,004	–	–	(664)	1,095	–	–	36	–	9,471
Recognised in profit or loss	2,391	(2)	3	–	–	(1,058)	(110)	(153)	(134)	937
Recognised in other comprehensive income	–	–	–	–	(652)	(12)	–	–	–	(664)
Balance at 30 June 2018	24,239	108	102	–	443	(1,233)	(632)	799	1,854	25,680

	Impairment allowances for loans	Outstanding litigations and unsettled obligation	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of derivative instruments	Change in fair value of investment property	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
As 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

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

23 DEFERRED INCOME TAX *(Continued)*

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

	As at 30 June 2018		As at 31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Change in fair value of financial assets and liabilities designated at FVOCI	(1,740)	(435)	N.A.	N.A.
Changes in fair value of derivative instruments	(31,523)	(7,865)	(34,007)	(8,503)
Change in fair value of investment property	(2,549)	(632)	(2,291)	(522)
Change in fair value of available-for-sale financial assets	N.A.	N.A.	(1,348)	(382)
Other temporary differences	(163)	(43)	(807)	(220)
	(35,975)	(8,975)	(38,453)	(9,627)
Deferred income tax assets				
ECL allowance – Loans and advances to customers	96,836	24,239	51,233	12,844
Retirement supplementary pension payable	408	102	395	99
Outstanding litigations and unsettled obligation	434	108	449	110
Change in fair value of financial assets and liabilities designated at FVOCI	3,194	799	3,681	916
Change in fair value of financial assets at FVOCI	3,511	878	4,797	1,046
Changes in fair value of derivative instruments	26,601	6,632	33,344	8,340
Other temporary differences	7,538	1,897	7,899	2,208
	138,522	34,655	101,798	25,563
Net deferred income tax assets	102,547	25,680	63,345	15,936

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

	As at 30 June 2018	As at 31 December 2017
Deferred income tax assets	26,278	16,456
Deferred income tax liabilities	(598)	(520)

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24 OTHER ASSETS

	As at 30 June 2018	As at 31 December 2017
Interest receivable	54,180	54,561
Settlement accounts	10,547	24,196
Other receivables and prepayments	28,268	19,536
Less: ECL allowance (c)	(2,008)	(1,907)
Investment properties (b)	8,058	8,217
Land use rights and others	1,845	1,834
Intangible assets (a)	1,247	1,328
Precious metal	865	1,031
Foreclosed assets	838	906
Leasehold improvement	486	696
Goodwill (d)	437	453
Rental deposits	82	95
Others	20,645	18,426
	125,490	129,372

(a) Intangible assets

	Software
Cost	
As at 1 January 2018	2,780
Additions	53
Transfers in	–
Disposals	(11)
As at 30 June 2018	2,822
Accumulated amortisation	
As at 1 January 2018	(1,452)
Amortisation expense	(128)
Transfers in	–
Disposals	5
As at 30 June 2018	(1,575)
Net book value	1,247

	Software
Cost	
As at 1 January 2017	2,380
Additions	433
Transfers in	–
Disposals	(33)
As at 31 December 2017	2,780
Accumulated amortisation	
As at 1 January 2017	(1,208)
Amortisation expense	(247)
Transfers in	–
Disposals	3
As at 31 December 2017	(1,452)
Net book value	1,328

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

24 OTHER ASSETS *(Continued)*

(b) Investment properties

	Six months ended 30 June 2018	Year ended 31 December 2017
Balance at the beginning of the period/year	8,217	8,762
Additions/(Decrease) of the period/year	(417)	(581)
Gains on property revaluation	23	192
Exchange differences	235	(156)
Balance at the end of the period/year	8,058	8,217

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 30 June 2018, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value for the six months ended 30 June 2018
Commercial property units located in Hong Kong	–	–	1,117	1,117
Commercial property units located outside Hong Kong	–	–	6,941	6,941

(c) ECL allowance

	As at 1 January 2018	Amounts accrued	Reversal	Write-off	Transfers (in)/out	Exchange differences	As at 30 June 2018
Other receivables and prepayments	(1,940)	(764)	401	197	98	–	(2,008)
Total	(1,940)	(764)	401	197	98	–	(2,008)

	As at 1 January 2017	Amounts accrued	Reversal	Write-off	Transfers (in)/out	Exchange differences	As at 31 December 2017
Other receivables and prepayments	(629)	(1,103)	112	189	(436)	1	(1,866)
Others	(44)	(12)	1	14	–	–	(41)
Total	(673)	(1,115)	113	203	(436)	1	(1,907)

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

24 OTHER ASSETS *(Continued)*

(d) Goodwill

	As at 1 January 2018	Addition during the period	Decrease during the period	Exchange rate effect	As at 30 June 2018
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	131	–	–	(16)	115
Total	453	–	–	(16)	437

	As at 1 January 2017	Addition during the year	Decrease during the year	Exchange rate effect	As at 31 December 2017
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	149	–	–	(18)	131
Total	471	–	–	(18)	453

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018	As at 31 December 2017
Borrowing from central banks	531,303	532,867
Deposits from other banks		
– Banks operating in Mainland China	289,700	350,499
– Banks operating outside Mainland China	28,484	24,385
Deposits from other financial institutions		
– Other financial institutions operating in Mainland China	661,766	630,138
– Other financial institutions operating outside Mainland China	14,126	25,947
Placement from banks		
– Banks operating in Mainland China	146,354	191,932
– Banks operating outside Mainland China	235,646	235,867
Borrowing from other financial institutions		
– Other financial institutions operating in Mainland China	603	4,434
– Other financial institutions operating outside Mainland China	11,793	12,140
Financial instruments sold under repurchase agreements		
– Securities	40,877	74,270
– Bills	32,150	23,713
Total	1,992,802	2,106,192

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26 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018	As at 31 December 2017
Derivative financial instruments (Note 18)	26,601	33,344
Certificates of deposit issued	6,938	12,654
Financial liabilities related to precious metal contracts	8,857	11,825
Short position of securities held for trading	–	2,485
Total	42,396	60,308

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 designated as effective hedging instrument.

Financial liabilities designated as fair value through profit or loss

	As at 30 June 2018	As at 31 December 2017
Difference between carrying amount and maturity amount		
Fair values	6,938	12,654
Amount payable at maturity	6,953	12,638
Total	(15)	16

For the six months ended 30 June 2018 and the year ended 31 December 2017, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

27 DUE TO CUSTOMERS

	As at 30 June 2018	As at 31 December 2017
Corporate demand deposits	1,826,003	1,852,676
Corporate time deposits	2,120,822	2,003,443
Individual demand deposits	677,373	655,559
Individual time deposits	1,106,405	1,030,233
Other deposits	2,325	3,455
	5,732,928	5,545,366
Including:		
Deposits pledged as collateral	320,446	335,706

28 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposits issued by the Bank's domestic branches, branches in Macau, Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg and Bank of Communications (Brazil) Co., Ltd. were measured at amortised cost.

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29 DEBT SECURITIES ISSUED

		As at 30 June 2018	As at 31 December 2017
Carried at amortised cost:			
Subordinated bonds	29.1	39,449	39,450
Tier 2 capital bonds	29.2	69,622	69,585
Bonds			
The Bank	29.3	115,054	106,264
Subsidiaries	29.3	64,630	54,316
Sub-total		288,755	269,615
Carried at fair value:			
Bonds	29.3	15,828	18,047
Total		304,583	287,662

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 period ended 30 June 2018 and the period ended 31 December 2017, there were no significant changes due to the Group's changes in credit risks.

29.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Balance at the end of the period	Balance at the beginning of the period
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 years	(a)	13,500	13,500	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(b)	26,000	25,949	25,950
Total								39,500	39,449	39,450

(a) The Group has an option to redeem 09 BoComm 02 on 3 July 2019. If no redemption exercised by the Group, the bonds will bear a fixed coupon rate of 7.00% for the remaining 5 years commencing 3 July 2019.

(b) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

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

29 DEBT SECURITIES ISSUED *(Continued)*

29.2 Tier 2 capital bonds

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Balance at the end of the period	Balance at the beginning of the period
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 years	(a)	28,000	27,974	27,963
14 BoComm 01-USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 years	(b)	7,940	7,876	7,786
14 BoComm 01-Eur	EUR	Hong Kong	3.625	500	2014/10/03	12 years	(c)	3,826	3,805	3,876
17 BoComm 02	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(d)	30,000	29,967	29,960
Total								69,766	69,622	69,585

(a) The Group has an option to redeem 14 BoComm 01 at the face value partially or as a whole on 19 August 2019, provided CBIRC's permission is acquired in advance and the Group's capital structure fulfils the CBIRC requirements on capital if the redemption is exercised.

(b) The Group has an option to redeem 14 BoComm 01-USD 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 14 BoComm 01-Euro 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 17 BoComm 02 at the face value partially or as a whole on 13 April 2022, provided CBIRC's permissions acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

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

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29 DEBT SECURITIES ISSUED *(Continued)*

29.3 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 period	Balance at the beginning of the period
Bank									
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	20,000
13 Taiwan Bond B	RMB	Taiwan	3.70	400	2013/12/10	5 years	400	400	401
14 Formosa Bond B	RMB	Taiwan	3.85	500	2014/06/23	5 years	500	499	502
14 Formosa Bond C	RMB	Taiwan	4.15	500	2014/06/23	7 years	500	499	502
17 medium-term notes 01	USD	Hong Kong	3MLibor+0.78	700	2017/05/15	3 years	4,632	4,630	4,573
17 medium-term notes 02	USD	Hong Kong	3MLibor+0.88	300	2017/05/15	5 years	1,985	1,984	1,960
17 medium-term notes 03	USD	Hong Kong	3MLibor +0.80	400	2017/12/04	3 years	2,647	2,646	2,613
17 medium-term notes 04	USD	Hong Kong	3MLibor+0.90	600	2017/12/04	5 years	3,970	3,969	3,919
18 medium-term notes 01	USD	Hong Kong	3MLibor +0.75	600	2018/05/17	3 years	3,970	3,969	–
18 medium-term notes 02	USD	Hong Kong	3MLibor +0.85	700	2018/05/17	5 years	4,632	4,630	–
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 years	900	914	897
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 years	700	711	698
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 years	200	203	199
Sub-total							115,036	115,054	106,264
Subsidiaries									
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 years	3,308	3,302	3,267
14 Azure Orbit	USD	Hong Kong	3.375	500	2014/04/25	5 years	3,308	3,304	3,267
5 Year medium-term notes	USD	Hong Kong	3.125	385	2015/08/18	5 years	2,547	2,547	2,516
3 Year medium-term notes	EUR	Luxembourg	3MEuribor +1.15	100	2015/08/18	3 years	765	765	780
3 Year USD bond	USD	Hong Kong	2.23	400	2016/03/15	3 years	2,647	2,647	2,614
5 Year USD bond	USD	Hong Kong	2.748	600	2016/03/15	5 years	3,970	3,953	3,870
3 Year USD bond	USD	Hong Kong	3.50	300	2018/01/25	3 years	1,985	1,984	–
5 Year USD bond	USD	Hong Kong	3.75	950	2018/01/25	5 years	6,286	6,261	–
10 Year USD bond	USD	Hong Kong	4.00	250	2018/01/25	10 years	1,654	1,639	–
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	2017/07/18	3 years	2,000	1,950	1,950
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	2,100	2,100
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	2,400	2,400
Azure Nova	USD	Hong Kong	2.25	500	2016/10/25	3 years	3,465	3,297	3,265
Azure Nova	USD	Hong Kong	2.625	1,000	2016/10/25	5 years	6,908	6,578	6,513
Azure Nova	USD	Hong Kong	3.00	700	2017/03/21	3 years	4,806	4,612	4,567
Azure Nova	USD	Hong Kong	3.50	1,050	2017/03/21	5 years	7,186	6,899	6,831
Azure Nova	USD	Hong Kong	4.25	250	2017/03/21	10 years	1,711	1,642	1,626
Sub-total							68,546	64,630	54,316
Total							183,582	179,684	160,580

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

29 DEBT SECURITIES ISSUED *(Continued)*

29.3 Bonds *(Continued)*

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Balance	Fair value at the end of the period	Balance at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 years	422	422	431	415
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 years	295	295	297	293
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 years	4,962	–	–	4,895
16 Hong Kong medium-term notes 02	USD	Hong Kong	2.25	500	2016/01/25	3 years	3,308	3,308	3,290	3,274
16 Hong Kong medium-term notes	USD	Hong Kong	3MLibor +0.875	550	2016/08/16	3 years	3,639	3,639	3,645	3,602
17 Hong Kong medium-term notes	USD	Hong Kong	3MLibor +0.775	850	2017/02/21	3 years	5,624	5,624	5,629	5,568
18 Hong Kong medium-term notes	HKD	Hong Kong	2.95	3,000	2018/05/18	2 years	2,529	2,529	2,536	–
Total							20,779	15,817	15,828	18,047

30 OTHER LIABILITIES

	As at 30 June 2018	As at 31 December 2017
Interest payable	101,728	92,579
Insurance contracts reserve	20,049	21,428
Settlement accounts	22,793	24,742
Staff compensation payable	4,867	8,770
Deposits received for finance lease	8,120	8,390
VAT and other taxes payable	4,741	3,939
Provision for outstanding litigation (a)	434	449
Dividends payable	23,979	102
Provision for outstanding unsettled obligation (a)	–	–
Others	66,584	43,111
Total	253,295	203,510

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

30 OTHER LIABILITIES *(Continued)*

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

	As at 1 January 2018	Amounts accrued in during the period	Amounts paid during the period	Amounts reversed during the period	Exchange differences	As at 30 June 2018
Provision for outstanding litigation	449	28	–	(40)	(3)	434
	449	28	–	(40)	(3)	434

	As at 1 January 2017	Amounts accrued in during the year	Amounts paid during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2017
Provision for outstanding litigation	348	223	(9)	(113)	–	449
Provision for unsettled obligation	100	–	(100)	–	–	–
	448	223	(109)	(113)	–	449

31 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2018	74,263	74,263	113,663	187,926
As at 30 June 2018	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 2017	74,263	74,263	113,392	187,655
As at 31 December 2017	74,263	74,263	113,663	187,926

As at 30 June 2018 and 31 December 2017, 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.

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

31 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 30 June 2018 and 31 December 2017, the Group's capital surplus is listed as follows:

	As at 1 January 2018	Additions	Reductions	As at 30 June 2018
Share premium	113,046	–	–	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	22	–	–	22
Total	113,663	–	–	113,663

	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
Total	113,392	277	(6)	113,663

32 PREFERENCE SHARES

32.1 Preference shares outstanding at the end of the period

	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Offshore preference share										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the period
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the period
					Total		59,982			
					Less: Issuance fees		(106)			
					Book value		59,876			

32 PREFERENCE SHARES *(Continued)*

32.2 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.

32 PREFERENCE SHARES *(Continued)*

32.2 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 CBIRC 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.

32 PREFERENCE SHARES *(Continued)*

32.2 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 CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

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

32 PREFERENCE SHARES *(Continued)*

32.3 Movement of preference shares issued

	Balance at 1 January 2018	Movement		Balance at 30 June 2018
		Additions	Reductions	
Offshore preference shares				
Amount (shares)	122,500,000	–	–	122,500,000
In RMB (millions)	14,924	–	–	14,924
Domestic preference shares				
Amount (shares)	450,000,000	–	–	450,000,000
In RMB (millions)	44,952	–	–	44,952

32.4 Interests attribute to holders of preference shares

	As at 30 June 2018	As at 31 December 2017
Total equity attribute to equity holders of the parent company	663,653	671,143
Equity attribute to ordinary shareholders of the parent company	603,777	611,267
Equity attribute to preference shareholders of the parent company	59,876	59,876
Of which: Net profit	2,618	2,693
Total comprehensive income	–	–
Dividends paid during the period	2,618	2,693
Unpaid cumulative dividends	–	–
Total equity attribute to non-controlling interests	6,408	5,128
Equity attribute to non-controlling interests of ordinary shares	6,408	5,128
Equity attribute to non-controlling interests of preference shares	–	–

33 RESERVES AND RETAINED EARNINGS

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

Pursuant to the relevant PRC regulations, the bank is 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.

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

33 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.

	As at 1 January 2018	Provision	Reductions	As at 30 June 2018
Statutory reserve	57,461	102	–	57,563
Statutory general reserve	139,767	24	–	139,791
Total	197,228	126	–	197,354

34 DIVIDENDS

	Six months ended 30 June	
	2018	2017
Dividends to ordinary shareholders of the Bank	21,209	20,162
Dividends to preference shareholders of the Bank	2,618	2,693

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 29 March 2018 and the approval by the Annual General Meeting of Shareholders on 29 June 2018, the Bank appropriated RMB8,705 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2856 (before tax) for each ordinary share, with total amount of RMB21,209 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2017, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 27 April 2018, the Bank appropriated overseas preference dividends on 29 July 2018 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders), with total amount of USD136 million. Since 29 July is not a working day, the dividend payment day defers to 30 July 2018. The Bank will appropriate domestic preference dividends on 7 September 2018 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

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

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

Financial guarantees and credit related commitments

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

	As at 30 June 2018	As at 31 December 2017
Letters of guarantee	276,673	272,981
Letters of credit commitments	142,583	131,280
Acceptances bills	206,329	196,125
Credit card commitments	772,465	742,011
Loan commitments		
– Under 1 year	24,130	16,147
– 1 year and over	51,811	54,159
	1,473,991	1,412,703

Capital expenditure commitments

	As at 30 June 2018	As at 31 December 2017
Contracted but not provided for	67,427	70,236
	67,427	70,236

Operating lease commitments

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

	As at 30 June 2018	As at 31 December 2017
Within 1 year (inclusive)	4,075	4,185
Beyond 1 year but no more than 2 years (inclusive)	3,003	3,124
Beyond 2 years but no more than 3 years (inclusive)	2,105	2,186
Beyond 3 years but no more than 5 years (inclusive)	2,460	2,492
More than 5 years	1,784	1,819
	13,427	13,806

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

	As at 30 June 2018	As at 31 December 2017
Within 1 year (inclusive)	9,727	8,411
Beyond 1 year but no more than 2 years (inclusive)	9,545	8,388
Beyond 2 years but no more than 3 years (inclusive)	9,125	8,139
Beyond 3 years but no more than 5 years (inclusive)	16,658	14,892
More than 5 years	37,847	37,053
	82,902	76,883

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

35 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 30 June 2018, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB73,499 million (31 December 2017: RMB73,271 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 30 June 2018, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2017: Nil).

Legal proceedings

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

	As at 30 June 2018	As at 31 December 2017
Outstanding claims	3,590	3,694
Provision for outstanding litigation (Note 30)	434	449

36 COLLATERALS

(1) Assets pledged

Assets pledged are mainly collaterals under repurchase arrangement and short selling business among banks and other financial institutions and pledge related to the membership of local stock exchange.

	Pledged assets		Associated liabilities	
	As at 30 June 2018	As at 31 December 2017	As at 30 June 2018	As at 31 December 2017
Investment securities	645,722	683,907	549,766	589,154
Bills	33,998	25,885	33,998	25,885
Total	679,720	709,792	583,764	615,039

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

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

36 COLLATERALS *(Continued)*

(2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 30 June 2018, the fair value of such collaterals amounted to RMB7,868 million (31 December 2017: RMB18,079 million). All pledges are conducted under standard and normal business terms. As at 30 June 2018 and 31 December 2017, the Group did not sell or re-pledge any collaterals received.

37 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2018		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Debt instruments measured at FVOCI	2,064	(602)	1,462
Net gain recorded in equity	2,059	(601)	1,458
Net gain reclassified from equity to profit or loss	5	(1)	4
Cash flow hedge reserve	47	(12)	35
Changes in fair value recorded in equity	126	(32)	94
Changes in fair value reclassified from equity to profit or loss	(79)	20	(59)
Translation difference on foreign operations	344	–	344
Net gains on investments in equity instruments designated at FVOCI	211	(50)	161
Change in fair value attributable to change in the credit risk of financial liability designated at FVPL	6	–	6
Actuarial gains on pension benefits	(15)	–	(15)
Others	(5)	–	(5)
Other comprehensive income for the period	2,652	(664)	1,988

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

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

38 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

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

	As at 30 June 2018	As at 30 June 2017
Cash and balances with central banks (Note 15)	132,479	164,575
Due from banks and other financial institutions (Note 16)	118,570	135,332
	251,049	299,907

39 CONSOLIDATED STRUCTURED ENTITIES

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

As at 30 June 2018, the wealth management products managed and consolidated by the Group amounted to RMB657,779 million (31 December 2017: RMB938,943 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.

40 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 30 June 2018, 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, financial investments – amortised cost in the financial statements, depending on the classification of the financial assets.

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

40 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 30 June 2018 and 31 December 2017, unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		
	30 June 2018	31 December 2017	Type of income
Funds	231,828	193,490	Commission income
Trusts and asset management products	1,070,581	1,266,372	Commission income
Wealth management products	858,951	962,517	Commission income
Total	2,161,360	2,422,379	

For the period ended 30 June 2018, the Group's commission income from provision of providing service to the investors of the structured entities managed by the Group was RMB1,452 million (for the period ended 30 June 2017: RMB1,721 million), and Net Interest Income which related to placements transactions and repurchase transactions by the Group with WMP Vehicles was RMB904 million (for the period ended 30 June 2017: RMB674 million).

As at 30 June 2018 and 31 December 2017, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

	Carrying amount			
As at 30 June 2018	Financial assets at fair value through profit or loss	Financial investments – amortised cost	Maximum exposure to loss	Type of income
Funds	120,330	–	120,330	Net gains arising from trading activities
Trusts and asset management products	3,251	252,450	255,701	Interest income, net gains arising from trading activities
Total	123,581	252,450	376,031	

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

	Carrying amount				
As at 31 December 2017	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Maximum exposure to loss	Type of income
Funds	81,991	2,268	–	84,259	Net gains arising from trading activities
Trusts and asset management products	1,881	315	270,457	272,653	Interest income
Total	83,872	2,583	270,457	356,912	

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

41 TRANSFERS OF FINANCIAL ASSETS

41.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 30 June 2018 and 31 December 2017, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 25).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Pledged assets		Associated liabilities	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Investment securities	3,797	3,298	3,611	3,116
Total	3,797	3,298	3,611	3,116

41.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2018, the carrying value of debt securities lent to counterparties was RMB8,342 million (31 December 2017: RMB13,620 million).

41.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the consolidated interim financial statement to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 30 June 2018, loans with an original value of RMB57,271 million and carrying amount of RMB52,285 million (31 December 2017: RMB44,021 million and RMB40,155 million) have been securitised by the Group and the Bank.

As at 30 June 2018, assets continuously recognised by the Group and the Bank amounted to RMB2,997 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 2017: RMB2,197 million).

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

41 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

41.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. As at 30 June 2018, the Group had transferred impaired loans and advances to customers with a total gross carrying amount of RMB2,182 million (31 December 2017: RMB24,854 million) and collected cash totaling RMB951 million (31 December 2017: RMB12,531 million) from the transfer. The difference between the gross carrying amount and the cash collected had already been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

42 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2018, the MOF holds 19,703 million (31 December 2017: 19,703 million) shares of the Group which represents 26.53% (31 December 2017: 26.53%) of total share capital of the Group. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the period and the revenue from related party transactions for the period are listed below:

	30 June 2018	31 December 2017
Bonds issued by MOF	469,585	416,098
Interest receivable	5,862	6,032

	Six months ended 30 June	
	2018	2017
Interest income	7,426	6,438

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

	Six months ended 30 June	
	2018	2017
	%	%
Bonds issued by MOF	1.94~5.05	1.94~5.05

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 30 June 2018, National Council for Social Security Fund holds 10,922 million (31 December 2017: 10,920 million) shares in the Group which represents 14.71% (31 December 2017: 14.70%) of total share capital of the Group. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2018	As at 31 December 2017
Due to customers	34,150	34,150
Interest payable	1,013	509

	Six months ended 30 June	
	2018	2017
Interest expense	858	1,429

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

	Six months ended 30 June	
	2018 %	2017 %
Due to customers	3.85~6.10	3.85~6.10

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

42 RELATED PARTY TRANSACTIONS *(Continued)*

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

As at 30 June 2018, HSBC holds 13,886 million (31 December 2017: 13,886 million) shares of the Group which represents 18.70% (31 December 2017: 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 30 June 2018	As at 31 December 2017
On-balance sheet items		
Due from banks and other financial institutions	3,995	3,704
Loans to banks and other financial institutions	3,366	3,126
Derivative financial assets	1,891	2,399
Financial assets held under resale agreements	570	3,920
Interest receivable	43	28
Financial investments-fair value through other comprehensive income	2,744	N.A.
Financial investments – available-for-sale	N.A.	2,315
Financial investments – amortised cost	210	N.A.
Financial assets at FVPL	1,437	1,388
Deposits from banks and other financial institutions	8,586	3,949
Loans from banks and other financial institutions	8,489	3,996
Financial liabilities at FVPL	3,085	2,861
Derivative financial liabilities	883	1,449
Financial instruments sold under repurchase agreements	570	–
Interest payable	71	34
Off-balance sheet items		
Notional principal of derivative financial instruments	120,541	163,191

	Six months ended 30 June	
	2018	2017
Net gains from trading activities	(170)	194
Interest income	72	72
Interest expense	135	96

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

	Six months ended 30 June	
	2018 %	2017 %
Due from banks and other financial institutions	0.01~2.84	0.01~0.25
Loans to banks and other financial institutions	2.00~2.05	0.20~3.55
Financial investments	1.50~4.75	1.50~3.50
Deposits from banks and other financial institutions	0.01~6.10	0.01~5.75
Loans from banks and other financial institutions	(0.01)~4.75	(0.28)~4.30
Financial assets held under resale agreements	2.73~5.60	2.60~2.87
Financial instruments sold under repurchase agreements	4.00~5.30	2.45~4.95

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

42 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

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

(e) Transactions with subsidiaries

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

Details of transaction volumes and outstanding balances are summarised below:

Bank	As at 30 June 2018	As at 31 December 2017
Due from banks and other financial institutions	1,157	150
Placements to banks and other financial institutions	28,802	38,402
Financial investments – amortised cost	2,500	N.A.
Financial investments – fair value through other comprehensive income	300	N.A.
Financial investments – held-to-maturity	N.A.	2,500
Financial investments – available-for-sale	N.A.	300
Loans and advances to customers	18,230	20,691
Interest receivable	543	590
Other assets	290	1,972
Deposits from banks and other financial institutions	41,076	16,312
Placements from banks and other financial institutions	12,974	1,792
Due to customers	5,595	2,568
Debt securities issued	51	51
Interest payable	20	36
Other liabilities	21	25

	Six months ended 30 June	
Bank	2018	2017
Interest income	1,070	674
Interest expense	224	47
Fee and commission income	490	648
Fee and commission expense	21	28
Other operating income	158	57
Other operating income	94	103

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

42 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

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

	Six months ended 30 June	
	2018	2017
Bank	%	%
Due from banks and other financial institutions	0.72~4.60	0.72~4.60
Loans to banks and other financial institutions	0.03~5.45	(0.03)~5.55
Financial investments	3.05~4.70	3.05~6.10
Loans and advances to customers	0.03~4.70	0.96~4.18
Deposits from banks and other financial institutions	0.20~4.85	0.01~5.50
Loans from banks and other financial institutions	0.10~3.00	0.04~4.95
Due to customers	0.01~1.91	0.01~1.65
Debt securities issued	5.75	5.75

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2018	As at 31 December 2017
Due to customers	33	32
Loans and advances to customers	1	1

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

(g) Transactions with associates

As at 30 June 2018, the Group holds 9.00% (31 December 2017: 9.00%) of total share capital of Jiangsu Changshu Rural Commercial Bank Co., Ltd. and 10.60% (31 December 2017: 10.60%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2018	As at 31 December 2017
Deposits from banks and other financial institutions	795	1,689
Financial assets held under resale agreements	800	–
Interest payable	2	3

	Six months ended 30 June	
	2018	2017
Interest income	–	2
Interest expense	14	11

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

42 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates *(Continued)*

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

	Six months ended 30 June	
	2018	2017
	%	%
Deposits from banks and other financial institutions	1.35~5.58	1.35~4.95
Placements to banks and other financial institutions	–	2.31~2.88
Financial assets held under resale agreements	2.66~2.75	2.075~2.95

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2018	As at 31 December 2017
loans and advances to customers	4,715	5,052
Interest receivable	6	6
Deposits from banks and other financial institutions	1,416	1,224
Interest payable	28	19

	Six months ended 30 June	
	2018	2017
Interest income	103	129
Interest expense	54	12

The interest rates of the transactions between the Group and other related parties are summarised below:

	Six months ended 30 June	
	2018	2017
	%	%
Loans and advances to customers	3.92~5.00	3.70~4.57
Deposits from banks and other financial institutions	3.65~5.80	2.45~5.80

43 SEGMENTAL ANALYSIS

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

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

(1) Northern China – including the following provinces: Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;
(2) North Eastern China – including the following provinces: Liaoning, Jilin, and Heilongjiang;
(3) Eastern China – including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
(4) Central and Southern China – including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi and Hainan;
(5) Western China – including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, 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 period.

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

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

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

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Six months ended 30 June 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	14,271	4,793	38,493	21,246	10,619	12,711	68,413	–	170,546
External interest expense	(16,577)	(4,736)	(30,231)	(17,034)	(7,488)	(9,689)	(24,133)	–	(109,888)
Inter-segment net interest income/(expense)	10,151	2,412	12,284	9,728	3,215	2	(37,792)	–	–
Net Interest income	7,845	2,469	20,546	13,940	6,346	3,024	6,488	–	60,658
Net fee and commission income	2,098	814	6,678	4,169	1,625	1,522	4,276	–	21,182
Net gains/(losses) arising from trading activities	146	33	754	194	76	690	6,380	–	8,273
Net gains/(losses) arising from financial investments	–	–	22	–	–	4	(9)	–	17
Insurance business income	–	–	4,106	–	–	16	–	–	4,122
Share of profit of associates and joint venture	–	–	–	–	–	13	127	–	140
Other operating income	599	123	4,881	348	295	683	712	–	7,641
Net operating income	10,688	3,439	36,987	18,651	8,342	5,952	17,974	–	102,033
Credit impairment losses on loans and advances to customers	826	(3,258)	(5,411)	(777)	(1,796)	(12)	(4,774)	–	(15,202)
Insurance business expense	–	–	(3,718)	–	–	(5)	–	–	(3,723)
Other operating expense	(3,401)	(1,716)	(11,888)	(5,333)	(2,716)	(2,384)	(8,200)	–	(35,638)
Profit before tax	8,113	(1,535)	15,970	12,541	3,830	3,551	5,000	–	47,470
Income tax									(6,476)
Net profit for the period									40,994
Depreciation and amortisation	(372)	(170)	(818)	(523)	(297)	(114)	(502)	–	(2,796)
Capital expenditure	(22)	(20)	(11,451)	(114)	(121)	(192)	(275)	–	(12,195)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Six months ended 30 June 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	13,170	4,625	35,215	18,934	10,005	9,670	60,959	–	152,578
External interest expense	(16,039)	(4,396)	(28,308)	(16,417)	(7,250)	(6,178)	(12,657)	–	(91,245)
Inter-segment net interest income/(expense)	11,191	2,539	12,686	10,391	3,681	(211)	(40,277)	–	–
Net Interest income	8,322	2,768	19,593	12,908	6,436	3,281	8,025	–	61,333
Net fee and commission income	2,362	875	6,806	4,586	1,724	1,503	3,405	–	21,261
Net gains/(losses) arising from trading activities	136	29	562	260	50	247	280	–	1,564
Net gains/(losses) arising from financial investments	–	–	369	9	–	210	2,067	–	2,655
Insurance business income	–	–	10,748	–	–	20	–	–	10,768
Share of profit of associates and joint venture	–	–	–	–	–	(6)	57	–	51
Other operating income	716	124	3,804	509	282	709	164	–	6,308
Net operating income	11,536	3,796	41,882	18,272	8,492	5,964	13,998	–	103,940
Impairment losses on loans and advances to customers	(1,564)	(744)	(7,069)	(2,169)	(1,358)	(128)	(1,773)	–	(14,805)
Insurance business expense	–	–	(9,856)	–	–	(6)	–	–	(9,862)
Other operating expense	(3,420)	(1,632)	(10,938)	(4,958)	(2,398)	(1,955)	(6,617)	–	(31,918)
Profit before tax	6,552	1,420	14,019	11,145	4,736	3,875	5,608	–	47,355
Income tax									(8,133)
Net profit for the period									39,222
Depreciation and amortisation	(392)	(194)	(892)	(557)	(320)	(83)	(484)	–	(2,922)
Capital expenditure	(70)	(54)	(11,150)	(239)	(157)	(185)	(558)	–	(12,413)

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

43 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 30 June 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,141,620	335,053	2,640,781	1,485,438	692,229	987,493	4,190,021	(2,176,206)	9,296,429
Including:									
Investment in associates and joint venture	–	–	4	7	–	18	3,350	–	3,379
Unallocated assets									26,278
Total assets									9,322,707
Segment liabilities	(1,129,519)	(335,928)	(2,538,976)	(1,460,604)	(688,508)	(977,377)	(3,697,342)	2,176,206	(8,652,048)
Unallocated liabilities									(598)
Total liabilities									(8,652,646)

	As at 30 June 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,278,373	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
Total assets									9,038,254
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)
Total liabilities									(8,361,983)

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

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information

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

The business information of the Group is summarised as follows:

	Six months ended 30 June 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	25,290	18,381	15,899	1,088	60,658
Inter-segment net interest income/(expense)	8,685	4,129	(12,814)	–	–
Net interest income	33,975	22,510	3,085	1,088	60,658
Net fee and commission income	7,962	11,366	924	930	21,182
Net gains/(losses) arising from trading activities	1,548	(11)	7,032	(296)	8,273
Net gains/(losses) arising from financial investments	–	–	17	–	17
Share of profit of associates and joint venture	–	–	–	140	140
Insurance business income	–	–	–	4,122	4,122
Other operating income	5,147	1,610	1	883	7,641
Net operating income	48,632	35,475	11,059	6,867	102,033
Credit impairment losses on loans and advances to customers	(9,384)	(5,818)	–	–	(15,202)
Insurance business expense	–	–	–	(3,723)	(3,723)
Other operating expense					
– Depreciation and amortisation	(842)	(1,764)	(61)	(129)	(2,796)
– Others	(13,148)	(16,790)	(1,284)	(1,620)	(32,842)
Profit before tax	25,258	11,103	9,714	1,395	47,470
Income tax					(6,476)
Net profit for the period					40,994
Depreciation and amortisation	(842)	(1,764)	(61)	(129)	(2,796)
Capital expenditure	(3,668)	(7,694)	(268)	(565)	(12,195)

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Six months ended 30 June 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	25,129	15,174	20,163	867	61,333
Inter-segment net interest income/(expense)	8,874	6,963	(15,837)	–	–
Net interest income	34,003	22,137	4,326	867	61,333
Net fee and commission income	9,347	10,199	1,097	618	21,261
Net gains/(losses) arising from trading activities	1,200	64	159	141	1,564
Net gains arising from financial investments	–	–	2,655	–	2,655
Share of profit of associates and joint venture	–	–	–	51	51
Insurance business income	–	–	–	10,768	10,768
Other operating income	4,095	1,612	–	601	6,308
Net operating income	48,645	34,012	8,237	13,046	103,940
Impairment losses on loans and advances to customers	(13,055)	(1,750)	–	–	(14,805)
Insurance business expense	–	–	–	(9,862)	(9,862)
Other operating expense					
– Depreciation and amortisation	(880)	(1,843)	(64)	(135)	(2,922)
– Others	(11,295)	(14,915)	(1,312)	(1,474)	(28,996)
Profit before tax	23,415	15,504	6,861	1,575	47,355
Income tax					(8,133)
Net profit for the period					39,222
Depreciation and amortisation	(880)	(1,843)	(64)	(135)	(2,922)
Capital expenditure	(3,734)	(7,831)	(273)	(575)	(12,413)

	As at 30 June 2018				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
Segment assets	3,188,160	1,645,661	4,384,382	78,226	9,296,429
Including:					
Investment in associates and joint venture	–	–	–	3,379	3,379
Unallocated assets					26,278
Total assets					9,322,707
Segment liabilities	(4,276,275)	(1,815,551)	(2,532,858)	(27,364)	(8,652,048)
Unallocated liabilities					(598)
Total liabilities					(8,652,646)

For the six months ended 30 June 2018
(All amounts expressed in millions of RMB unless otherwise stated)

43 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 31 December 2017				
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	Total
Segment assets	3,145,789	1,487,329	4,307,392	81,288	9,021,798
Including:					
Investment in associates and joint venture	–	–	–	3,357	3,357
Unallocated assets					16,456
Total assets					9,038,254
Segment liabilities	(3,621,436)	(1,606,949)	(3,110,385)	(22,693)	(8,361,463)
Unallocated liabilities					(520)
Total liabilities					(8,361,983)

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

44 FINANCIAL STATEMENTS DURING COMPARATIVE PERIOD

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

Unaudited Supplementary Financial Information

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

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

1 CAPITAL ADEQUACY RATIO

At the end of June 2014, with regulatory approval, the Group started to adopt the advanced approach of capital management to measure its capital adequacy ratio in accordance with CBIRC's "Administrative Measures for the Capital of Commercial Banks (Provisional)" and relevant regulations. As at 30 June 2018, the capital ratios calculated based on "Administrative Measures for the Capital of Commercial Banks (Provisional)" are as follows:

	As at 30 June 2018	As at 31 December 2017
Item		
Net Core Tier 1 Capital	599,954	609,454
Net Tier 1 Capital	659,959	669,429
Net Capital	782,132	790,381
Core Tier 1 Capital Adequacy Ratio (%)	10.63	10.79
Tier 1 Capital Adequacy Ratio (%)	11.69	11.86
Capital Adequacy Ratio (%)	13.86	14.00

2 LIQUIDITY RATIO

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

	As at 30 June 2018	As at 31 December 2017
Liquidity ratio (%)	68.56	58.86

3 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
As at 30 June 2018				
Spot assets	854,804	217,501	150,407	1,222,712
Spot liabilities	(947,472)	(238,341)	(102,995)	(1,288,808)
Forward purchases	1,139,697	125,910	77,188	1,342,795
Forward sales	(1,074,714)	(85,968)	(103,557)	(1,264,239)
Net option position	(287)	174	(138)	(251)
Net long/(short) position	(27,912)	19,276	20,905	12,209
Net structural position	91,993	18,930	4,947	115,870

	USD	HKD	Others	Total
As at 31 December 2017				
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

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

3 CURRENCY CONCENTRATIONS *(Continued)*

The net options position is calculated using the approach as set out by CBIRC 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

4 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

As at 30 June 2018	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	463,649	98,148	410,226	–	972,023
Of which attributed to Hong Kong	83,504	61,330	182,952	–	327,786
North and South America	59,540	10,693	45,219	–	115,452
Africa	–	–	–	–	–
Europe	28,347	540	35,417	–	64,304
	551,536	109,381	490,862	–	1,151,779

As at 31 December 2017	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	526,963	56,522	384,235	–	967,720
Of which attributed to Hong Kong	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

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

5 OVERDUE AND RESTRUCTURED ASSETS

5.1 Gross amount of overdue loans

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers which have been overdue for		
– Within 3 months	26,733	22,657
– Between 3 and 6 months	11,256	7,929
– Between 6 and 12 months	20,082	18,163
– Over 12 months	33,773	50,749
	91,844	99,498
Percentage (%):		
– Within 3 months	0.56	0.49
– Between 3 and 6 months	0.23	0.17
– Between 6 and 12 months	0.42	0.40
– Over 12 months	0.71	1.11
	1.92	2.17

5.2 Overdue and restructured loans

	As at 30 June 2018	As at 31 December 2017
Total restructured loans and advances to customers	9,017	10,843
Including: Restructured loans and advances to customers overdue above 3 months	4,433	7,437
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.09	0.16

6 SEGMENTAL INFORMATION OF LOANS

6.1 Impaired loans and advances to customers by geographical area

	As at 30 June 2018		As at 31 December 2017	
	Impaired loans and advances to customers	Lifetime ECL	Impaired loans and advances to customers	Allowances for individually assessed impaired loans and advances to customers
PRC domestic regions				
– Northern China	8,588	(5,576)	8,491	(4,878)
– North Eastern China	5,404	(3,100)	4,412	(2,258)
– Eastern China	32,828	(22,511)	33,899	(15,301)
– Central and Southern China	11,694	(5,902)	10,584	(6,098)
– Western China	11,441	(6,243)	10,146	(6,057)
	69,955	(43,332)	67,532	(34,592)
Hong Kong, Macau, Taiwan and overseas regions	1,557	(1,062)	974	(742)
	71,512	(44,394)	68,506	(35,334)

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

6 SEGMENTAL INFORMATION OF LOANS *(Continued)*

6.2 Overdue loans and advances to customers by geographical area

	As at 30 June 2018		As at 31 December 2017		
	Overdue loans	ECL	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	9,603	(5,462)	10,176	(4,652)	(387)
– North Eastern China	8,910	(3,811)	6,747	(2,117)	(582)
– Eastern China	48,128	(29,348)	50,839	(14,554)	(14,720)
– Central and Southern China	12,657	(6,536)	14,770	(5,712)	(966)
– Western China	10,816	(6,236)	15,378	(5,606)	(1,376)
	90,114	(51,393)	97,910	(32,641)	(18,031)
Hong Kong, Macau, Taiwan and overseas regions	1,730	(2,708)	1,588	(742)	(2,286)
	91,844	(54,101)	99,498	(33,383)	(20,317)
Fair value of collaterals	45,164	N.A.	48,824	N.A.	N.A.

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

7 LOANS AND ADVANCES TO CUSTOMERS

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

Hong Kong	As at 30 June 2018	%	Amount covered by collaterals	As at 31 December 2017	%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– *Petroleum and chemical*	1,153	0.59	472	–	–	–
– *Electronics*	46	0.02	17	53	0.02	25
– *Textile and clothing*	2,883	1.47	15	3,497	1.62	27
– *Other manufacturing*	25,027	12.80	721	20,989	9.70	460
Electricity, gas and water production and supply	1,938	0.99	40	2,175	1.01	2
Construction	6,634	3.39	1,331	7,589	3.51	1,496
Transportation, storage and postal service	5,108	2.61	2,824	5,593	2.59	1,422
Telecommunication, IT service and software	417	0.21	6	504	0.23	–
Wholesale and retail	49,362	25.24	2,025	60,308	27.87	2,518
Accommodation and catering	813	0.42	43	997	0.46	50
Financial institutions	26,517	13.56	8,902	34,110	15.77	11,569
Services	4,663	2.38	6,603	4,483	2.07	6,466
Real estate	3,279	1.68	–	–	–	–
Education, science, culture and public health	833	0.43	–	–	–	–
Others	42,141	21.54	2,135	50,434	23.31	2,028
Total corporate loans	170,814	87.33	25,134	190,732	88.16	26,063
Individual loans						
Mortgage	14,285	7.30	14,072	10,986	5.08	10,984
Credit cards	152	0.08	–	150	0.07	–
Others	10,345	5.29	8,227	14,477	6.69	11,814
Total individual loans	24,782	12.67	22,299	25,613	11.84	22,798
Gross amount of loans and advances before impairment allowance	195,596	100.00	47,433	216,345	100.00	48,861
Outside Hong Kong	4,598,369			4,362,911		

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group is 48% as at 30 June 2018 (31 December 2017: 49%).

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

7 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

7.2 Allowance on loans and advances by type of loan

	As at 30 June 2018		As at 31 December 2017	
	Impaired loans	Lifetime ECL	Impaired loans	Allowances for individually assessed impaired loans
Corporate	54,482	(31,574)	52,608	(29,789)
Individuals	17,030	(12,820)	15,898	(5,545)
	71,512	(44,394)	68,506	(35,334)
Fair value of collateral	28,199	N.A.	26,563	N.A.

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 periods are disclosed below:

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	9,651	(24,718)	500	13,055	(7,616)	124
Individuals	5,818	(3,097)	221	1,750	(621)	201
	15,469	(27,815)	721	14,805	(8,237)	325

Supplementary Information on Capital Adequacy Ratio and Leverage Ratio

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

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

(in millions of RMB)

	Balance sheet of the consolidation under CAS	Balance sheet of the consolidation under the regulation
Assets:		
Cash and balances with central banks	917,282	917,282
Due from banks and other financial institutions	153,428	152,044
Loans to banks and other financial institutions	523,556	526,844
Financial assets at fair value through profit or loss	315,412	312,967
Derivative financial assets	31,523	31,489
Financial assets purchased under reverse agreements	56,324	55,978
Interests receivable	54,180	54,284
Loans and advances to customers	4,669,207	4,673,634
Financial investments at fair value through other comprehensive income	395,133	378,488
Financial investments at amortized cost	1,965,639	1,952,199
Long term equity investments	3,379	7,103
Property and equipment	135,644	132,171
Land use rights	1,571	1,571
Deferred income tax assets	26,278	26,277
Goodwill	437	315
Intangible assets	1,521	1,488
Other assets	72,193	66,693
Total assets	9,322,707	9,290,827
Liabilities:		
Borrowings from central banks	531,303	531,303
Deposits from banks and other financial institutions	994,076	994,076
Placements from banks and other financial institutions	394,396	393,748
Financial liabilities at fair value through profit or loss	15,795	15,795
Financial assets sold under repurchase agreements	73,027	69,196
Due to customers	5,732,928	5,737,282
Derivative financial liabilities	26,601	26,601
Debt securities issued	304,583	304,634
Employee benefits payable	4,867	4,781
Taxes payable	11,980	11,923
Interests payable	101,728	101,958
Deferred tax liabilities	598	560
Provisions	434	434
Other liabilities	460,330	429,648
Total liabilities	8,652,646	8,621,939
Equity:		
Share capital	74,263	74,263
Other equity instruments	59,876	59,876
Capital surplus	113,663	113,692
Other comprehensive income	956	1,231
Surplus reserve	197,354	197,325
General risk reserve	113,628	113,598
Retained earnings	103,913	104,377
Minority interests	6,408	4,526
Total equity	670,061	668,888

Appendix 2: Balance Sheet under Regulatory Consolidation

(in millions of RMB)

	Balance sheet of the regulatory consolidation	Code
Assets:		
Cash and balances with central banks	917,282	
Due from banks and other financial institutions	152,044	
Loans to banks and other financial institutions	526,844	
Financial assets at fair value through profit or loss	312,967	
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	250	a
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	528	b
Including: Core Tier 2 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	36,019	c
Derivative financial assets	31,489	
Financial assets purchased under reverse agreements	55,978	
Interests receivable	54,284	
Loans and advances to customers	4,673,634	
Financial investments at fair value through other comprehensive income	378,488	
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	146	d
Including: Other Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	962	e
Including: Tier 2 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	622	f
Financial investments at amortized cost	1,952,199	
Including: Tier 2 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	2,739	g
Long term equity investments	7,103	
Including: Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	3,654	h
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	2,564	i
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	791	j
Property and equipment	132,171	
Land use rights	1,571	k
Deferred tax assets	26,277	l
Including: Deferred tax assets arising from operating losses which are expected to offset against future profits	0	m
Including: Other deferred tax assets depending on the Bank's future profits	26,277	
Intangible assets	1,488	n
Goodwill	315	o
Other assets	66,693	
Total assets	9,290,827	

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

(in millions of RMB)

	Balance sheet of the regulatory consolidation	Code
Liabilities:		
Borrowings from central banks	531,303	
Deposits from banks and other financial institutions	994,076	
Placements from banks and other financial institutions	393,748	
Financial liabilities at fair value through profit or loss	15,795	
Financial assets sold under repurchase agreements	69,196	
Due to customers	5,737,282	
Derivative financial liabilities	26,601	
Debt securities issued	304,634	
Including: Recognized in Tier 2 Capital	96,420	p
Employee benefits payable	4,781	
Taxes payable	11,923	
Interest payable	101,958	
Deferred tax liabilities	560	q
Including: Deferred tax liabilities relating to goodwill	0	r
Including: Deferred tax liabilities relating to other intangible assets	0	s
Provisions	434	
Other liabilities	429,648	
Total liabilities	8,621,939	
Equity:		
Share capital	74,263	
Including: Those to be included in Core Tier 1 Capital	74,263	t
Including: Those to be included in other Tier 1 Capital	0	u
Other equity instruments	59,876	v
Capital surplus	113,692	w
Other comprehensive income	1,231	x
Including: Exchange reserve	(1,342)	y
Including: Effective portion of gains or losses on hedging instruments in cash flow hedge	42	z
Surplus reserve	197,325	aa
General reserve for risk assets	113,598	ab
Retained earnings	104,377	ac
Non-controlling interests	4,526	
Including: Those to be included in Core Tier 1 Capital	967	ad
Including: Those to be included in other Tier 1 Capital	129	ae
Including: Those to be included in Tier 2 Capital	258	af
Total equity	668,888	

Note: The code is to match the breakdown of Group's capital.

Appendix 3: Group's Capital Breakdown

(in millions of RMB)

	Items	Amount	Code
Core Tier 1 Capital:			
1	Share capital	74,263	r
2	Retained earnings	415,300	
2a	Surplus reserve	197,325	y
2b	General reserve for risk assets	113,598	z
2c	Retained earnings	104,377	aa
3	Accumulated other comprehensive income and disclosed reserve	114,923	
3a	Capital surplus	113,692	u
3b	Others	1,231	v
4	Amount recognized in Core Tier 1 Capital during transition period (Only applicable to non-stock companies; for joint-stock companies, to be completed with "0")	0	
5	Non-controlling interests recognized in Core Tier 1 Capital	967	ab
6	Core Tier 1 Capital before regulatory adjustments	605,453	
Core Tier 1 Capital: Regulatory adjustments			
7	Prudent valuation adjustment	0	
8	Goodwill (net of deferred tax liabilities)	315	m-p
9	Other intangible assets (excluding land use rights) (net of deferred tax liabilities)	1,488	l-q
10	Net deferred tax assets arising from the carried forward losses and be realized upon future profits	0	k
11	Cash-flow hedge reserves	42	x
12	Gap of loan allowance	0	
13	Gains from sales of asset securitization	0	
14	Unrealized profit/loss arising from the changes in fair value liability due to credit risk	0	
15	Net defined-benefit pension assets (excluding deferred tax liabilities)	0	
16	Direct or indirect investments in Bank shares	0	
17	Interbank or with other financial institutions cross-holdings in Core Tier 1 Capital	0	
18	Non-significant investments in the Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
19	Significant investments in the Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
20	Mortgage servicing rights	0	
21	Net deferred tax assets depending on the Bank's future profits	0	
22	Deduction of the undeductible amount of significant investments in the core Tier 1 capital of financial institutions outside the scope of regulatory consolidation and other net deferred tax assets depending on the Bank's future profits which exceed the 15% of the core Tier 1 capital	0	
23	Including: Deducting of significant investments in the capital of financial institutions	0	
24	Including: Deducting of Mortgage servicing rights	0	
25	Including: Deducting of other deferred tax assets that depend on the Bank's future profits	0	
26a	Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	3,654	f
26b	Gaps of Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	

Appendix 3: Group's Capital Breakdown *(Continued)*

	Items	Amount	Code
26c	Other deductions from Core Tier 1 Capital	0	
27	Regulatory adjustments applied to Core Tier 1 Capital due to insufficient Other Tier 1 Capital and Tier 2 Capital to cover deductions	0	
28	Total regulatory adjustments to Core Tier 1 Capital	5,499	
29	Core Tier 1 Capital	599,954	
Other Tier 1 Capital:			
30	Directly issued qualifying Other Tier 1 instruments plus stock surplus	59,876	
31	Including: Classified as equity	59,876	t
32	Including: Classified as liabilities	0	
33	Instruments not recognized in Other Tier 1 Capital after the transition period	0	
34	Non-controlling interests recognized in Other Tier 1 Capital	129	ac
35	Including: Portions not recognized in Other Tier 1 Capital after the transition period	0	
36	Other Tier 1 Capital before regulatory adjustments	60,005	
Other Tier 1 Capital: Regulatory adjustments			
37	Directly or indirectly investments in Bank other Tier 1 instruments	0	
38	Interbank or with other financial institutions cross-holdings in other Tier 1 instruments	0	
39	Non-significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
40	Significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
41a	Investments in Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
41b	Gap of Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
41c	Other deductions from Other Tier 1 Capital	0	
42	Regulatory adjustments applied to Other Tier 1 Capital due to insufficient Tier 2 Capital to cover deductions	0	
43	Total regulatory adjustments to Other Tier 1 Capital	0	
44	Other Tier 1 Capital	60,005	
45	Tier 1 Capital (Core Tier 1 Capital + Other Tier 1 Capital)	659,959	
Tier 2 Capital:			
46	Directly issued qualifying Tier 2 instruments plus stock surplus	96,420	n
47	Portions not recognized in Tier 2 Capital after the transition period	0	
48	Minority interest recognized in Tier 2 Capital	258	ad
49	Including: Portions not recognized after the transition period	0	
50	Provisions in Tier 2	25,495	
51	Tier 2 Capital before regulatory adjustments	122,173	
Tier 2 Capital: Regulatory adjustments			
52	Directly or indirectly investments in own Tier 2 instruments	0	
53	Interbank or with other financial institutions cross-holdings in Tier 2 instruments	0	
54	Non-significant investments in Tier 2 Capital of financial institutions outside the scope of regulatory consolidation	0	
55	Significant investments in the Tier 2 Capital of financial institutions outside the scope of regulatory consolidation	0	
56a	Investments in Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
56b	Gaps of Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
56c	Other deductions from Tier 2 Capital	0	

Appendix 3: Group's Capital Breakdown *(Continued)*

	Items	Amount	Code
57	Total regulatory adjustments to Tier 2 Capital	0	
58	Tier 2 Capital	122,173	
59	Total capital (Tier 1 Capital + Tier 2 Capital)	782,132	
60	Total risk-weighted assets	5,645,071	
Capital adequacy ratio and reserve capital requirements			
61	Core Tier 1 Capital adequacy ratio (%)	10.63	
62	Tier 1 Capital adequacy ratio (%)	11.69	
63	Capital adequacy ratio (%)	13.86	
64	Specific buffer requirements of regulators (%)	3.50	
65	Including: Capital conservation buffer requirements (%)	2.50	
66	Including: Countercyclical buffer requirements (%)	0.00	
67	Including: Additional buffer requirements of global systemically important banks (%)	1.00	
68	Core Tier 1 Capital available to meet buffers as a percentage of risk-weighted assets (%)	5.63	
Domestic minimum regulatory capital requirements			
69	Core Tier 1 Capital adequacy ratio (%)	5.00	
70	Tier 1 Capital adequacy ratio (%)	6.00	
71	Capital adequacy ratio (%)	8.00	
Amounts below the threshold deductions			
72	Non-significant investments in Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	43,302	a+c+d+e+g
73	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation	1,319	b+h
74	Mortgage servicing rights (net of deferred tax liabilities)	0	
75	Other net deferred tax assets depending on the Bank's future profits (net of deferred tax liabilities)	25,717	j-k-o
Limit of provisions in Tier 2 Capital			
76	Provisions actually made in respect of exposures subject to risk-weighted approach	4,985	
77	Provisions eligible for inclusion in Tier 2 Capital under risk-weighted approach	3,115	
78	Provisions actually made in respect of exposures subject to internal rating based approach	117,287	
79	Provisions eligible for inclusion in Tier 2 Capital under internal rating based approach	22,380	
Capital instruments subject to phase-out arrangements			
80	Amount recognized in current-period Core Tier 1 Capital due to transitional arrangements	0	
81	Amount not recognized in current period Core Tier 1 Capital due to transitional arrangements	0	
82	Amount recognized in current-period Other Tier 1 Capital due to transitional arrangements	0	
83	Amount not recognized in current period Other Tier 1 Capital due to transitional arrangements	0	
84	Amount recognized in current-period Tier 2 Capital due to transitional arrangements	26,800	
85	Amount not recognized in current-period Tier 2 Capital due to transitional arrangements	12,700	

Appendix 4: Key Matters of Qualified Regulatory Capital Instruments

1	Issuer	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications
2	Identification code	3328	601328	1428013	XS1113240268	XS1115459528	4605	360021	1728007
3	Governing law(s)	China Hong Kong/Hong Kong *Securities and Futures Ordinance*	China/*Securities Law of China*	China/*Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Overseas preference shares and accompanying rights and obligations are governed by and construed in accordance with Chinese laws.	China/*Company Law of China, Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation), State Council Guidance on the Implementation of Pilot Scheme of Preference Shares, Measures for the Pilot Management of Preferred Shares, etc.*	China/*Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*
Regulatory treatment									
4	Including: Transitional rules under the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 capital	Other Tier 1 Capital	Tier 2 Capital
5	Including: Post-transitional rules under the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 Capital	Other Tier 1 Capital	Tier 2 Capital
6	Including: Eligible at Bank/ Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level
7	Instrument type	Ordinary shares	Ordinary shares	Tier 2 Capital bonds	Tier 2 Capital bonds	Tier 2 Capital bonds	Preference shares	Preference shares	Tier 2 Capital bonds

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

8	Amount recognized in regulatory capital (In millions of RMB, as at the latest reporting date)	RMB89,498	RMB97,534	RMB27,972	Equivalent to RMB7,888	Equivalent to RMB3,796	Equivalent to RMB14,924	RMB44,952	RMB29,964
9	Par value of instrument (in millions of RMB)	RMB35,012	RMB39,251	RMB28,000	USD1,200	EUR500	USD2,450	RMB45,000	RMB30,000
10	Accounting treatment	Share capital and capital reserve	Share capital and capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments	Other equity instruments	Bonds payable
11	Original date of issuance	2005/6/23	2007/4/24	2014/8/19	2014/10/3	2014/10/3	2015/7/29	2016/9/2	2017/4/13
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual	Perpetual	Dated
13	Including: Original maturity date	No maturity date	No maturity date	2024/8/19	2024/10/3	2026/10/3	No maturity date	No maturity date	2027/4/13
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes	Yes	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A	2019/8/19; full or partial	2019/10/3; full.	2021/10/3; full.	First call date 2020/7/29, full or partial	First call date 2021/9/7, full or partial	2022/4/13; full or partial
16	Including: Subsequent call dates, if applicable	N/A	N/A	Nil	Nil	Nil	29 July of each year subsequent to the first call date	7 September of each year subsequent to the first call date	Nil
Coupons/dividends									
17	Including: Fixed or floating dividend/coupon	Floating	Floating	Fixed	Floating (coupon rate is fixed for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year, the coupon rate will be reset)	Floating (coupon rate is fixed for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year, the coupon rate will be reset)	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years	Fixed

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

18	Including: Coupon rate and any related index	N/A	N/A	5.80%	4.5% for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year (3 October 2019), the coupon rate will be reset based on the rate of 5-year US treasury bond, plus 285 basis points	3.625% for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year (3 October 2021), the coupon rate will be reset based on the 7-year EUR swaps median value, plus 300 basis points	5% for the first 5 years. The dividend rate will be reset every 5 years based on the yield rate of 5-year US treasury bond plus 334.4 basis points	3.9% for the first 5 years. The dividend rate will be reset every 5 years based on the benchmark interest rate plus 137 basis points. Note: the benchmark interest rate at reset dates refers to the arithmetic mean value (rounding off to 0.01%) of five-year Chinese treasury bonds yield, in the yield curve of interbank Chinese treasury bonds at fixed interest rate published 20 transaction days (excluding that day) prior to the reset dates (the days when each five years are expired as from the first day of issuance, 2 September).	4.50%
19	Including: Existence of dividend brake mechanism	N/A	N/A	No	No	No	Yes	Yes	No
20	Including: Discretionary of cancelling dividend distribution or coupon interest	Totally at discretion	Totally at discretion	Without discretion	Without discretion	Without discretion	Totally at discretion	Totally at discretion	Without discretion
21	Including: Existence of incentive to call	No	No	No	No	No	No	No	No
22	Including: Cumulative or noncumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or nonconvertible	No	No	No	No	No	Yes	Yes	No

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

24	Including: If convertible, state conversion condition	N/A	N/A	N/A	N/A	N/A	If any trigger event of other Tier 1 Capital instrument occurs, which means core Tier 1 Capital adequacy ratio reduces to 5.125% (or below); or any trigger event of Tier 2 Capital instrument occurs, earlier of (1) the Bank will not survive if not converted as required by CBIRC. (2) the Bank will not survive if no capital injection or same effect of support from relevant department.	If any trigger event of other Tier 1 Capital instrument occurs, which means core Tier 1 Capital adequacy ratio reduces to 5.125% (or below); or any trigger event of Tier 2 Capital instrument occurs, earlier of (1) the Bank will not survive if not converted as required by CBIRC. (2) the Bank will not survive if no capital injection or same effect of support from relevant department.	N/A

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

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

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

26	Including: If convertible, state conversation price determination method	N/A	N/A	N/A	N/A	N/A	The average stock transaction price of H ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing overseas preference shares is deemed as initial conversion price and the mandatory conversion price adjustment is conducted in accordance with Paragraph 9(5) "Mandatory Conversion Price Adjustment Mode" under Proposals on the Plan for *Private Placement of Offshore Preference Shares of Bank of Communications Co., Ltd.*	The average stock transaction price of A ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing domestic preference shares is deemed as initial conversion price (i.e. RMB6.25 per share) and the mandatory conversion price adjustment is conducted in accordance with Paragraph 5 "Mandatory Conversion Price Adjustment Mode" in Section 4 "Main Terms of Issuance Scheme" under Prospectus for *Private Placement of Preference Shares by Bank of Communications Co., Ltd.*	N/A
27	Including: If convertible, state whether mandatory convertible	N/A	N/A	N/A	N/A	N/A	Mandatory	Mandatory	N/A
28	Including: If convertible, state the instrument type after conversion	N/A	N/A	N/A	N/A	N/A	H ordinary shares	A ordinary shares	N/A
29	Including: If convertible, state the issuer of instrument after conversion	N/A	N/A	N/A	N/A	N/A	Bank of Communications	Bank of Communications	N/A

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

30	Including: Whether write-down	No	No	Yes	Yes	Yes	No	No	Yes
31	Including: If written down, state the trigger events of write-down	N/A	N/A	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department.	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department.	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department.	N/A	N/A	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department
32	Including: if written down, state wholly write-down or partial write-down	N/A	N/A	Full	Full	Full	N/A	N/A	Full
33	Including: if written down, state permanent write-down or temporary write-down	N/A	N/A	Permanent	Permanent	Permanent	N/A	N/A	Permanent
34	Including: if temporary written down, state reversal to book value mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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

Appendix 5 and Appendix 6 are information disclosed according to requirements of the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC.

Appendix 5: Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

SN	Item	Balance
1	Total consolidated assets	9,322,707
2	Adjustments of consolidation	(31,880)
3	Adjustments item of customer's assets	0
4	Adjustments of derivatives	28,366
5	Adjustments of securities financing transactions	5,190
6	Adjustments of off-balance sheet item	707,244
7	Other Adjustments	(5,499)
8	Balance of adjusted on-and-off-balance sheet assets	10,026,128

Appendix 6: Leverage Ratio Information

(in millions of RMB unless otherwise stated)

SN	Item	Balance
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	9,133,206
2	Less: Deduction of Tier 1 Capital	(5,499)
3	**Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	9,127,707
4	Replacement costs of derivatives (less eligible margin)	31,445
5	Potential risk exposure of derivatives	28,366
6	Sum of collaterals deducted from the balance sheet	0
7	Less: Assets receivable from providing eligible margin	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	0
9	Notional principal of sold credit derivatives	0
10	Less: Deductible balance of sold credit derivatives	0
11	**Derivative asset balance**	59,811
12	Accounting asset balance of securities financing transactions	126,176
13	Less: Balance of deductible securities financing transaction assets	0
14	Counterparty credit risk exposure of securities financing transactions	5,190
15	Balance of securities financing transaction assets from acting for securities financing transactions	0
16	**Securities financing assets balance**	131,366
17	Balance of off-balance sheet items	1,685,377
18	Less: Balance of off-balance sheet items arising from the reduction of credit transfer	(978,133)
19	**Adjusted off-balance sheet items balance**	707,244
20	Net Tier 1 Capital	659,959
21	Adjusted balance of on-and-off-balance sheet assets	10,026,128
22	**Leverage ratio (%)**	6.58

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