中國銀行
BANK OF CHINA

Bank of China Limited

Stock Code : 3988 (Ordinary H-Share)
4601 (Offshore Preference Share)

2018 Annual Report

The print version of the Bank's 2018 Annual Report, to be published in April 2019, will supersede this version.

Introduction

Bank of China is the Bank with the longest continuous operation among Chinese banks. The Bank was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, drawing on its long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. Having served the Beijing 2008 Olympic Games, the Bank became the official banking partner of the Beijing 2022 Olympic and Paralympic Winter Games in 2017, thus making it the only bank in China to serve two Olympic Games. In 2018, Bank of China was again designated as a Global Systemically Important Bank, thus becoming the sole financial institution from an emerging economy to be designated as a Global Systemically Important Bank for eight consecutive years.

As China's most globalised and integrated bank, Bank of China has a well-established global service network with institutions set up across the Chinese mainland as well as in 57 countries and regions. It has established an integrated service platform based on the pillars of its corporate banking, personal banking, financial markets and other commercial banking business, which covers investment banking, direct investment, securities, insurance, funds, aircraft leasing and other areas, thus providing its customers with a comprehensive range of financial services. In addition, BOCHK and the Macau Branch serve as local note-issuing banks in their respective markets.

Bank of China has upheld the spirit of "pursuing excellence" throughout its history of over one century. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. In face of the period of historic opportunities for great achievements, as a large state-owned commercial bank, the Bank will follow Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, persistently enable advancement through technology, drive development through innovation, deliver performance through transformation and enhance strength through reform, in an effort to build BOC into a world-class bank in the new era. It will make a greater contribution to developing a modernised economy and to the efforts to realise the Chinese Dream of national rejuvenation and the aspirations of the people to live a better life.

Development Strategy

Strategic goal

We will follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era, persistently enable advancement through technology, drive development through innovation, deliver performance through transformation and enhance strength through reform, in an effort to build Bank of China into a world-class bank in the new era.

The Bank will realise the strategic goal of "building a world-class bank in the new era" in three steps. **By 2020**, when China completes building a moderately prosperous society in all respects, the Bank should achieve the goal of "further strengthening of the development foundation, further consolidating advantages of featured businesses, further improving of management system and mechanism, and further enhancing of comprehensive strength". **By 2035**, when the socialist modernisation is basically realised, the Bank should leap forward from a big world-class bank to a strong world-class bank, and complete in all respects the building of a world-class bank in the new era. **By 2050**, we should build Bank of China into a "financial mainstay" of the strong modern socialist China and to be a banner of global financial industry.

Strategic implications

— Enable advancement through technology. The Bank will embed technological elements into all business processes and fields and build a digitalised bank with a premier user experience, ecology of diversified scenarios, online & offline coordination, flexible product innovation, efficient operations management and intelligent risk control, in a bid to foster new-finance, develop "a new ecosystem" and build a new BOC.

— Drive development through innovation. Keeping a close eye on the market trends and customer needs, we will accelerate innovation in technology, products and business. By adopting innovative and groundbreaking initiatives, we will strive to become a provider of high-quality financial services, a builder of connected platforms, a creator of data-driven value and a pioneer of intelligent services across the globe.

— Deliver performance through transformation. Centred on the demands of the real economy and the requirement for high-quality development, we will implement in line with the new development philosophies, focus on the "three tough battles" and support the supply-side structural reform. We will rapidly advance digital technologies, globalised businesses, integrated services, asset-light operations, and streamlined organisation, in a bid to effectively prevent financial risks and foster a high-quality development model with great capacity for value creation and market competitiveness.

— Enhance strength through reform. The Bank will raise awareness of current and potential challenges we face, maintain our strategic focus, and be more courageous in implementing the reform. We will promote the reform of mind-set, of the mechanism and of the organisation across the Bank, and thus gather the invincible force to push forward our development.

— Uphold the Party leadership. We will strengthen Party leadership and Party building at the Bank, ensure full and strict governance over the Party organisations at the Bank so as to drive full and strict governance over the Bank. We will improve our governance system and enhance our governance capabilities, thus providing strong guarantee and strategic support to our objective of building a world-class bank in the new era.

Values

Responsibility, Integrity, Professionalism, Innovation, Prudence, Performance

— **Responsibility:** To be responsible for the state, society, our customers, our employees, our shareholders, and the Bank. We will and we can step forward to perform our responsibilities, boldly take on challenges, and carry our missions through.

— **Integrity:** To abide by every commitment we have made, keep words consistent with actions, have an open mind, and stick to honesty and trustworthiness.

— **Professionalism:** To empower ourselves with greater capability and competence, and carry on the spirit of craftsmanship to stick on perfection.

— **Innovation:** To continuously move ahead, and never stand still. The Bank will make daring explorations, learn from others, and proactively develop innovative ideas.

— **Prudence:** To firmly hold the bottom line for risk management, ensure compliance in our operations, and abide by the law of development, in a bid to achieve sound development over the long term.

— **Performance:** To maintain benchmarking to market, adopt the result-oriented and focus on value-creation, and promote sustainable growth.

Honours and Awards

The Banker	Ranked 3rd in Top 1000 World Banks
	Ranked 4th in Top 500 Global Banking Brands
FORTUNE	Ranked 46th in Global 500 (2018)
Forbes	Ranked 9th in Global 2000
Euromoney	Best Regional Cash Manager in Asia
Asia Money	China's Best Overall Corporate and Investment Bank
	China's Best Corporate and Investment Bank for DCM — Cross-Border
	Best Transaction Bank for Trade Finance
	Best Private Bank for Global Investments in China
	Green Finance Bank with the Best Overseas Performance
Trade Finance	Best Cash Management Bank
Finance Asia	Best Transaction Bank
Asian Private Banker	Excellence in Private Banking-China Domestic
International Financing Review	Best Lead Bond Underwriter in China
The Asset	Triple A Asian Awards — Best corporate bond
People's Bank of China	First Prize for Banking Technology Development
Xinhua News Agency	Excellent Mobile APP in Financial Planning
21st Century Business Herald	2018 Excellent Commercial Bank in Asia
Financial Times	2018 Best Commercial Bank
Securities Times	Award for New Intelligent Investment Advisory Product
www.cebnet.com.cn	Best User Experience of Personal Mobile Banking
China Financial Certification Authority	Best Online Bank
The Chinese Banker	Top Ten Innovative Smart Bank Outlets
Financial Computerization	Outstanding Contribution in Product Innovation
Finance.sina.com	Best Inclusive Finance Bank
WPP Group	Ranked 14th in BrandZ Top 100 Most Valuable Chinese Brands
World Brand Lab	Ranked 11th in China's 500 Most Valuable Brands
Hurun Research Institute	Ranked 13th in 2018 Hurun Brand List
China Banking Association	Most Socially Responsible Financial Institution
ChinaHR	Best Employer in Financial Industry in the Opinion of Chinese University Students

Contents

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

The Bank/the Group	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of the Bank
A Share	Domestic investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on SSE (Stock Code: 601988)
Basis Point (Bp, Bps)	Measurement unit of changes in interest rate or exchange rate. 1 basis point is equivalent to 0.01 percentage point
BOC Asset Investment	BOC Financial Asset Investment Co., Ltd.
BOC Aviation	BOC Aviation Limited, a public company limited by shares incorporated in Singapore under the Singapore Companies Act, the shares of which are listed on the Hong Kong Stock Exchange
BOC Insurance	Bank of China Insurance Company Limited
BOC Life	BOC Group Life Assurance Co., Ltd.
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Co., Ltd.
BOC-Samsung Life	BOC-Samsung Life Ins. Co., Ltd.
CBIRC	China Banking and Insurance Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of PRC
CSRC	China Securities Regulatory Commission

Domestic Preference Share	Domestic preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are traded on SSE (Stock Code: 360002, 360010)
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi, Shandong and Qingdao
HKEX	Hong Kong Exchanges and Clearing Limited
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
H Share	Overseas-listed foreign investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars (Stock Code: 3988)
Huijin	Central Huijin Investment Ltd.
Independent Director	Independent director under the listing rules of SSE and the Articles of Association, and independent non-executive director under the Hong Kong Listing Rules
MOF	Ministry of Finance, PRC
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin, Liaoning and Dalian
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office
Offshore Preference Share	Offshore preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are listed on the Hong Kong Stock Exchange and traded in US dollars (Stock Code: 4601)
PBOC	The People's Bank of China, PRC
PRC	The People's Republic of China
RMB	Renminbi, the lawful currency of PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SSE	The Shanghai Stock Exchange
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank warrant that the information in this report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and jointly and severally accept full responsibility for the information in this report.

The 2018 Annual Report and Annual Results Announcement of the Bank have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 29 March 2019. The number of directors who should attend the meeting is 14, with 14 directors attending the meeting in person. All of the 14 directors of the Bank exercised their voting rights at the meeting. Some supervisors and senior management members of the Bank attended the meeting as non-voting attendees.

The 2018 financial statements prepared by the Bank in accordance with Chinese Accounting Standards ("CAS") and International Financial Reporting Standards ("IFRS") have been audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international auditing standards, respectively. Both auditors issued an unqualified opinion.

Chairman of the Board of Directors CHEN Siqing, President LIU Liange, and General Manager of the Accounting and Information Department ZHANG Jianyou warrant the authenticity, accuracy and completeness of the financial statements in this report.

The Board of Directors has recommended a final dividend on ordinary shares for 2018 of RMB0.184 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 17 May 2019. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

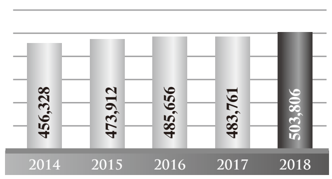
During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and procedures.

This report may contain forward-looking statements that involve risks and future plans. These forward-looking statements are based on the Bank's own information and information from other sources that the Bank believes to be reliable. They relate to future events or the Bank's future financial, business or other performance and are subject to a number of factors and uncertainties that may cause the actual results to differ materially. Any future plans mentioned do not constitute a substantive commitment by the Bank to its investors. Investors and people concerned should be fully aware of the risks and understand the differences between plans, forecast and commitment.

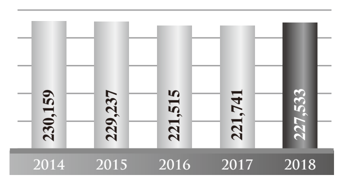
The Bank is faced with risks arising from changes in the macroeconomic environment and from political and economic conditions in different countries and regions as well as risks arising from its day-to-day operations, including the risk arising from changes in the creditworthiness of borrowers, adverse changes in market prices and operational risk. It shall at the same time meet regulatory and compliance requirements. The Bank actively adopts adequate measures to effectively manage all types of risks. Please refer to the section "Management Discussion and Analysis — Risk Management" for details.

Financial Highlights

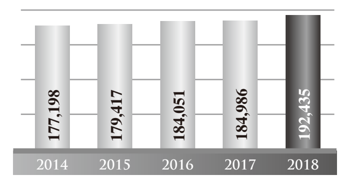
Operating income
RMB Million



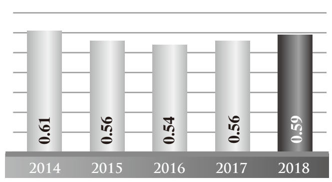
Operating profit
RMB Million



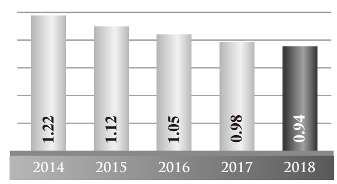
Profit for the year
RMB Million



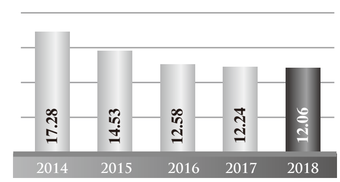
EPS (basic)
RMB



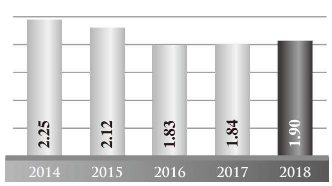
ROA
%



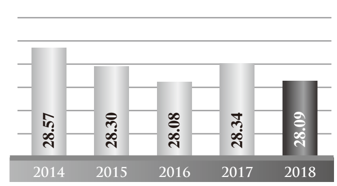
ROE
%



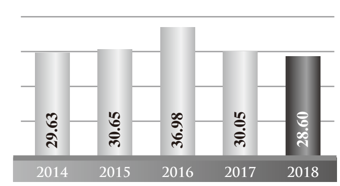
Net interest margin
%



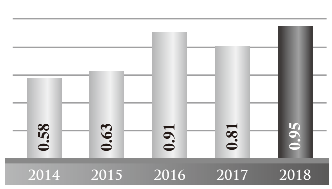
Cost to income ratio (calculated under domestic regulations)
%



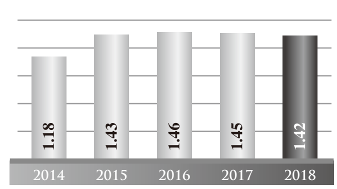
Non-interest income to operating income
%



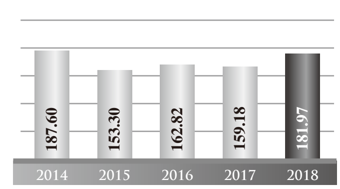
Credit cost
%



Non-performing loans to total loans
%



Allowance for loan impairment losses to non-performing loans
%



Note: The financial information in this report has been prepared in accordance with IFRS[1]. The data are presented in RMB and reflect amounts related to the Group, unless otherwise noted.

Unit: RMB million

	Note	2018	2017	2016	2015	2014
Results of operations						
Net interest income		**359,706**	338,389	306,048	328,650	321,102
Non-interest income	2	**144,100**	145,372	179,608	145,262	135,226
Operating income		**503,806**	483,761	485,656	473,912	456,328
Operating expenses		**(176,979)**	(173,859)	(175,069)	(185,401)	(177,788)
Impairment losses on assets		**(99,294)**	(88,161)	(89,072)	(59,274)	(48,381)
Operating profit		**227,533**	221,741	221,515	229,237	230,159
Profit before income tax		**229,643**	222,903	222,412	231,571	231,478
Profit for the year		**192,435**	184,986	184,051	179,417	177,198
Profit attributable to equity holders of the Bank		**180,086**	172,407	164,578	170,845	169,595
Total dividend of ordinary shares		**N.A.**	51,812	49,457	51,518	55,934
Financial position						
Total assets		**21,267,275**	19,467,424	18,148,889	16,815,597	15,251,382
Loans, gross		**11,819,272**	10,896,558	9,973,362	9,135,860	8,483,275
Allowance for loan impairment losses	3	**(303,781)**	(252,254)	(237,716)	(200,665)	(188,531)
Investments	4	**5,054,551**	4,554,722	3,972,884	3,595,095	2,710,375
Total liabilities		**19,541,878**	17,890,745	16,661,797	15,457,992	14,067,954
Due to customers		**14,883,596**	13,657,924	12,939,748	11,729,171	10,885,223
Capital and reserves attributable to equity holders of the Bank		**1,612,980**	1,496,016	1,411,682	1,304,946	1,140,859
Share capital		**294,388**	294,388	294,388	294,388	288,731
Per share						
Basic earnings per share (RMB)		**0.59**	0.56	0.54	0.56	0.61
Dividend per share (before tax, RMB)	5	**0.184**	0.176	0.168	0.175	0.19
Net assets per share (RMB)	6	**5.14**	4.74	4.46	4.09	3.70
Key financial ratios						
Return on average total assets (%)	7	**0.94**	0.98	1.05	1.12	1.22
Return on average equity (%)	8	**12.06**	12.24	12.58	14.53	17.28
Net interest margin (%)	9	**1.90**	1.84	1.83	2.12	2.25
Non-interest income to operating income (%)	10	**28.60**	30.05	36.98	30.65	29.63
Cost to income ratio (calculated under domestic regulations, %)	11	**28.09**	28.34	28.08	28.30	28.57
Capital ratios	12					
Common equity tier 1 capital		**1,488,010**	1,377,408	1,297,421	1,197,868	1,068,706
Additional tier 1 capital		**109,524**	105,002	103,523	103,159	72,923
Tier 2 capital		**347,473**	264,652	225,173	212,937	250,714
Common equity tier 1 capital adequacy ratio (%)		**11.41**	11.15	11.37	11.10	10.61
Tier 1 capital adequacy ratio (%)		**12.27**	12.02	12.28	12.07	11.35
Capital adequacy ratio (%)		**14.97**	14.19	14.28	14.06	13.87
Asset quality						
Credit-impaired loans to total loans (%)	13	**1.42**	1.45	1.46	1.43	1.18
Non-performing loans to total loans (%)	14	**1.42**	1.45	1.46	1.43	1.18
Allowance for loan impairment losses to non-performing loans (%)	15	**181.97**	159.18	162.82	153.30	187.60
Credit cost (%)	16	**0.95**	0.81	0.91	0.63	0.58
Allowance for loan impairment losses to total loans (%)	17	**3.07**	2.77	2.87	2.62	2.68
Exchange rate						
USD/RMB year-end central parity rate		**6.8632**	6.5342	6.9370	6.4936	6.1190
EUR/RMB year-end central parity rate		**7.8473**	7.8023	7.3068	7.0952	7.4556
HKD/RMB year-end central parity rate		**0.8762**	0.8359	0.8945	0.8378	0.7889

Notes:

1 Starting on 1 January 2018, the Bank has applied the *International Financial Reporting Standard No. 9 Financial Instruments* (IFRS 9), published by the International Accounting Standard Board, the comparative data of the previous reporting period was not restated accordingly.

2 Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on financial investments + other operating income.

3 Allowance for loan impairment losses = allowance for loans at amortised cost + allowance for loans at fair value through other comprehensive income.

4 The investments of 2018 are presented under IFRS 9 which include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost. The comparative data of the previous reporting period was not restated accordingly.

5 Dividend per share is the dividend per ordinary share distributed to ordinary shareholders.

6 Net assets per share = (capital and reserves attributable to equity holders of the Bank at year-end – other equity instruments) ÷ number of ordinary shares in issue at year-end.

7 Return on average total assets = profit for the year ÷ average total assets × 100%. Average total assets = (total assets at the beginning of the year + total assets at year-end) ÷ 2.

8 Return on average equity = profit attributable to ordinary shareholders of the Bank ÷ weighted average capital and reserves attributable to ordinary shareholders of the Bank × 100%. Calculation is based on *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by the CSRC.

9 Net interest margin = net interest income ÷ average balance of interest-earning assets × 100%. Average balance is average daily balance derived from the Bank's management accounts (unaudited).

10 Non-interest income to operating income = non-interest income ÷ operating income × 100%.

11 Cost to income ratio is calculated in accordance with the *Measures of the Performance Evaluation of Financial Enterprises* (Cai Jin [2016] No. 35) formulated by the MOF.

12 The capital ratios are calculated under the advanced approaches and in accordance with *Capital Rules for Commercial Banks (Provisional)* (Y.J.H.L. [2012] No. 1).

13 Credit-impaired loans to total loans = credit-impaired loans at year-end ÷ total loans at year-end × 100%. Total loans are exclusive of accrued interest when it is used to calculate credit-impaired loans to total loans.

14 Non-performing loans to total loans = non-performing loans at year-end ÷ total loans at year-end × 100%. Total loans are exclusive of accrued interest when it is used to calculate non-performing loans to total loans.

15 Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at year-end ÷ non-performing loans at year-end × 100%. Total loans are exclusive of accrued interest when it is used to calculate allowance for loan impairment losses to non-performing loans.

16 Credit cost = impairment losses on loans ÷ average balance of loans × 100%. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at year-end) ÷ 2. Total loans are exclusive of accrued interest when it is used to calculate credit cost.

17 Allowance for loan impairment losses to total loans = allowance for loan impairment losses at year-end ÷ total loans at year-end × 100%. Calculation is based on the data of the Bank's domestic institutions. Total loans are exclusive of accrued interest when it is used to calculate allowance for loan impairment losses to total loans.

Corporate Information

Registered Name in Chinese
中國銀行股份有限公司(“中國銀行”)

Registered Name in English
BANK OF CHINA LIMITED
(“Bank of China”)

Legal Representative and Chairman
CHEN Siqing

Vice Chairman and President
LIU Liange

Secretary to the Board of Directors and Company Secretary
MEI Feiqi
Office Address:
No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

Listing Affairs Representative
YU Ke
Office Address:
No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

Registered Address
No. 1 Fuxingmen Nei Dajie, Beijing, China

Office Address
No. 1 Fuxingmen Nei Dajie, Beijing, China, 100818
Telephone: (86) 10-6659 6688
Facsimile: (86) 10-6601 6871
Website: http://www.boc.cn
E-mail: ir@bankofchina.com
Customer Service and Complaint Hotline: (86) Area Code-95566

Place of Business in Hong Kong
Bank of China Tower, 1 Garden Road, Central, Hong Kong

Selected Newspapers for Information Disclosure (A Share)
China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Website Designated by CSRC for Publication of the Annual Report
http://www.sse.com.cn

Website of HKEX for Publication of the Annual Report
http://www.hkexnews.hk

Place where Annual Report can be Obtained
Head Office of Bank of China Limited
Shanghai Stock Exchange

Legal Advisor
King & Wood Mallesons
Clifford Chance

Auditors
Domestic Auditor
Ernst & Young Hua Ming LLP
Office Address:
Level 16, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing, China
Certified Public Accountants who signed the auditor’s report: YANG Bo, FENG Suoteng

International Auditor
Ernst & Young
Office Address:
22/F, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong

Unified Social Credit Code
911000001000013428

Financial Institution Licence Serial Number
B0003H111000001

Registered Capital
RMB294,387,791,241

Securities Information

A Share
Shanghai Stock Exchange
Stock Name: 中國銀行
Stock Code: 601988

H Share
The Stock Exchange of Hong Kong Limited
Stock Name: Bank of China
Stock Code: 3988

Domestic Preference Share
Shanghai Stock Exchange

First Tranche
Stock Name: 中行優1
Stock Code: 360002

Second Tranche
Stock Name: 中行優2
Stock Code: 360010

Offshore Preference Share
The Stock Exchange of Hong Kong Limited
Stock Name: BOC 2014 PREF
Stock Code: 4601

Message from the Chairman

In this beautiful and vigorous spring season, I am pleased to present our 2018 annual results to the shareholders of the Bank and the public. According to International Financial Reporting Standards, the Group achieved a profit for the year of RMB192.4 billion, a year-on-year increase of 4.03%, and a profit attributable to equity holders of the Bank of RMB180.1 billion, a year-on-year increase of 4.45%. The ratio of non-performing loans was 1.42%, down 0.03 percentage point from the prior year-end. The allowance for loan impairment losses to non-performing loans was up 22.79 percentage points to 181.97% from a year earlier. The Board of Directors has proposed a dividend of RMB0.184 per ordinary share for 2018, pending approval by the Annual General Meeting to be held in May 2019.

In 2018, guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we formulated a new development strategy for the Bank, persistently enabled advancement through technology, drove development through innovation, delivered performance through transformation and enhanced strength through reform, in an effort to build BOC into a world-class bank in the new era. In the past year, we adhered to the general principle of pursuing progress while ensuring stability, focused on serving the supply-side structural reform, and pushed ahead with work related to serving the real economy, preventing and mitigating risks, and deepening reform and innovation. By advancing the implementation of our development strategy, the Bank made a promising start on its journey towards building a world-class bank in the new era.

We actively improved the quality and efficiency in serving the real economy. The Group's total loans and advances to customers during the year increased by RMB922.714 billion over the end of the previous year, providing a wellspring of capital for the real economy. We continued to adjust and refine our credit structure, with new loans mainly granted to improve the weak links in infrastructure and to strategic emerging industries. We resolutely carried out the spirit of the symposium on private enterprises, taking the initiative to issue the *Twenty Provisions of BOC on Supporting Private Enterprises*. We enhanced the interaction of investment, loans and bonds, and strictly controlled loan pricing and service charges to make financing more accessible and affordable for micro and small-sized enterprises. Our loans of inclusive finance increased by 12.26 %, a higher growth rate than the bank-wide average.

We actively served the supply-side structural reform. We took firm steps to cut overcapacity, reduce excess inventory, assist with deleveraging, lower costs and strengthen areas of weakness, and our balance of loans to industries with overcapacity continued to fall. We actively practiced the concept of "lucid waters and lush mountains are invaluable assets", and our ratio of green credit steadily increased. We pushed ahead with "deleveraging" in a proactive and appropriate manner, and helped high-potential enterprises facing temporary financial challenges to survive their difficulties. In the past year, we carried out market-based debt-for-equity swaps with a total volume of RMB43.9 billion. Upholding the belief that houses are for living, not speculation, we earnestly implemented the housing finance policies and strictly carried out differentiated credit policies.

We strongly prevented and mitigated risks. We sticked to a "bottom line thinking" approach, better combined risk prevention and mitigation with serving the real economy, and consistently reinforced the "three lines of defence" in risk management. We stepped up the efforts of risk mitigation, with domestic branches disposing RMB152.5 billion of non-performing assets last year. We worked hard to perfect our internal risk control system, launched a compliance file system for all employees and established the internal control and compliance assessment system. We improved our management system and mechanism for consumer protection, resulting in our regulatory rating improving for two consecutive years. We thoroughly executed the requirement to straighten out banking market disorders, stepped up corrective measures and improved the internal control system. We also optimised the Group's institutional system for anti-money laundering, counterterrorism and sanction compliance and strengthened the anti-money laundering system. The Bank ranked first in the PBOC's rating of domestic commercial banks for anti-money laundering work.

We earnestly served China's all-round opening up. We consistently provided financial services for the Belt and Road Initiative, and had accumulatively granted more than USD130.0 billion credit for projects along the Belt and Road, while maintaining sound asset quality. We held two Belt and Road International Financial Exchange & Cooperation Seminars for four Central and Eastern European countries and nine African countries, in a bid to deepen the economic and trade cooperation and people-to-people exchanges between China and those countries. We actively served the first China International Import Expo (CIIE), held the Exhibitor-Businessman Supply-Demand Matchmaking Conference, and facilitated the reaching of 1,258 intentions of cooperation.

We diligently performed targeted poverty alleviation. We earnestly acted on the decisions and deployments made by the CPC Central Committee and the State Council in order to win the tough battle against poverty, and made all-out efforts in poverty alleviation. We continuously increased our input of financial resources, with our poverty alleviation loans increasing by 23% for the year to reach a balance of RMB62.4 billion. We actively brought together all kinds of resources at home and abroad to engage in poverty alleviation. The Bank assigned 1,550 management personnel to four impoverished counties in Xianyang, Shaanxi, as well as to 1,052 impoverished villages across the rest of the country, and provided RMB115 million gratuitous capital to them.

Keeping abreast with the times and pressing ahead resolutely, we pushed forward the building of a world-class bank in the new era with solid steps.

——**Technology played a larger role in enabling advancement and digitalised development accelerated.** With mobile banking, transaction banking and smart counter as carriers, we accelerated the digitalisation across the whole Bank. The number of subscribers to our mobile banking business exceeded 140 million and transaction volume exceeded RMB20 trillion, with customer experience and market reputation significantly improved. We completed the three platforms of private cloud, big data and AI, and put into use a string of key projects including the intelligent investment advisor, smart customer service, smart risk control and quantitative transaction. The integration and transformation of overseas information systems was successfully completed, thus achieving unified systems, centralised deployments and integrated operation around the globe.

——**Innovation-driven development yielded abundant results and the product and service foundation was continuously consolidated.** We steadily promoted the establishment of a three-level innovation system, set up the Innovation and Product Management Committee under the Executive Committee, and formed the first Head-Office-level innovation R&D base in Singapore. A series of our star products were well received in the market, including the "BOC Wealth Accumulator", "Personal Deposit" and "BOC Robot Advisor". We launched a campaign to expand our merchant customer base, which secured more than 956 thousand of new customers and helped to drive an increase in personal deposits and financial assets of RMB30.0 billion and RMB52.7 billion respectively.

——**Performance through transformation resulted in solid progress and ability of value creation capacity continued to improve.** We made special efforts to optimise our business structure, with the contribution of personal banking operating revenue of the Group further increasing. Our capital-light businesses developed rapidly, including global businesses on behalf of customers and debt capital market. We accelerated the development of our global products and worldwide coordinated marketing, thus further enhancing business globalisation. We commenced the preparation for a wealth management subsidiary and BOC financial leasing, deepening our provision of comprehensive services. We also moved steadily ahead with our capital replenishment program and issued RMB80.0 billion of tier 2 capital bonds.

——**"Enhancing strength through reform" was implemented across the Bank, alongside a constant flow of reforming drive and vigorous development.** Taking into account the different characteristics of our primary-level outlets, overseas organisations, comprehensive operation companies and Head Office departments, we established differentiated management measures to further optimise the Group's management and control mechanism. We pushed forward the reform of the Head Office's organisational structure in an appropriate manner, and improved the management model for inclusive finance, transaction banking and comprehensive operations. We improved our incentive and restraint mechanism by intensifying market benchmarking and placing greater emphasis on value creation. We actively sought out and cultivated excellent young management personnel, hosted training classes of the "Hundred-Talent Programme" and the "Sailing Programme", placed management personnel of different age groups in appropriate positions, and encouraged them to work in areas with challenging conditions and on the frontline. We carefully practiced the CPC's mass line, held the first employees' work meeting in BOC's history, and continuously motivated our employees to work with passion and vitality.

Guided by our development strategy, the Bank's operation management reached a new level. First, our operating revenues exceeded RMB500.0 billion for the first time, recording the highest profits of recent years. Second, the allowance for loan impairment losses exceeded RMB107.0 billion, demonstrating enhanced ability to offset risk. Third, our capital adequacy ratio continued to rise, with our tier 1 capital ranking 3rd among the top 1000 banks worldwide, up one spot from the previous year. Fourth, our per-capita and per-outlet profits kept increasing. More importantly, these new achievements in operation management strongly invigorated the morale of our management personnel and employees. We believe that BOC will reach still greater heights as our development strategy is further implemented.

In 2018, the Bank completed the changes of some directors in accordance with relevant laws, regulations and the Articles of Association. Mr. LIU Liange began to serve as Vice Chairman and Executive Director of the Bank; Mr. WU Fulin and Mr. LIN Jingzhen began to serve as Executive Directors of the Bank; and Mr. LIAO Qiang and Mr. JIANG Guohua began to serve as Non-executive Director and Independent Director of the Bank respectively. On behalf of the Board of Directors, I would like to extend my warm welcome to the new directors and my heartfelt gratitude to Mr. REN Deqi, Mr. ZHANG Qingsong, Mr. ZHANG Xiangdong and Mr. Nout WELLINK, who have ceased to serve as Directors of the Bank, for their contributions to BOC's reform and development.

The world today is faced with profound changes, never seen before in the past century. The external environment for the banking industry has become more severe and complicated. Following the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, BOC will adhere to the general spirit of seeking progress while maintaining stability and complete the work of deepening supply-side structural reform in the financial sector. We will maintain our strategic resolve, implement our strategy at still deeper levels, improve our financial services offering and prevent financial risks, with the aim of laying a decisive foundation to achieve our goals in the first stage of our strategy and celebrate the 70th anniversary of the founding of the People's Republic of China by delivering outstanding performance.

CHEN Siqing
Chairman
29 March 2019

Message from the President

2018 marked the first year for Bank of China to implement its new development strategy. With the aim of building BOC into a world-class bank in the new era, we advanced our work on all fronts by persistently enabling advancement through technology, driving development through innovation, delivering performance through transformation and enhancing strength through reform, and therefore achieved solid performance in the year.

At the end of 2018, the Group's total assets stood at RMB21.27 trillion, its total liabilities amounted to RMB19.54 trillion and the equity attributable to shareholders of the Bank was RMB1.61 trillion according to International Financial Reporting Standards, representing an increase of 9.25%, 9.23% and 7.82% respectively from the prior year-end. The Group achieved a profit for the year of RMB192.4 billion, a year-on-year increase of 4.03%. The Bank's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio stood at 11.41%, 12.27% and 14.97% respectively, all meeting regulatory requirements.

In 2018, the Bank actively responded to changes in the external environment, and achieved steady growth. First, our operating income saw a continued increase. The Group's operating income reached RMB503.806 billion, up 4.14% year on year. Second, our operating efficiency improved steadily. The Group's cost-to-income ratio was 28.09%, down 0.25 percentage point from the previous year. Third, our business structure was constantly improved. The contribution of personal banking operating revenue of the Group further increased. Overseas business maintained favourable growth momentum, and unique strengths were continuously consolidated. Notably, the Bank's capacity to offset risk was significantly strengthened. The allowance for loan impairment losses to non-performing loans reached 181.97%, an increase of 22.79 percentage points compared with the previous year.

The Bank persistently enabled advancement through technology, and accelerated the construction of a digital bank. The Bank continuously improved the functions of mobile banking, with the volume of its mobile banking transactions exceeding RMB20 trillion. It accelerated the development of an intelligent outlet service system by setting up smart counters at all outlets and promoting mobile and cash-based smart counters, thus greatly improving outlet productivity. It launched door-to-door account opening services for corporate customers, shortening the handling time to 30 minutes. It established the "Cyber Defense" anti-fraud platform based on big data and AI technology. The Bank completed the infrastructure of distributed private cloud platform, big data platform, and AI platform to support business innovation. It decisively advanced the construction of a "multi-region, multi-centre" IT infrastructure, and put the Xi'an Cloud Centre into operation. Our technology service capacity continued to improve, and our IT capacity grew 16.6% year on year. It ranked 2nd in the number of FinTech invention patent applications in the global financial industry.

The Bank upgraded its products and services in order to drive development through innovation. The number of new products increased 126% year on year, injecting new vitality into our business development. The Bank participated in the construction of the financial module of "single window" of the customs, and launched an innovative electronic collective letter of guarantee service for customs duty payment. It handled the first batch of crude oil futures trading and provided a package of related financial services, as well as completing operations for the internationalisation of first batch of iron ore futures and the Pure Terephthalic Acid (PTA) futures. The Bank released the intelligent investment advisory product "BOC Robot Advisor", recording a transactions volume of RMB5.7 billion. It issued the Railway e Card in an effort to expand the scenarios in rail transport. In addition, the Bank launched an appointment service for online foreign-currency withdrawal for personal customers. It put into operation an integrated financial service platform for supply chain, as well as a cloud technology-backed payment platform, thus boosting innovation in its product portfolios.

The Bank endeavoured to deliver performance through transformation with the aim of supporting high-quality economic development. Relying on its leading advantages in global operations, the Bank took the initiative to serve the country's expansion of opening-up. It sped up its efforts in free trade zones, becoming one of the first pilot banks in the free trade account system of Hainan. It cooperated with China Foreign Exchange Trade System and took the lead in launching the CFETS-BOC Traded bond index in Singapore. Steady progress was made in its overseas regional management and network. Six Southeast Asian institutions were integrated with BOCHK, the professional role of overseas business centres was strengthened, and the intensive operation and management was gradually enhanced. The Bank pushed forward its comprehensive services, strengthened effective synergy of commercial banking business with securities, insurance, funds, and investment banking, providing its customers with efficient package services. Thus its comprehensive operation maintained favourable growth momentum. The Bank's asset-light strategy yielded excellent results. The development of asset-light businesses such as old-age pension accelerated, and the Group's credit risk weight declined by 1.3 percentage points.

The Bank continuously improved its management mechanisms in order to enhance strength through reform. The Bank developed plans for 11 key fields including information technology, corporate finance, personal finance, financial markets, and global operations, and took solid steps to implement the Group's strategy. It reformed its incentive and constraint mechanism and resource allocation mechanism so as to strengthen value creation. It improved its allocation mechanism for staff costs to emphasise long-term performance, and implemented five-year thorough personal appraisal for high-ranking employees. It steadily advanced the structural reform of the Head Office, and refined the organisational structure of equity investment and comprehensive service management, transaction banking, and inclusive finance. The Bank improved the management mode and clarified the development strategies of its branches in provincial capitals, thus enhancing the competitiveness of those institutions.

The Bank remained committed to prudent operations and strengthened risk management on all fronts. The Group's asset quality was basically stable during the year. Domestic branches disposed of non-performing assets of RMB152.5 billion, and outstanding loans and outstanding non-performing loans granted to industries with severe overcapacity decreased by RMB10.1 billion and RMB3.3 billion, respectively. The Europe-Africa collective approval centre was established to strengthen the management and control of overseas credit risk. The Bank paid close attention to market changes, took strong measures to deal with fluctuations in emerging markets, strengthened daily monitoring and pre-warning of bonds, and intensified the proactive management of market risk. It reinforced its anti-money laundering system, strengthened the construction of branch-level monitoring and analytical centres, and consolidated the compliance management of domestic and overseas institutions so as to comprehensively upgrade its level of compliance in an all-round manner.

In 2019, the Bank will earnestly implement the decisions and arrangements of the CPC Central Committee and the State Council on economic and financial work, advance its implementation of the development strategy, and strive to take our work to a new level. First, we will dedicate ourselves to serving the real economy, moderately accelerate capital spending, boost the development of inclusive finance, actively support private economy, increase efforts to expand our customer base and liability business in a comprehensive manner, and thus improve the quality and efficiency of our development. Second, we will focus on infrastructure construction, solidifying the foundation of technology, products and services, and channels, driving development through innovation, in order to sustain our development. Third, by capitalising on our advantages and characteristics, we will push forward our global operations and comprehensive services, and strengthen synergy and cohesion within the Group to enhance coordination and efficiency. Fourth, we will guard against financial risks, and continuously tighten comprehensive risk management, especially of credit risk, compliance and anti-money laundering risk, internal control and operational risk, market risk and liquidity risk, firmly hold the bottom line for compliance and risk management, in order to guarantee safe and prudent operation.

Heading into my second year with the Bank, I would like to take this opportunity to extend my gratitude to the Board of Directors and the Board of Supervisors for their guidance and support, to all employees at home and abroad for their hard work, and to our investors and friends from all sectors of society for their trust and support. In 2019, under the strong leadership of the CPC Central Committee and the State Council, I will work with the management to earnestly implement the decisions and plans of the Board of Directors, accept supervision from the Board of Supervisors, be honest and pragmatic, and diligently carry out work with innovative spirit. Together, we will strive hard with all our efforts to build BOC into a world-class bank in the new era, and repay our customers, investors and society for their trust and support with exceptional performance.

LIU Liange
President
29 March 2019

Message from the Chairman of the Board of Supervisors

In 2018, the Board of Supervisors implemented new strategies and planned new moves with a fresh mind-set and solid work style, in compliance with relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank, and in alignment with the Bank's overall reform and development, as well as strategy implementation. It diligently supervised the duty performance, financial management, internal control and risk management, added a great deal of insight and perspective to its work, and played a constructive supervisory role for the Bank's sound development.

During the past year, the Board of Supervisors fulfilled its supervisory duties in accordance with the law. It carried out the supervision and assessment of the duty performance of directors and senior management members in an orderly fashion, urged and guided them to diligently perform their duties and raise the overall level of corporate governance. Focused on the Group's strategic goal and based on routine financial supervision, the Board of Supervisors conducted regular review and reporting, deeply analysed the Bank's operation and management action as well as its strategy implementation, exercised solid supervision over strategy and finance, and presented suggestions in a timely manner to the Board of Directors, the Senior Management and functional departments on the issues requiring close attention. Firmly bearing in mind its responsibility for risk supervision, the Board of Supervisors deepened the supervision of risk management and internal control, devoted greater effort to enhance the focus, analysis and warning of it. It urged the Board of Directors and the Senior Management to perform the duties of risk management and internal control and hold the bottom line of preventing any systemic risks. Alongside its day-to-day supervision, it gave full play to the supplementary function of special surveys. Targeting key topics in strategy implementation, the Board of Supervisors organised special surveys, delved into the root causes, and held extensive discussions regarding suggestions for countermeasures. It provided comprehensive analysis and targeted opinions and suggestions to the Board of Directors and the Senior Management, making the supervision function more effective and promoting the improvement of operation management. New methods were created to improve the interaction and communication between the directors and supervisors, thus optimising governance system synergies. The Board of Supervisors also deepened the coordinated supervision, information sharing and interactive training with the auditing and inspection departments in order to make the supervision function more cost-effective and efficient.

Over the past year, the Board of Supervisors comprehensively fulfilled the requirement of strict governance over the Party organisations and consolidated the foundation of the supervision function. It organised workshops around its activities and discussed how to improve its performance in light of the current circumstances and the Bank's strategy implementation. It organised training courses for supervisors to enhance their professional competence and duty performance capability. All members of the Board of Supervisors carefully fulfilled their duties and actively contributed their opinions to the implementation of the Bank's strategy. The Board of Directors and the Senior Management paid close attention and gave strong support to the work of the Board of Supervisors, carefully studied relevant supervisory reminders it issued, and made corrections and improvements accordingly, so as to perfect the Bank's operation management.

In the past year, the Board of Supervisors successfully completed changes to its membership according to related laws, regulations and the Articles of Association of the Bank. Mr. WANG Xueqiang, Mr. DENG Zhiying, Mr. GAO Zhaogang and Ms. XIANG Xi ceased to serve as supervisors of the Bank, while Mr. WANG Zhiheng, Mr. LI Changlin and Mr. LENG Jie began to serve as supervisors of the Bank. On behalf of the Board of Supervisors, I would like to take this opportunity to express my deep gratitude to Mr. WANG Xueqiang, Mr. DENG Zhiying, Mr. GAO Zhaogang and Ms. XIANG Xi for their efforts and contributions to the Bank during their terms, and extend my warm welcome to Mr. WANG Zhiheng, Mr. LI Changlin and Mr. LENG Jie as new members of the Board of Supervisors.

In 2019, the Board of Supervisors will continue to perform the duties endowed by the Articles of Association, centred on the Bank's strategic goal of "Building a World-class Bank in the New Era". Focused on the supervision of duty performance, financial management, internal control and risk management, it will intensify its supervision and assessment of strategy implementation, play an active supervisory and advisory role, and make new contributions to the Bank's sustained and sound development.

WANG Xiquan
Chairman of the Board of Supervisors
29 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

Economic and Financial Environment

In 2018, the global economy continued its overall recovery, albeit with weakened growth momentum and less consistent growth patterns. The US economic recovery recorded solid gains, but showed signs of slowing down. The Eurozone's economic recovery weakened, and the Japanese economy experienced more fluctuations. The UK economy continued to grow at a slow pace, while remaining exposed to the uncertainties brought about by Brexit. The performance of emerging economies continued to diverge. In addition, the growth of international trade in goods slowed down and international direct investment aggregates decreased.

International financial markets experienced large fluctuations. The US Federal Reserve raised interest rates four times and kept reducing its balance sheet, the European Central Bank ceased its asset purchase programme, and the central banks of many emerging economies hiked interest rates. As a result, global liquidity tightened. In addition, the US Dollar Index rose, the euro and the British pound fell against the US dollar, and the currencies of some emerging economies rebounded after a sharp drop. The stock markets of major economies reached a high point and then declined, while commodity prices fell due to concerns over trade tensions, Fed rate increases and the possible peaking of the economic cycle.

The Chinese economy remained stable, and its structure continued to be optimised. The services industry maintained a steady and rapid growth and consumption played a greater role in driving economic growth. The balance of payments was generally balanced and the price situations kept steady. In 2018, China's gross domestic product (GDP) increased by 6.6%, with the consumer price index (CPI) rising by 2.1%. Total retail sales of consumer goods (TRSCG) increased by 9.0%, and total fixed asset investments (TFAI) grew by 5.9%.

The Chinese government implemented a prudent monetary policy. Adhering to the fundamental requirement that the financial sector should serve the real economy, it strengthened financial support in this regard, especially for micro and small-sized enterprises and private enterprises. In general, financial markets operated smoothly. Market liquidity was kept at a reasonable and adequate level, financial institution loans grew fairly rapidly and RMB exchange rates remained basically stable and more flexible. The outstanding broad money supply (M2) grew by 8.1% year on year. The outstanding RMB loans increased by RMB16.2 trillion, RMB2.6 trillion more than that of the prior year. The outstanding all-system financing aggregates was RMB200.8 trillion, an increase of 9.8% compared with the prior year. Bond issuance expanded to a total of RMB43.1 trillion, an increase of 7.5% compared with the prior year. The central parity rate of the RMB against the USD fell by 4.8% compared with the prior year-end.

China’s banking sector continued to operate in a sound manner. Banking institutions dedicated themselves to serving the real economy, strived to prevent and mitigate financial risks and constantly promoted China’s two-way opening up policy. Thanks to these comprehensive efforts, each project yielded fruitful outcomes. It promoted the development of inclusive finance by addressing the difficulties and high costs of financing for micro and small-sized enterprises and the private enterprises. The banking sector continuously increased its efforts to tackle financial markets disorders, to promote structural deleveraging and to reinforce risk prevention and resolution in priority areas. It also vigorously advanced FinTech innovation and improved service quality and efficiency. As at the end of 2018, the total assets of China’s banking industry grew by 6.3% from the prior year-end to RMB268.2 trillion, while total liabilities increased by 5.9% to RMB246.6 trillion. Commercial banking institutions recorded an aggregate profit of RMB1.83 trillion. Outstanding non-performing loans (NPLs) stood at RMB2.03 trillion, with an NPL ratio of 1.83%.

Income Statement Analysis

In 2018, the Group achieved a profit for the year of RMB192.435 billion, an increase of RMB7.449 billion or 4.03% compared with the prior year. It realised a profit attributable to equity holders of the Bank of RMB180.086 billion, an increase of RMB7.679 billion or 4.45% compared with the prior year. Return on average total assets (ROA) was 0.94%, and return on average equity (ROE) was 12.06%.

The principal components and changes of the Group's consolidated income statement are set out below:

Unit: RMB million, except percentages

Items	2018	2017	Change	Change (%)
Net interest income	**359,706**	338,389	21,317	6.30%
Non-interest income	**144,100**	145,372	(1,272)	(0.87%)
Including: net fee and commission income	**87,208**	88,691	(1,483)	(1.67%)
Operating income	**503,806**	483,761	20,045	4.14%
Operating expenses	**(176,979)**	(173,859)	(3,120)	1.79%
Impairment losses on assets	**(99,294)**	(88,161)	(11,133)	12.63%
Operating profit	**227,533**	221,741	5,792	2.61%
Profit before income tax	**229,643**	222,903	6,740	3.02%
Income tax expense	**(37,208)**	(37,917)	709	(1.87%)
Profit for the year	**192,435**	184,986	7,449	4.03%
Profit attributable to equity holders of the Bank	**180,086**	172,407	7,679	4.45%

A detailed review of the Group's principal items in each quarter of 2018 is summarised in the following table:

Unit: RMB million

Items	For the three-month period ended 31 December 2018	30 September 2018	30 June 2018	31 March 2018
Operating income	127,947	124,377	125,396	126,086
Profit attributable to equity holders of the Bank	26,812	44,186	60,087	49,001
Net cash flow from operating activities	91,303	211,986	(23,613)	382,682

Net Interest Income and Net Interest Margin

In 2018, the Group achieved a net interest income of RMB359.706 billion, an increase of RMB21.317 billion or 6.30% compared with the prior year. The average balances[1] and average interest rates of the major interest-earning assets and interest-bearing liabilities of the Group, as well as the impact on interest income/expense of variances in the volume factor and the interest factor[2], are summarised in the following table:

Unit: RMB million, except percentages

	2018			2017			Analysis of changes in interest income/expense		
Items	Average balance	Interest income/ expense	Average interest rate	Average balance	Interest income/ expense	Average interest rate	Volume factor	Interest rate factor	Total
Interest-earning assets									
Loans	**11,107,013**	**469,098**	**4.22%**	10,601,544	414,695	3.91%	19,764	34,639	54,403
Investments	**4,497,016**	**144,326**	**3.21%**	4,290,094	132,167	3.08%	6,373	5,786	12,159
Balances with central banks and due from and placements with banks and other financial institutions	**3,282,457**	**74,476**	**2.27%**	3,468,502	75,754	2.18%	(4,056)	2,778	(1,278)
Total	**18,886,486**	**687,900**	**3.64%**	18,360,140	622,616	3.39%	22,081	43,203	65,284
Interest-bearing liabilities									
Due to customers	**14,072,677**	**229,998**	**1.63%**	13,488,149	204,794	1.52%	8,885	16,319	25,204
Due to and placements from banks and other financial institutions	**3,042,646**	**76,478**	**2.51%**	2,934,718	63,634	2.17%	2,342	10,502	12,844
Bonds issued	**580,755**	**21,718**	**3.74%**	432,587	15,799	3.65%	5,408	511	5,919
Total	**17,696,078**	**328,194**	**1.85%**	16,855,454	284,227	1.69%	16,635	27,332	43,967
Net interest income		**359,706**			338,389		5,446	15,871	21,317
Net interest margin			**1.90%**			1.84%			6 Bps

Notes:

1 In 2018, investments include debt securities at fair value through other comprehensive income, debt securities at amortised cost, investment trusts and asset management plans, etc. In the data of the previous reporting period, investments included available-for-sale debt securities, held-to-maturity debt securities, debt securities classified as loans and receivables, trading debt securities, debt securities designated at fair value through profit and loss, investment trusts and asset management plans.

2 Balances with central banks and due from and placements with banks and other financial institutions include mandatory reserves, surplus reserves, other placements with central banks and due from and placements with banks and other financial institutions.

3 Due to and placements from banks and other financial institutions include due to and placements from banks and other financial institutions, due to central banks and other funds.

4 For the calculation of net interest margin, the interest of financial assets and financial liabilities at fair value through profit or loss under IFRS 9 is not recognised. Pursuant to the principle of matching returns with assets, personal credit card instalment is now categorised under non-interest-earning assets.

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1 Average balances are average daily balances derived from the Group's management accounts (unaudited).

2 The impact on interest income/expense of variances in the volume factor is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact on interest income/expense of variances in interest rate factor is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both the volume factor and the interest rate factor has been classified as changes in interest rate factor.

The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

Unit: RMB million, except percentages

Items	2018 Average balance	2018 Average interest rate	2017 Average balance	2017 Average interest rate	Change Average balance	Change Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	**4,754,363**	**4.47%**	4,500,691	4.40%	253,672	7 Bps
Personal loans	**3,448,247**	**4.67%**	3,250,322	4.25%	197,925	42 Bps
Trade bills	**165,797**	**4.47%**	181,448	4.09%	(15,651)	38 Bps
Total	**8,368,407**	**4.55%**	7,932,461	4.33%	435,946	22 Bps
Including:						
Medium- and long-term loans	**5,828,652**	**4.77%**	5,446,487	4.53%	382,165	24 Bps
Short-term loans within 1 year and others	**2,539,755**	**4.06%**	2,485,974	3.90%	53,781	16 Bps
Due to customers						
Corporate demand deposits	**3,097,595**	**0.65%**	2,914,497	0.62%	183,098	3 Bps
Corporate time deposits	**2,254,006**	**2.77%**	2,206,175	2.73%	47,831	4 Bps
Personal demand deposits	**1,948,774**	**0.66%**	1,798,631	0.62%	150,143	4 Bps
Personal time deposits	**2,575,439**	**2.68%**	2,629,645	2.71%	(54,206)	(3) Bps
Other	**528,899**	**4.19%**	374,257	3.77%	154,642	42 Bps
Total	**10,404,713**	**1.79%**	9,923,205	1.76%	481,508	3 Bps
Domestic foreign currency businesses				Unit: USD million, except percentages		
Loans	**49,355**	**3.08%**	51,280	2.47%	(1,925)	61 Bps
Due to customers						
Corporate demand deposits	**45,065**	**0.62%**	43,947	0.22%	1,118	40 Bps
Corporate time deposits	**29,668**	**1.89%**	22,550	1.33%	7,118	56 Bps
Personal demand deposits	**27,047**	**0.05%**	27,714	0.05%	(667)	–
Personal time deposits	**19,125**	**0.63%**	20,445	0.59%	(1,320)	4 Bps
Other	**2,002**	**2.30%**	2,308	2.17%	(306)	13 Bps
Total	**122,907**	**0.83%**	116,964	0.49%	5,943	34 Bps

Note:

1 "Due to customers – Other" includes structured deposits.

2 According to the principle of matching income and related assets, personal credit card instalment is classified as non-interest-earning asset.

In 2018, the Group's net interest margin was 1.90%, an increase of 6 basis points compared with the prior year. Specifically, the net interest margin of its domestic RMB businesses was 2.11%, an increase of 7 basis points compared with the prior year. Major factors that affected the Group's net interest margin include:

First, the Bank continuously improved its asset and liability structure. In response to changes in the external environment, the Bank adjusted its existing assets and liabilities and efficiently allocated their increments, resulting in continuous improvement to its asset and liability structure. In 2018, the proportion of the average balance of domestic RMB medium- and long-term loans to domestic RMB loans business increased by 0.99 percentage point compared with the prior year. The proportion of the average balance of the domestic RMB demand deposits to domestic RMB deposit business increased by 1.00 percentage point compared with the prior year.

Second, the PBOC reduced reserve requirement ratios. In 2018, the PBOC cut the reserve requirement ratios four times, and the applicable RMB deposit reserve requirement ratio of the Bank decreased compared with the prior year-end.

Non-interest Income

In 2018, the Group reported a non-interest income of RMB144.100 billion[3], a decrease of RMB1.272 billion or 0.87% compared with the prior year. Non-interest income represented 28.60% of operating income.

Net Fee and Commission Income

The Group earned a net fee and commission income of RMB87.208 billion, a decrease of RMB1.483 billion or 1.67% compared with the prior year. Net fee and commission income represented 17.31% of operating income. This was primarily attributable to a decrease in income from the wealth management business and agency insurance business of domestic commercial banks compared to the prior year. At the same time, the Bank followed the trend of fast-paced development of consumer finance, and realised a rapid increase in income from credit card business and others.

Unit: RMB million, except percentages

Items	2018	2017	Change	Change (%)
Group				
Agency commissions	**20,212**	23,310	(3,098)	(13.29%)
Bank card fees	**29,943**	25,798	4,145	16.07%
Settlement and clearing fees	**13,670**	12,323	1,347	10.93%
Credit commitment fees	**13,181**	15,090	(1,909)	(12.65%)
Consultancy and advisory fees	**3,534**	5,615	(2,081)	(37.06%)
Spread income from foreign exchange business	**7,740**	8,083	(343)	(4.24%)
Custodian and other fiduciary service fees	**3,597**	3,527	70	1.98%
Other	**8,120**	7,054	1,066	15.11%
Fee and commission income	**99,997**	100,800	(803)	(0.80%)
Fee and commission expense	**(12,789)**	(12,109)	(680)	5.62%
Net fee and commission income	**87,208**	88,691	(1,483)	(1.67%)
Domestic				
Agency commissions	**14,353**	17,074	(2,721)	(15.94%)
Bank card fees	**26,364**	22,442	3,922	17.48%
Settlement and clearing fees	**12,082**	10,773	1,309	12.15%
Credit commitment fees	**6,760**	7,513	(753)	(10.02%)
Consultancy and advisory fees	**3,331**	5,415	(2,084)	(38.49%)
Spread income from foreign exchange business	**7,088**	7,096	(8)	(0.11%)
Custodian and other fiduciary service fees	**3,474**	3,421	53	1.55%
Other	**4,384**	4,194	190	4.53%
Fee and commission income	**77,836**	77,928	(92)	(0.12%)
Fee and commission expense	**(7,642)**	(7,200)	(442)	6.14%
Net fee and commission income	**70,194**	70,728	(534)	(0.76%)

[3] In 2018 non-interest income includes the interest of financial assets and financial liabilities at fair value through profit or loss under IFRS 9.

Other Non-interest Income

The Group realised other non-interest income of RMB56.892 billion, an increase of RMB0.211 billion or 0.37% compared with the prior year. This was primarily attributable to the following factors: (1) an increase in net gains from interest rate products compared with the prior year following re-classification adjustments under IFRS 9; (2) the recognised gains on the investment disposal for selling Chiyu Banking Corporation Limited in 2017;(3) a decrease in net gains from foreign exchange derivatives trading compared with the prior year, affected by market price fluctuations. Please refer to Notes V.3, 4, 5 to the Consolidated Financial Statements for detailed information.

Operating Expenses

The Bank continued to operate its business in a prudent manner. It optimised and adjusted its cost structure, enhanced investment in technological innovation, seized the market opportunities arising from the Olympic Winter Games Beijing 2022, allocated greater resources to key areas, business frontlines and overseas institutions, and made greater efforts to support mobile finance, RMB internationalisation and the construction of smart service outlets. In 2018, the Group recorded operating expenses of RMB176.979 billion, an increase of RMB3.120 billion or 1.79% compared with the prior year. The Group's cost to income ratio (calculated in accordance with domestic regulations) was 28.09%, a decrease of 0.25 percentage point compared with the prior year. Please refer to Notes V.6, 7 to the Consolidated Financial Statements for detailed information.

Unit: RMB million, except percentages

Items	**2018**	2017	Change	Change (%)
Staff costs	**85,391**	82,061	3,330	4.06%
General operating and administrative expenses	**42,768**	41,235	1,533	3.72%
Depreciation and amortisation	**13,451**	13,667	(216)	(1.58%)
Taxes and surcharges	**4,744**	4,676	68	1.45%
Insurance benefits and claims	**17,008**	22,607	(5,599)	(24.77%)
Other	**13,617**	9,613	4,004	41.65%
Total	**176,979**	173,859	3,120	1.79%

Impairment Losses on Assets

The Bank continued to improve its comprehensive risk management system and adopted a proactive and forward-looking risk management approach, thus ensuring a basically stable credit asset quality. It stringently implemented a prudent risk provisioning policy and maintained an adequate capacity for risk mitigation. In 2018, the Group's impairment losses on loans and advances totalled RMB107.905 billion, an increase of RMB23.880 billion or 28.42% compared with the prior year. Please refer to the section "Risk Management — Credit Risk Management" and Notes V.9, 17, VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

Income Tax Expense

In 2018, the Group incurred income tax of RMB37.208 billion, a decrease of RMB0.709 billion or 1.87% compared with the prior year. The Group's effective tax rate was 16.20%, representing a decrease of 0.81 percentage point compared with the prior year. This was primarily attributable to an increase in bond investment, for which the Bank enjoyed a preferential rate of corporate income tax. Please refer to Note V.10 to the Consolidated Financial Statements for the reconciliation of statutory income tax expense to effective income tax expense.

Financial Position Analysis

As at the end of 2018, the Group's total assets amounted to RMB21,267.275 billion, an increase of RMB1,799.851 billion or 9.25% compared with the prior year-end. The Group's total liabilities amounted to RMB19,541.878 billion, an increase of RMB1,651.133 billion or 9.23% compared with the prior year-end.

The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million, except percentages

	As at 31 December 2018		As at 31 December 2017	
Items	**Amount**	**% of total**	Amount	% of total
Assets				
Loans and advances to customers, net	**11,515,764**	**54.15%**	10,644,304	54.68%
Investments	**5,054,551**	**23.77%**	4,554,722	23.40%
Balances with central banks	**2,331,053**	**10.96%**	2,227,614	11.44%
Due from and placements with banks and other financial institutions	**1,405,534**	**6.61%**	1,060,456	5.45%
Other assets	**960,373**	**4.51%**	980,328	5.03%
Total assets	**21,267,275**	**100.00%**	19,467,424	100.00%
Liabilities				
Due to customers	**14,883,596**	**76.16%**	13,657,924	76.34%
Due to and placements from banks and other financial institutions and due to central banks	**3,250,997**	**16.64%**	2,961,151	16.55%
Other borrowed funds	**814,888**	**4.17%**	529,756	2.96%
Other liabilities	**592,397**	**3.03%**	741,914	4.15%
Total liabilities	**19,541,878**	**100.00%**	17,890,745	100.00%

Notes: "Other borrowed funds" includes bonds issued and other borrowings.

Loans and Advances to Customers

In line with China's macroeconomic policies and the financial demands of the real economy, the Bank rationally allocated credit extension and expanded its lending scale at a stable and moderate pace. It continuously improved its credit structure, and proactively supported the credit needs of key regions and industries. The Bank strictly controlled credit facilities granted to industries characterised by high pollution, high energy consumption and overcapacity. It also continued to implement a differentiated residential mortgage loan policy and steadily expanded its personal loan business. As at the end of 2018, the Group's loans and advances to customers amounted to RMB11,819.272 billion, an increase of RMB922.714 billion or 8.47% compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB9,095.562 billion, an increase of RMB770.549 billion or 9.26% compared with the prior year-end, while its foreign currency loans amounted to USD396.857 billion, an increase of USD3.305 billion or 0.84% compared with the prior year-end. Please refer to Note V.17 to the Consolidated Financial Statements for detailed information.

The Bank further improved its risk management, paid close attention to changes in the macroeconomic situation, strengthened risk identification and management in key areas and made greater efforts to dispose of non-performing assets (NPAs), thus maintaining a basically stable asset quality. As at the end of 2018, the balance of the Group's allowance for loan impairment losses amounted to RMB303.781 billion, an increase of RMB51.527 billion compared with the prior year-end. The balance of the Group's restructured loans amounted to RMB10.002 billion, an increase of RMB1.865 billion compared with the prior year-end.

Unit: RMB million, except percentages

	As at 31 December 2018		As at 31 December 2017	
Items	**Amount**	**% of total**	Amount	% of total
Corporate Loans	**7,347,598**	**62.17%**	6,972,701	63.99%
Personal Loans	**4,440,085**	**37.57%**	3,923,857	36.01%
Accrued interest	**31,589**	**0.26%**	N.A.	N.A.
Total Loans	**11,819,272**	**100.00%**	10,896,558	100.00%

Investments

The Bank tracked financial market dynamics, increased its bond investments and continuously improved its investment structure.

As at the end of 2018, the Group held investments of RMB5,054.551 billion, an increase of RMB499.829 billion or 10.97% compared with the prior year-end. Specifically, the Group's RMB investments totalled RMB3,978.636 billion, an increase of RMB447.963 billion or 12.69% compared with the prior year-end, while foreign currency investments totalled USD156.766 billion, an increase of USD45 million or 0.03% compared with the prior year-end.

The classification of the Group's financial investment portfolio is shown below:

Unit: RMB million, except percentages

Items	As at 31 December 2018 Amount	As at 31 December 2018 % of total	As at 31 December 2017 Amount	As at 31 December 2017 % of total
Financial assets at fair value through profit or loss	**370,491**	**7.33%**	193,611	4.25%
Financial assets at fair value through other comprehensive income	**1,879,759**	**37.19%**	N.A.	N.A.
Financial assets at amortised cost	**2,804,301**	**55.48%**	N.A.	N.A.
Investment securities available for sale	**N.A.**	**N.A.**	1,857,222	40.78%
Debt securities held to maturity	**N.A.**	**N.A.**	2,089,864	45.88%
Financial investments classified as loans and receivables	**N.A.**	**N.A.**	414,025	9.09%
Total	**5,054,551**	**100.00%**	4,554,722	100.00%

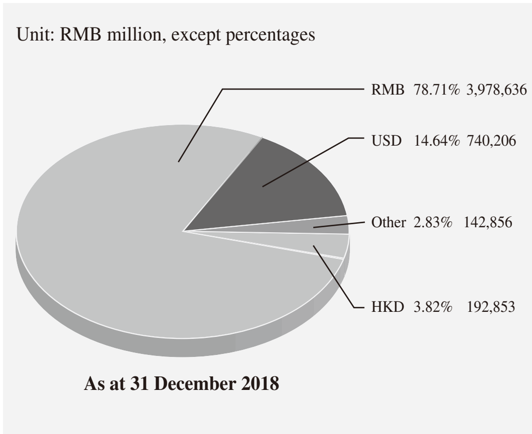
Investments by Issuer Type

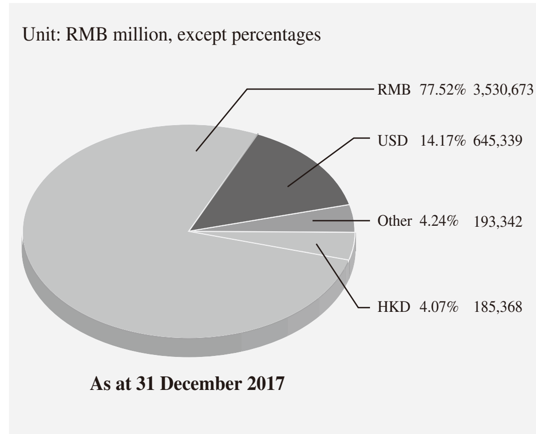
Unit: RMB million, except percentages

Items	As at 31 December 2018 Amount	As at 31 December 2018 % of total	As at 31 December 2017 Amount	As at 31 December 2017 % of total
Debt securities				
Issuers in the Chinese mainland				
Government	**2,654,129**	**52.51%**	2,403,536	52.77%
Public sectors and quasi-governments	**84,364**	**1.67%**	64,016	1.40%
Policy banks	**484,992**	**9.59%**	519,245	11.40%
Financial institutions	**496,675**	**9.83%**	322,827	7.09%
Corporates	**191,690**	**3.79%**	188,811	4.15%
China Orient Asset Management Corporation	**153,627**	**3.04%**	158,806	3.49%
Subtotal	**4,065,477**	**80.43%**	3,657,241	80.30%
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
Governments	**366,602**	**7.25%**	377,196	8.28%
Public sectors and quasi-governments	**108,739**	**2.15%**	92,211	2.02%
Financial institutions	**174,719**	**3.46%**	191,321	4.20%
Corporates	**153,056**	**3.03%**	115,164	2.53%
Subtotal	**803,116**	**15.89%**	775,892	17.03%
Equity instruments and others	**185,958**	**3.68%**	121,589	2.67%
Total	**5,054,551**	**100.00%**	4,554,722	100.00%

Note: "Equity instruments and others" includes accrual interest.

Investments by Currency





Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity Date	Impairment Allowance
Bond issued by policy banks in 2016	15,363	2.65%	2019-10-20	–
Bond issued by policy banks in 2018	14,012	4.98%	2025-01-12	–
Bond issued by policy banks in 2017	12,662	3.88%	2020-04-19	–
Bond issued by policy banks in 2017	11,100	4.39%	2027-09-08	–
Bond issued by policy banks in 2017	9,729	3.54%	2020-01-06	–
Bond issued by policy banks in 2018	9,320	4.73%	2025-04-02	–
Bond issued by policy banks in 2017	9,309	3.98%	2020-04-19	–
Bond issued by policy banks in 2018	8,962	4.99%	2023-01-24	–
Bond issued by policy banks in 2014	8,566	5.44%	2019-04-08	–
Bond issued by policy banks in 2017	7,845	4.02%	2022-04-17	–

Note: Financial bonds refer to debt securities issued by financial institutions in the bond market, including the bonds issued by policy banks, other banks and non-bank financial institutions, but excluding restructured bonds and PBOC bills.

Due to Customers

The Bank aligned itself with the trend towards interest rate liberalisation, accelerated product and service innovation and thus enhanced its financial services offering. As a result, its liability business grew steadily. It further improved salary payment agency, payment collection and other basic services, optimised the functions of personal certificates of deposit (CDs), steadily expanded its administrative institution customer base and solidified its relationships with basic settlement and cash management customers. As a result, it achieved steady growth in customer deposits.

As at the end of 2018, the Group's due to customers amounted to RMB14,883.596 billion, an increase of RMB1,225.672 billion or 8.97% compared with the prior year-end. Specifically, the Group's RMB due to customers totalled RMB11,256.454 billion, an increase of RMB1,020.125 billion or 9.97% compared with the prior year-end, while its foreign currency due to customers stood at USD528.491 billion, an increase of USD4.847 billion or 0.93%.

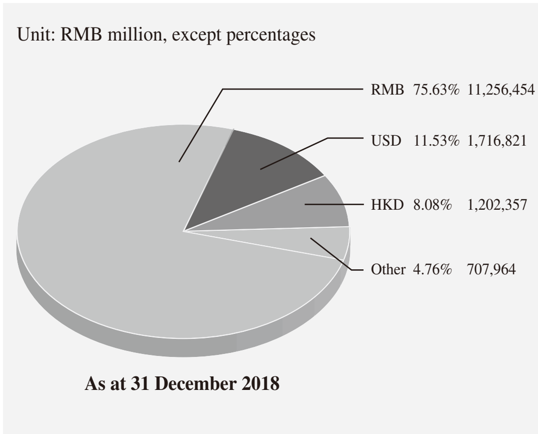
The principal components of due to customers of the Group and its domestic institutions are set out below:

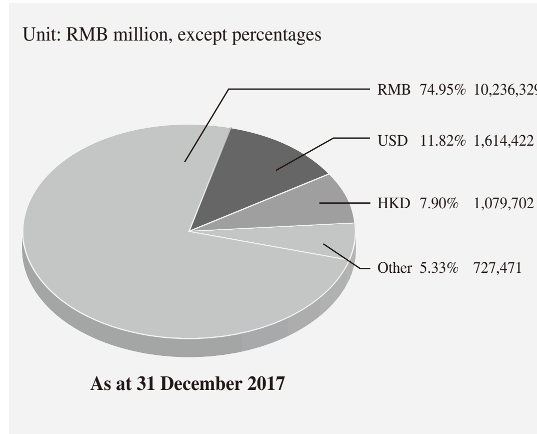
Unit: RMB million, except percentages

Items	As at 31 December 2018 Amount	As at 31 December 2018 % of total	As at 31 December 2017 Amount	As at 31 December 2017 % of total
Group				
Corporate deposits				
Demand deposits	**4,178,962**	**28.08%**	3,955,206	28.96%
Time deposits	**3,507,071**	**23.56%**	3,213,375	23.53%
Structured deposits	**246,380**	**1.66%**	215,193	1.58%
Subtotal	**7,932,413**	**53.30%**	7,383,774	54.07%
Personal deposits				
Demand deposits	**2,935,661**	**19.72%**	2,613,409	19.13%
Time deposits	**3,148,265**	**21.15%**	3,060,245	22.41%
Structured deposits	**338,544**	**2.28%**	157,574	1.15%
Subtotal	**6,422,470**	**43.15%**	5,831,228	42.69%
Certificates of deposit	**287,808**	**1.93%**	377,460	2.76%
Others	**240,905**	**1.62%**	65,462	0.48%
Total	**14,883,596**	**100.00%**	13,657,924	100.00%
Domestic				
Corporate deposits				
Demand deposits	**3,588,353**	**30.19%**	3,368,630	31.05%
Time deposits	**2,520,127**	**21.20%**	2,361,406	21.76%
Structured deposits	**229,768**	**1.93%**	201,916	1.86%
Subtotal	**6,338,248**	**53.32%**	5,931,952	54.67%
Personal deposits				
Demand deposits	**2,312,488**	**19.45%**	1,992,092	18.36%
Time deposits	**2,685,026**	**22.59%**	2,714,253	25.01%
Structured deposits	**331,064**	**2.79%**	155,076	1.43%
Subtotal	**5,328,578**	**44.83%**	4,861,421	44.80%
Others	**219,969**	**1.85%**	58,045	0.53%
Total	**11,886,795**	**100.00%**	10,851,418	100.00%

Note: "Others" are inclusive of accrued interest in 2018.

Due to Customers by Currency





Equity

As at the end of 2018, the Group's total equity stood at RMB1,725.397 billion, an increase of RMB148.718 billion or 9.43% compared with the prior year-end. This was primarily attributable to the following factors: (1) starting on 1 January 2018, the Group applied IFRS 9, which caused total equity to decrease RMB35.417 billion; (2) in 2018, it realised a profit for the year of RMB192.435 billion, among which the profit attributable to equity holders of the Bank was RMB180.086 billion; (3) as per the 2017 profit distribution plan approved at the 2017 Annual General Meeting, the Bank paid a cash dividend of RMB51.812 billion; (4) the Bank paid a dividend on its preference shares of RMB6.791 billion. Please refer to the "Consolidated Statement of Changes in Equity" in the Consolidated Financial Statements for detailed information.

Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments, etc.

The Group entered into various derivative financial instruments relating to foreign currency exchange rates, interest rates, equity, credit, precious metals and other commodities for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note V.16 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include legal proceedings and arbitrations, assets pledged, collateral accepted, capital commitments, operating leases, Treasury bonds redemption commitments, credit commitments and underwriting obligations, etc. Please refer to Note V.41 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

As at the end of 2018, the balance of the Group's cash and cash equivalents was RMB1,688.600 billion, an increase of RMB729.848 billion compared with the prior year-end.

In 2018, net cash flow from operating activities was an inflow of RMB662.358 billion, an increase of RMB256.222 billion compared with the prior year. This was mainly attributable to the increase in the net increase of balances with customer deposits and due to banks and other financial institutions and a net decrease of balances with due to central banks, whereas it was a net increase in the prior year.

Net cash flow from investing activities was an outflow of RMB182.493 billion, a decrease of RMB322.597 billion compared with the prior year. This was mainly attributable to the increase of proceeds from financial investment compared with the prior year.

Net cash flow from financing activities was an inflow of RMB229.337 billion, an increase of RMB163.753 billion compared with the prior year. This was mainly attributable to the increase of proceeds from issuance of bonds compared with the prior year.

Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions. A geographical analysis of profit contribution and the related assets and liabilities is set forth in the following table:

Unit: RMB million

	Chinese mainland		Hong Kong, Macao and Taiwan		Other countries and regions		Elimination		Group	
Items	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net interest income	**303,945**	284,930	**38,831**	37,745	**16,930**	15,714	**–**	–	**359,706**	338,389
Non-interest income	**89,099**	85,774	**51,143**	57,401	**6,647**	6,856	**(2,789)**	(4,659)	**144,100**	145,372
Including: net fee and commission income	**70,194**	70,728	**14,083**	15,073	**4,367**	4,336	**(1,436)**	(1,446)	**87,208**	88,691
Operating expenses	**(131,958)**	(126,351)	**(39,956)**	(43,172)	**(6,967)**	(6,265)	**1,902**	1,929	**(176,979)**	(173,859)
Impairment losses on assets	**(98,872)**	(85,286)	**(1,114)**	(1,722)	**692**	(1,153)	**–**	–	**(99,294)**	(88,161)
Profit before income tax	**162,224**	159,067	**51,004**	51,414	**17,302**	15,152	**(887)**	(2,730)	**229,643**	222,903
As at the year-end										
Assets	**16,932,306**	15,503,536	**4,197,031**	3,534,044	**2,009,680**	1,911,087	**(1,871,742)**	(1,481,243)	**21,267,275**	19,467,424
Liabilities	**15,625,811**	14,285,717	**3,844,519**	3,235,718	**1,943,129**	1,850,392	**(1,871,581)**	(1,481,082)	**19,541,878**	17,890,745

As at the end of 2018, total assets[4] of the Bank's Chinese mainland segment amounted to RMB16,932.306 billion, an increase of RMB1,428.770 billion or 9.22% compared with the prior year-end, representing 73.18% of the Group's total assets. In 2018, this segment recorded a profit before income tax of RMB162.224 billion, an increase of RMB3.157 billion or 1.98% compared with the prior year, representing 70.37% of the Group's profit before income tax for the year.

4 The figures for segment assets, segment profit before income tax and their respective proportions are prior to intragroup elimination.

Total assets of the Hong Kong, Macao and Taiwan segment amounted to RMB4,197.031 billion, an increase of RMB662.987 billion or 18.76% compared with the prior year-end, representing 18.14% of the Group's total assets. In 2018, this segment recorded a profit before income tax of RMB51.004 billion, a decrease of RMB0.410 billion or 0.80% compared with the prior year, representing 22.12% of the Group's profit before income tax for the year.

Total assets of the other countries and regions segment amounted to RMB2,009.680 billion, an increase of RMB98.593 billion or 5.16% compared with the prior year-end, representing 8.68% of the Group's total assets. In 2018, this segment recorded a profit before income tax of RMB17.302 billion, an increase of RMB2.150 billion or 14.19% compared with the prior year, representing 7.51% of the Group's profit before income tax for the year.

Please refer to the section "Business Review" for more detailed information on the Group's business segments.

Critical Accounting Estimates and Judgements

The Bank makes accounting estimates and judgements that affect the reported amounts of assets and liabilities of the next financial year. These estimates and judgements are continually evaluated and are based on historical experience, expectations of future events that are believed to be reasonable under the circumstances and other factors. The management believes that the accounting estimates and judgements have properly reflected the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

Fair Value Measurement

Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	As at 31 December 2018	As at 31 December 2017	Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	**273,447**	168,399	105,048	(164)
Loans	**N.A.**	5,493	N.A.	
Equity instruments	**47,061**	8,029	39,032	
Fund investments and other	**49,983**	11,690	38,293	
Loans and advances to customers	**227,643**	N.A.	N.A.	739
Financial assets at fair value through other comprehensive income				
Debt securities	**1,862,232**	N.A.	N.A.	46
Equity instruments and other	**17,527**	N.A.	N.A.	
Investment securities available for sale				
Debt securities	**N.A.**	1,769,758	N.A.	N.A.
Equity instruments	**N.A.**	38,694	N.A.	
Fund investments and other	**N.A.**	48,770	N.A.	
Derivative financial assets	**124,126**	94,912	29,214	6
Derivative financial liabilities	**(99,254)**	(111,095)	11,841	
Due to and placements from banks and other financial institutions at fair value	**(876)**	(1,246)	370	(6)
Due to customers at fair value	**(24,141)**	(372,767)	348,626	–
Bonds issued at fair value	**(20,517)**	(1,907)	(18,610)	(41)
Short position in debt securities	**(14,327)**	(17,219)	2,892	(35)

The Bank has put in place a sound internal control mechanism for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks*, the *Regulatory Guidelines on Valuation of Financial Instruments in Commercial Banks*, CAS and IFRS, with reference to the New Basel Capital Accord, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Valuation Policy of Financial Instrument Fair Values of Bank of China Limited* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure. Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the fair value measurement.

Other Financial Information

There are no differences in the equity and profit for the year of the Group prepared in accordance with IFRS to those prepared in accordance with CAS. Please refer to Supplementary Information I to the Consolidated Financial Statements for detailed information.

BUSINESS REVIEW

Operating income for each line of business of the Group is set forth in the following table:

Unit: RMB million, except percentages

Items		2018 Amount	2018 % of total	2017 Amount	2017 % of total
Commercial banking business		**462,355**	**91.77%**	436,251	90.18%
Including:	Corporate banking business	**211,365**	**41.96%**	204,509	42.27%
	Personal banking business	**173,531**	**34.44%**	159,197	32.91%
	Treasury operations	**77,459**	**15.37%**	72,545	15.00%
Investment banking and insurance		**25,524**	**5.07%**	31,622	6.54%
Others and elimination		**15,927**	**3.16%**	15,888	3.28%
Total		**503,806**	**100.00%**	483,761	100.00%

A detailed review of the Group's principal deposits and loans is summarised in the following table:

Unit: RMB million

Items		As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Corporate deposits				
Domestic:	RMB	**5,884,433**	5,495,494	5,213,790
	Foreign currency	**453,815**	436,458	378,368
Hong Kong, Macao, Taiwan and overseas operations		**1,594,165**	1,451,822	1,401,055
Subtotal		**7,932,413**	7,383,774	6,993,213
Personal deposits				
Domestic:	RMB	**5,026,322**	4,551,168	4,349,300
	Foreign currency	**302,256**	310,253	342,045
Hong Kong, Macao, Taiwan and overseas operations		**1,093,892**	969,807	869,441
Subtotal		**6,422,470**	5,831,228	5,560,786
Corporate loans				
Domestic:	RMB	**5,057,654**	4,761,874	4,496,888
	Foreign currency	**280,878**	338,379	336,294
Hong Kong, Macao, Taiwan and overseas operations		**2,009,066**	1,872,448	1,735,787
Subtotal		**7,347,598**	6,972,701	6,568,969
Personal loans				
Domestic:	RMB	**3,933,840**	3,481,682	2,983,945
	Foreign currency	**1,177**	1,250	1,381
Hong Kong, Macao, Taiwan and overseas operations		**505,068**	440,925	419,067
Subtotal		**4,440,085**	3,923,857	3,404,393

Commercial Banking

Domestic Commercial Banking

The Bank is dedicated to three missions: serving the real economy, preventing financial risks, and deepening financial reform. It continued to seek progress while maintaining stability in its business and pushed forward the implementation of its development strategy. Each business sector realised moderate growth, and the overall operating profit maintained its steady progress. In 2018, the domestic commercial banking business achieved an operating income of RMB387.243 billion, an increase of RMB21.773 billion or 5.96% compared with the prior year. Details are summarised in the table below:

Unit: RMB million, except percentages

Items	2018		2017	
	Amount	**% of total**	Amount	% of total
Corporate banking business	**183,739**	**47.45%**	177,868	48.67%
Personal banking business	**153,589**	**39.66%**	141,296	38.66%
Treasury operations	**47,855**	**12.36%**	42,379	11.60%
Other	**2,060**	**0.53%**	3,927	1.07%
Total	**387,243**	**100.00%**	365,470	100.00%

Corporate Banking

The Bank made great efforts to expedite the transformation of its corporate banking business. It further consolidated its corporate customer base, continuously optimised its customer and business structure and improved its global service capabilities for its corporate banking customers, thus achieving steady development in its corporate banking business. In 2018, the Bank's domestic corporate banking business realised an operating income of RMB183.739 billion, an increase of RMB5.871 billion or 3.30%.

Corporate Deposits

The Bank achieved stable growth in corporate deposits by seizing business opportunities arising from key industries, continuously improving its product functions and strengthening marketing efforts for its settlement and cash management products. It expanded its corporate customer base by improving the hierarchical management of its customers and its service system. The Bank managed to attract more administrative institutional customers by improving its products and services for those engaged in industries relating to public finance and social security, education and public health, thus achieving rapid growth in deposits from such institutions. It also actively sought out customers along the upstream and downstream of supply chains and industrial chains in order to achieve higher growth in potential customer deposits. In addition, the Bank enhanced the service functions of its outlets so as to improve their customer service capabilities and increase their contribution to the Bank's deposits.

As at the end of 2018, RMB corporate deposits in the Bank's domestic operations totalled RMB5,884.433 billion, an increase of RMB388.939 billion or 7.08% compared with the prior year-end. Foreign currency corporate deposits amounted to USD66.123 billion, a slight decrease of USD0.673 billion or 1.01% compared with the prior year-end.

Corporate Loans

The Bank continued to strengthen its support for the real economy. It deeply implemented the requirements on supply-side structural reform, actively supported key investment fields and assisted in the transformation and upgrading of the domestic economy. It provided stronger credit support for infrastructure projects and introduced innovative service models for the private economy and private enterprises. The Bank focused on addressing the demands of major projects concerning social welfare and people's livelihood, and allocated more resources to key regions such as the Beijing-Tianjin-Hebei region, the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze Economic Belt, and the Hainan Pilot Free Trade Zone (the "Hainan FTZ"). It also strengthened its support for the business development of key sectors, such as advanced manufacturing, Internet Plus, artificial intelligence (AI), rural revitalisation, and the Olympic Winter Games.

As at the end of 2018, RMB corporate loans of the Bank's domestic operations totalled RMB5,057.654 billion, an increase of RMB295.780 billion or 6.21% compared with the prior year-end. Foreign currency corporate loans totalled USD40.925 billion, a decrease of USD10.861 billion or 20.97% compared with the prior year-end.

Trade Finance and Services

The Bank fully leveraged its traditional advantages in trade finance, accelerated business model innovation and effectively managed its business risks, thus boosting the sound development of trade finance business and continuously consolidating its market dominance. In 2018, the Group's international trade transaction volumes reached USD4.63 trillion. The Bank's domestic institutions retained the largest market share in international trade services and held the leading position among peers in cross-border guarantee business. The Bank actively followed the country's opening up strategy and provided all-round services for the first China International Import Expo (CIIE).

The Bank pushed forward RMB internationalisation in an orderly manner. It acted as a leader in cross-border RMB-related product and service innovation, and as the main channel for RMB cross-border flows. In 2018, the Group's transaction volume of cross-border RMB payment reached RMB5.95 trillion, among which RMB3.99 trillion was undertaken by the Bank's domestic institutions, thus maintaining the largest market share. The Bank promoted the use of RMB in emerging sectors. It supported the Shanghai International Energy Exchange, the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange to successfully list crude oil futures and internationalise iron ore futures and Pure Terephthalic Acid (PTA) futures, respectively, while providing related financial services for domestic and foreign investors, thus helping RMB to enter the commodity trading and pricing system. The Bank launched RMB promotional events in countries such as Hungary, Pakistan and Cambodia, in a bid to expand the use of RMB in countries along the Belt and Road. The Bank also continued to publish the "BOC Cross-border RMB Index (CRI)", "BOC Offshore RMB Index (ORI)" and the *White*

Paper on RMB Internationalisation, providing comprehensive and professional support to help global customers understand and use RMB.

The Bank made steady progress in expanding its Free Trade Zone (FTZ) business. It exerted its best efforts to support the construction of Hainan FTZ, closely tracked the policy opportunities brought about by the deepening of FTZ reform and provided a full range of quality financial services for key projects and customers in FTZs, thus continuing to provide the industry-leading FTZ business. It involved in the whole-process modelling of the financial services "Single Window", and developed such functions as tax payment, reservation for account opening and online letter of guarantee application. The Bank was the first domestic bank to introduce a centralised tax payment e-guarantee and realised the digitalised transmission of guarantee data with customs. With the solid foothold of its four commodity business centres in Shanghai, Singapore, London and New York, the Bank expanded the reach of its transactional and structured commodity financing businesses. The Bank pushed forward the digital transformation of its supply chain finance, thus its online financing business volume continued to grow. The Bank participated in the development and implementation of the "Blockchain Forfaiting Trading Platform" and the "Digital Bills Trading Platform", which effectively enhanced trading safety and efficiency. It researched and developed downstream supply chain financing solutions and made breakthroughs in such scenarios as financing for dealers on e-commerce platforms. The Bank successfully launched a project to connect with the Shanghai Commercial Paper Exchange Corporation Ltd., laying a systemic foundation for trading in commercial paper. In addition, it improved account opening efficiency and customer experience by streamlining the processes of making reservations for account opening and opening accounts with mobile applications.

The Bank was named "Best Transaction Bank" and "Best Trade Finance Bank" by *FinanceAsia*, and received the "Best Bank in Cross-border RMB Business" award from the China Banking Association for its expertise in the trade finance sector.

Cash Management

Drawing on the strength of its integrated global operations, the Bank continuously improved its global cash management service capability, won a number of bids for the cash management service contracts of multinational corporations and quickly expanded the group customer base for cash management. It sped up the promotion of cash management products and provided customers with integrated services such as centralised fund management and information classification and accounting. The Bank catered to "Going Global" enterprises' needs for global information sharing and fund operation, and supported administrative institutions in their financial management reform. It completed China's first SWIFT Direct Connection cross-border remittance business, "SWIFT-Global Payments Innovation (GPI)", and promoted Bank Host-to-Host Direct Connection abroad for the first time. To fulfil customers' needs for multi-channel, multi-segment and one-stop capital management services, the Bank carried out on-going improvements to its "Global Cash Management Platform+" integrated product system, which enabled greater connectivity of the Global Cash Management Platform, SWIFT Direct Connection, Bank Host-to-Host Direct Connection, Multi-Bank Cash Management System and trading data applications. The Bank was recognised as "Best Regional Cash Manager in Asia" by *Euromoney* for the third consecutive year and "Best Cross-border Cash Management Bank" by *Asiamoney* for the second straight year. As a result, "BOC Global Cash Management" has become an increasingly influential brand.

Financial Institutions Business

The Bank continued to deepen comprehensive cooperation with various global financial institutions, including domestic banks, overseas correspondent banks, non-bank financial institutions, overseas central banks, sovereign wealth funds and international financial organisations. It built its integrated financial services platform and maintained a leading position in terms of financial institution customer coverage. The Bank has established correspondent relationships with around 1,600 institutions in 178 countries and regions, thus providing multinational institutions and enterprises with financial services such as international settlement, bond financing, foreign exchange trading, investment custody and global cash management. Closely following the implementation of the Belt and Road Initiative, the Bank consolidated cooperation with key correspondent banks in countries and regions along the Belt and Road. It continued to deepen its wide-reaching cooperation with organisations and development institutions such as Asian Infrastructure Investment Bank, New Development Bank and the Silk Road Fund, participated in the investment and financing projects of domestic policy financial institutions and provided extensive financial services. By making increased efforts to expand its cross-border RMB business, the Bank became the major RMB clearing channel and the main cooperating bank for overseas central banks and other sovereign institutions, commercial banks and exchange houses. To date, it has opened 1,462 cross-border RMB clearing accounts for correspondent banks from 117 countries and regions, thus holding a leading position among domestic banks. It also promoted the RMB Cross-Border Interbank Payment System (CIPS) and signed cooperation agreements for indirect participants with 251 domestic and overseas financial institutions, seizing the largest market share among its peers. The Bank's custodian service for Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign Institutional Investors (RQFII) and its agency service for overseas central banks and other sovereign institutions ranked among the top in the industry in terms of both customer base and business scale. The Bank signed a memorandum of strategic cooperation with the Astana International Financial Centre of Kazakhstan. It was one of the first banks designated by the Shanghai International Energy Exchange Co., Ltd. to act as a margin depository bank for crude oil futures, and by the Dalian Commodity Exchange and Zhengzhou Commodity Exchange to act as a margin depository bank for foreign currencies. It was also the only bank to participate in the pilot stage of the H-shares "full circulation" programme.

As at the end of 2018, the Bank ranked first in terms of market share in foreign currency deposits from financial institutions, and had further increased its market share in terms of the number of third-party custody customers with outstanding balances.

Inclusive Finance

The Bank proactively explored solutions to the difficulties and high costs of financing for micro and small-sized enterprises. It endeavoured to increase inclusive finance loans with a focus on the relatively weak groups among micro and small-sized enterprises, thus further strengthening its financial support for the key areas of inclusive finance.

The Bank implemented special resource allocation and provided comprehensive policy support for inclusive finance. It refined its inclusive finance structure, established a sound service system, promoted the launch of a bank-wide organisational structure for inclusive finance and built the "five specialised operating mechanisms". The Bank designated all of its outlets as the basic service outlets for inclusive finance, and selected 162 outlets in the demonstration areas of the "Made in China 2025" programme as the key outlets from which to launch its inclusive finance credit business. As at the end of 2018, the Bank's outstanding inclusive finance loans granted to micro and small-sized enterprises[5] reached RMB304.2 billion, representing a year-on-year growth of over 12.26%, more rapid than that of the Bank's total loans. The number of micro and small-sized customers stood at 380,000, an increase compared with the prior year. The average interest rate of micro and small-sized enterprises' inclusive finance loans granted in the year was 5.27%. Meanwhile, the Bank enhanced risk control and compliance management, improved its early warning mechanism on asset quality control, strengthened the whole-process management of loans to micro and small-sized enterprises, and continuously enhanced its capabilities in identifying and mitigating credit risk, thus maintaining the quality of loans to micro and small-sized enterprises at a stable and controllable level.

The Bank continued to provide SME cross-border matchmaking services to promote connectivity across the globe. As the sole integrated banking service provider for the First CIIE, the Bank successfully hosted the Expo's Exhibitor-Businessman Supply-Demand Matchmaking Conference. In 2018, the Bank held nine cross-border trade and investment conferences in Kuala Lumpur, Malaysia; Santa Fe, New Mexico, US; Zhengzhou, Henan Province; Jieyang, Guangdong Province; Dalian, Liaoning Province; Qingdao, Shandong Province; Guangzhou, Guangdong Province and Shanghai. It has held 50 cross-border matchmaking events since 2014, attracting the participation of 30,000 enterprises from 87 countries and regions internationally. It played an active role in promoting the upgrading of the domestic industrial structure, furthering international economic and trade cooperation, and implementing the Belt and Road Initiative. Moreover, the Bank steadily promoted the "investment and loan linkage mechanism" pilot programme, furthered cooperation with governments at all levels and commercial institutions in pilot areas, and developed a comprehensive financial service system for technologically innovative enterprises.

Pension Business

Centred on the development of China's social security system, the Bank continuously extended its pension business coverage, promoted product innovation and developed a comprehensive service system with optimised functions. It provided a range of pension-related financial services including enterprise annuities, occupational annuities, employee benefit plans, employee stock ownership plans and pension security management products, thus enhancing customer satisfaction. Having already been designated to act as a custodian and account manager for enterprise annuities, the Bank became qualified to also act as a trustee of enterprise annuity funds, and successfully signed its first trustee contract for enterprise annuities. As a result, its annuity service scope further expanded. As at the end of 2018, the total number of individual pension accounts held by the Bank reached 5.0119 million, an increase of 0.4959 million or 10.98% compared with the prior year-end. Assets under custody amounted to RMB221.158 billion, an increase of RMB28.918 billion or 15.04% compared with the prior year-end, with the Bank serving more than 15,000 clients.

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[5] Inclusive finance loans granted to micro and small-sized enterprises are measured in accordance with the *Circular on Promoting the High-quality Development of Banks' Financial Services for Micro and Small-sized Enterprises in 2018* (Y.J.B.F. [2018] No. 29).

Column I: Strengthening support for the Belt and Road Initiative

The Bank continued to implement the national Belt and Road Initiative and strongly supported the building of the Belt and Road. It strived to become the preferred bank for China's "Going Global" enterprises, foreign "Bringing In" enterprises and local enterprises along the Belt and Road, and refined its institutional network in countries along the Belt and Road. It supported key cooperative projects along the Belt and Road in line with market principles, served as the main channel for Belt and Road related RMB internationalisation business, and took the lead in directing global financial resources into the Belt and Road countries and regions.

The Bank further expanded its network in countries along the Belt and Road. As at the end of 2018, the Bank's overseas institutions covered 56 countries and regions, including 23 countries along the Belt and Road, representing the broadest Chinese bank presence both globally and along the Belt and Road. In 2018, BOC Colombo Branch and Bank of China (Turkey) Limited commenced operation, further expanding the Bank's network in countries along the Belt and Road.

The Bank steadily pushed forward credit issuance and project expansion. The Bank followed up on over 600 major Belt and Road related projects as at the end of 2018. From 2015 to 2018, the Bank granted more than USD130 billion of credit support to countries along the Belt and Road.

The Bank continuously promoted RMB internationalisation. The Bank continued to improve its cross-border RMB clearing system in an effort to enhance the quality and efficiency of clearing services and to promote RMB development in local markets. In 2018, the volume of RMB clearing transactions carried out by the Bank's institutions along the Belt and Road surpassed RMB5 trillion, leading its global peers by market share. The issuance of RMB-denominated sovereign bonds boosted the cross-border use of RMB in the countries along the Belt and Road.

The Bank actively expanded its foreign exchange product offering. The Bank promoted foreign exchange products for countries along the Belt and Road, including multi-currency spot and forward foreign exchange trading, swaps and options, so as to help enterprises manage exchange rate risk. It now has the capability to provide quotations for 52 currencies of the emerging market countries, and 29 currencies of countries along the Belt and Road. The Bank also participated in direct RMB-minor-currency trading in the interbank foreign exchange market, and completed the first RMB-THB direct transaction in the interbank foreign exchange market as one of the first market makers.

The Bank launched its Belt and Road financial cooperation model on all fronts. The Bank entered into partnership with the governments of Serbia, Myanmar and Singapore, signed a memorandum of understanding with the Department of Finance of the Republic of the Philippines, signed a memorandum of strategic cooperation with the Astana International Financial Centre of Kazakhstan and signed the Memorandum of Understanding on Cooperation in Panda Bond Issuance with the Hungarian Development Bank. The Bank helped worldwide enterprises to expand third-party markets along the Belt and Road via such bilateral corporate cooperation platforms as the China-UK, China-France and China-Italy entrepreneurial committees.

Personal Banking

The Bank always puts customers at the centre of its business. In 2018, it innovated and improved its personal banking product and service system and endeavoured to enhance the capability of its online, scenario-based and smart services. It grasped development opportunities in cross-border business, consumer finance and wealth management so as to continuously enhance the market competitiveness of its personal banking business. As at the end of 2018, the Bank's domestic personal banking business realised an operating income of RMB153.589 billion, an increase of RMB12.293 billion, or 8.70% compared with the prior year.

Personal Deposits

In response to the trend of interest rate liberalisation, the Bank intensified innovation in its personal deposit products, providing customers with products of different terms and types, thus satisfying differentiated customers' needs. It further expanded its payment agency business by classifying its customer groups and improving the connectivity between corporate and personal businesses. It also provided payment agency customers with a package of integrated service solutions, including account opening, salary payment, consumption and investment. The Bank launched an online margin business embedded with multiple transaction scenarios. It also adopted the "BOC Wealth Accumulator" service model for micro and small-sized businesses, providing them with convenient services based on integrated payment, and thereby built a closed loop for fund flows. It further developed its foreign exchange services by increasing the number of foreign currencies offered by its personal deposit and withdrawal businesses to 25 and the number of convertible foreign currencies available to customers to 39, thus maintaining its leading position among its peers. Leveraging on its advantage in foreign currency business, the Bank provided services for a number of large events, including the first CIIE. It also launched cash exchange reservation service on all electronic channels including mobile banking and online banking to further improve customer experience.

As at the end of 2018, the Bank's domestic RMB personal deposits totalled RMB5,026.322 billion, an increase of RMB475.154 billion or 10.44% compared with the prior year-end. Personal foreign currency deposits amounted to USD44.040 billion, maintaining a leading market share.

Personal Loans

The Bank implemented the national policies of supporting the real economy, expanding domestic demands and promoting consumption by steadily enhancing its personal loan business. It actively put into practice the state's regulatory policies on real estate and continued to implement a differentiated residential mortgage loan policy, with a particular focus on serving the needs of households seeking to buy owner-occupied homes for the first time, and thus maintained the sound development of its residential mortgage loan business. The Bank accelerated its consumer finance business through deepening the application of internet and big data technologies, as well as improving its risk management and control models. It continued to promote its featured "BOC E-Credit" product, a whole-process online consumer loan service, realising a rapid growth rate. The Bank proactively developed inclusive finance services and refined its development strategies for personal business loans by providing specialised service models for customer segments, including private enterprises, micro and small-sized business owners, and customers targeted according to shopping districts or industry chains, those commonly engaged in agriculture-related businesses, start-up businesses or poverty alleviation efforts. It continued to grant government-sponsored student loans and enhanced its development-oriented student services, securing its leading market position in government-sponsored student loans.

As at the end of 2018, the total amount of RMB personal loans of the Bank's domestic operations stood at RMB3,933.840 billion, an increase of RMB452.158 billion or 12.99% compared with the prior year-end.

Wealth Management and Private Banking

The Bank enhanced its wealth management and private banking services by meeting customer demands and accelerating business innovation and transformation. To implement the strategy of enabling advancement through technology, the Bank developed the Investment Product Distribution Platform to integrate its investment product distribution architecture and effectively improve its integrated and intelligent distribution capabilities. It launched "BOC Robot Advisor", an intelligent investment advisory service, introduced an online assets diagnosis function and improved its asset allocation tools. Using big data, the Bank carried out targeted marketing campaigns with the help of growing customer information tags and further completed client marketing loops. In order to develop a professional asset allocation decision-making system, it constructed a market-wide product selection platform, established an Asset Allocation Committee and published asset allocation strategy reports. The Bank also transformed its marketing approach, continued to carry out customer group marketing campaigns by providing customised service packages for customer groups including staff of Chinese embassies and consulates stationed abroad, and promoted product and service integration. It further developed its differentiated customer service system by adjusting customer grading, constructing a unified customer benefits platform and increasing its customer loyalty rewards redemptions choices. As a result, customer loyalty was continuously enhanced. Moreover, the Bank continued to improve the management and incentive mechanisms for its relationship managers, thus achieving significant progress in cultivating teams of wealth management managers, private bankers and investment advisors, which in turn steadily improved its professional services. It made full use of the BOC Wealth and Investment Academy to build a multifaceted talent development system, and used both internal and external resources to expand its talent pool. The Bank further improved its cross-border customer marketing mechanism and achieved positive results in providing integrated cross-border services to personal customers in the Guangdong-Hong Kong-Macao Greater Bay Area. It promoted the development of its private banking business, improved the structure of its domestic private banking centres and refined the network of its domestic and overseas private banks, so as to create a global private banking service platform. The Bank strengthened innovation in products and services by introducing discretionary asset management with investment only in debt instruments and offshore family trust products to better serve the needs of its high-net-worth customers.

As at the end of 2018, the Bank had set up 7,993 wealth management centres, 1,082 prestigious wealth management centres and 44 private banking centres in the Chinese mainland. The Group managed RMB1.4 trillion of financial assets on behalf of its private banking customers. In 2018, the Bank was recognised as "Best Private Bank for Global Investment Exposure in China" and "Best Private Bank for International Network in China" by *Asiamoney*; awarded "Best Private Banking China Domestic" by *Asian Private Banker*; rated as "Best Domestic Private Bank — Most Innovative Performer" and "Best Domestic Private Bank — Asset Management" by *Wealth*; and won Ying Hua Awards for "Best Distributor for Mutual Fund" and "Excellence In Distributor for Private Equity" from *China Fund*. The "BOC Robot Advisor" intelligent investment advisory service won the "2018 Rising Star Award for Robot Advisor" from *Securities Times*.

Bank Card

Closely following changes in markets and customer demand patterns, the Bank continuously refined its product and service system and endeavoured to create a preferred credit card brand targeting the medium-to-high end, cross-border, female and young customer segments. It took the lead in launching the BOC Greater Bay Area Credit Card to facilitate the interconnectivity of the Guangdong-Hong Kong-Macao Greater Bay Area. The Bank rolled out the Great Wall Ice and Snow Credit Card to promote winter sports and the nationwide fitness campaign. It also issued the BOC Better Life Credit Card to meet customers' need for quality family life. To satisfy the personalised demands of different customer groups, the Bank rolled out new products such as the BOC Lady Credit Card, BOC Zan Credit Card, BOC American Express Cross-border Alliance Credit Card, Great Wall Monet World Credit Card, UEFA Champions League-themed Credit Card, and World Cup-themed Credit Card. Following trends in online finance, it launched innovative BOC digital credit cards and promoted a "connected scenarios and FinTech" service mode in order to build internet-based customer acquisition scenarios. The Bank accelerated the innovation and upgrading of its instalments product system by promoting such products as "YiFenXiang" instalments (an automatic instalments plan), "Youke" instalments (a premium customer instalments plan) and an automobile-add-ons financial service, as well as a flexible repayment function. Moreover, the Bank continued with its pilot projects for applying instalments services to second-hand automobiles, auto financial lease, weddings, and maternity. In recognition of its achievements, it won the title of "2018 Best Auto Credit Card Instalments Service Bank" at the China Auto Golden Engine Awards. The Bank integrated its payment service mode and built the "BOC Smart Payment" brand. It promoted the "aggregate payment" offline acquiring product and provided an online check-out product featuring "one-point access, overall acceptance". It improved the "BOC Smart Merchant" service platform by providing full-process, one-stop comprehensive financial services for merchants. To improve the merchant value-added service system, the Bank launched a platform with discounted merchants and electronic vouchers, carried out merchant O2O precision marketing campaigns, and built a closed-loop consumption ecology. It continued to develop 360-degree customer life cycle maintenance, strengthened customer group analysis based on big data, and supported precision marketing and dynamic limit management.

In line with the PBOC's requirements on account reform and the mobile finance convenience project, the Bank pushed forward the online and offline issuance and use of debit cards, and expanded the application scope for Type II and Type III personal bank accounts. It continued to improve its customer experience by streamlining its business procedures for account opening and cancellation, loss reporting and replacement of debit cards. The Bank expanded the scenarios-based applications of mobile payment and promoted online financial services for segments, such as campuses, cross-border businesses, social security, medical treatments, and railway transportation. It strengthened its "BOC E-Campus" mobile application and formed a dual platform business model with Tencent WeiXiao to serve its customers on campuses. The Bank won the bid to issue credit cards for the government-sponsored studying abroad programme, and expanded the value-added services of the Great Wall Cross-border International Debt Card, thus providing its cardholders with more convenient and more secure cross-border services. It issued social security cards with financial functions in nearly 30 provinces (including municipalities directly under the Central Government) in cooperation with local Human Resources and Social Security Bureaux, and issued electronic social security cards as per the standards required by the Ministry of Human Resources and Social Security. These products delivered diverse financial services, including collection and payment agency of social insurance (namely, pension insurance funds, medical insurance funds, unemployment insurance funds, work-related injury insurance funds and maternity insurance funds), exclusive wealth management products and fee discounts for customers, as well as non-financial value-added services such as doctor appointment booking, discount coupons and doctor lectures. It also issued a resident health card with financial functions in provinces such as Guangdong, Liaoning, Hebei, Guizhou, Sichuan and Jiangxi, offering cardholders medical treatment payment and health management services, both online and offline, across the country. In addition, the Bank launched the Changsha-Zhuzhou-Xiangtan Inter-city Railway e-Card in Hunan, with which customers can enter and exit stations and take trains simply by scanning a QR code using a mobile application.

As at the end of 2018, the Bank's bank card issuance and transaction volumes are set forth below:

Unit: million cards/RMB billion, except percentages

Items	**As at 31 December 2018**	As at 31 December 2017	Change (%)
Cumulative number of debit cards	**525.7446**	482.9971	8.85%
Cumulative number of credit cards	**110.6573**	97.0406	14.03%
Cumulative number of social security cards with financial functions	**101.8742**	92.8136	9.76%
	2018	2017	Change (%)
Transaction amount of debit cards	**5,941.075**	4,220.180	40.78%
Transaction amount of credit cards	**1,619.555**	1,495.036	8.33%
Instalments volume of credit cards	**279.132**	258.990	7.78%

Column II: Delivering all-round services to the first CIIE

Driven by a strong sense of responsibility and mission, the Bank gave full play to its advantages in globalised and integrated operations in support of the country's opening up strategy by actively participating in the preparation and hosting of the CIIE. It served the CIIE both as its integrated banking service provider and as the account-opening bank and strategic partner for the China International Import Expo Bureau.

Deeply involved in attracting exhibitors and businesses. Leveraging its extensive overseas institutional network, the Bank has assisted in hosting Expo promotion and exhibitor attraction events for the first CIIE in 16 countries since the second half of 2017, reaching over 1,400 overseas customers. BOC domestic branches played an active role in attracting domestic business by assisting provincial and municipal commercial administrations with group procurement promotional events and by delivering all-round financial services to domestic procurers participating in the CIIE.

Facilitating supply-demand matchmaking. In November 2018, cooperating with the China International Import Expo Bureau and the National Exhibition and Convention Centre (Shanghai), the Bank undertook the Exhibitor-Businessman Supply-Demand Matchmaking Conference of the first CIIE. At the conference, 1,178 foreign exhibitors from over 30 industries held one-on-one talks with 2,462 businesspeople from the Chinese mainland, resulting in 1,258 agreements of cooperative intention and 601 enterprises proposing onsite inspection plans.

Successfully holding themed events. During the first CIIE, the Bank successfully hosted the Fifth Meeting of the China-Italy Business Forum, the plenary sessions of the China-Mexico High-level Entrepreneurial Group and the "RMB Boosts Cross-border Trade and Investment Facilitation" Theme Forum, contributing to economic and trade exchange and cooperation between China and foreign parties.

Delivering all-round financial services. The Bank rendered a full package of services including remittance, multi-currency exchange, account opening, bank card and mobile banking, thus satisfying customers' diversified financial service needs.

Financial Markets Business

To further enhance its influence in financial markets, the Bank closely tracked market developments and actively aligned itself with trends towards interest rate and exchange rate liberalisation and RMB internationalisation. It leveraged its professional advantages, continued to deepen adjustments to its business structure, enhanced its efforts in financial market innovation and made steady progress in compliance with international regulatory requirements.

Securities Investment

The Bank strengthened its research and judgment regarding market interest rates while proactively seizing market opportunities. It also rationally adjusted the duration of its investment portfolio and further optimised its investment structure. Consistent with national macroeconomic policies, the Bank supported the economic development of local governments and actively participated in local government bond investment. Following trends in global bond markets, the Bank optimised its foreign currency investment portfolio and managed to prevent interest rate risk and credit risk.

Trading

The Bank accelerated the construction of an integrated global financial markets business system founded on the three core product lines of interest rates, exchange rates and commodities. It endeavoured to build a new customer-centric, market-oriented and product-based service model and improved quantitative trading capabilities so as to serve the real economy. The Bank continued to outperform its peers in market share of foreign currency exchange against RMB business. It offered cash trading rates for six further foreign currencies, including the Czech Koruna and Hungarian Forint, thus bringing the number of currency pairs available for exchange up to 39. The Bank also consolidated its leading edge in emerging market trading products under the Belt and Road Initiative. It increased the total number of tradable foreign currencies to 63, among which 52 are currencies of emerging economies and 29 are currencies of countries along the Belt and Road. It stepped up efforts in product innovation so as to further sharpen its market competitiveness. Together with the China Foreign Exchange Trading System & National Interbank Funding Centre, it introduced the "CFETS-BOC Traded Bond Index" and released it on the China Foreign Exchange Trade System and Singapore Exchange successively, thus vigorously pushing forward the opening up of China's bond market and RMB internationalisation.

Drawing strength from its integrated global trading, sales, risk management and system, the Bank further enhanced its integrated global service capacity by strengthening business support from the Head Office and its overseas trading centres to its regional branches. Leveraging its advantages in professional quotation and its priority focus on compliance, the Bank steadily met interbank customers' demands. In line with the financial demands of the real economy, the Bank consolidated its chain services in order to comprehensively satisfy customers' needs for hedging against risks relating to exchange rates, interest rates and commodity prices. It put equal emphasis on agent trading and market-making quotation services, and established an integrated marketing mechanism to allow foreign institutional investors to invest in the domestic interbank market, thereby enhancing the Bank's ability to provide quotation and services for foreign institutional investors. In addition, the Bank actively participated in the building of a foreign exchange self-regulatory mechanism, adopted the Foreign Exchange Code across the board, and successfully passed the annual assessment of its implementation of the foreign exchange self-regulatory mechanism.

Investment Bank and Asset Management

The Bank leveraged the competitive advantages of its international and diversified operations and focused on serving the real economy. It provided customers with comprehensive, professional and customised investment banking and asset management solutions, including professional financial products and services for bond underwriting and distribution, asset management, asset securitisation and M&A and restructuring advisory. To facilitate the construction of China's multi-layered capital markets system and to support customers' direct financing needs, the Bank underwrote debt financing instruments for non-financial institutions in the China interbank bond market of a total amount of RMB379.179 billion. The Bank's underwriting business for financial institutions was greatly boosted, with its financial bond underwriting volume and market share continuing to improve. It maintained the leading market share among all commercial banks in the interbank market in terms of asset securitisation underwriting. The Bank enhanced its cross-border competitiveness. It assisted offshore issuers such as the Republic of the Philippines and the government of the Emirate of Sharjah and Hungary in issuing Panda Bonds. It held the leading market share in Panda Bond business. The Bank also supported the MOF's issuance of USD3.0 billion of sovereign bonds by acting as a joint lead manager and joint book runner, thus further completing the yield curve of foreign currency-denominated sovereign bonds and facilitating the establishment of the pricing benchmark for China's foreign currency-denominated bonds. It captured the leading market share as an underwriter of Chinese enterprises' offshore G3 currency (i.e. USD, EUR and JPY) bonds. The Bank also made efforts to develop green finance by participating as lead underwriter in a number of important green bond programmes, including the issuance of the first green building Panda Bond and the first quasi-sovereign Euro floating rate green bond. Proactively exploring financial solutions for poverty alleviation, the Bank acted as the lead underwriter for the first central state-owned enterprise special poverty alleviation notes, issued by China Three Gorges Corporation, with part of the proceeds being used for hydropower projects. Moreover, strongly supporting private enterprise financing, the Bank carried out the first batch of Bond-Financing Support Tools for Private Enterprises among Large State-owned Commercial Banks and providing boost for the private enterprises direct-financing. As a result, the Bank was awarded "China Bond House" by *IFR Asia*, "China's Best Corporate and Investment Bank" and "China's Best CIB for Debt Capital Markets — Cross-Border" by *Asiamoney*, "Best China Onshore DCM Bank", "Best Panda Bond Underwriter" and "Best China International G3 Currency DCM Underwriter" by *Caixin*, and "Best Financial Institution Bond", "Best Panda Bond" and "Best Green Bond" by *FinanceAsia*. As such, the brand influence of BOC Debt Capital Markets was continuously enhanced.

The Bank steadily promoted the development and transformation of its asset management business. It increased its launch frequency and marketing efforts for Net Value products, offering various Net Value products such as "BOC Accumulated Asset Series — Le Xiang Everyday", "BOC Strategy — Steady Wealth Creation" and "BOC Wise Wealth Creation". The Bank explored new investment and operational methods to better suit the transformation and development of its Net Value products, strengthened its investment and trading capabilities, optimised asset allocation and effectively improved its investment yields. It developed innovative asset management informational system structures and improved system functions, so as to provide enhanced IT support for business development. In 2018, the Bank issued 8,071 wealth management and structured deposit products with a total year-end value of RMB1,718.1 billion.

The Bank enhanced its financial advisory service system by further enriching its service content. Leveraging the advantages arising from coordination between the Head Office and branches and the integration of its domestic and overseas operations, the Bank provided customers with professional advisory services such as strategy advice, target recommendation, transaction structuring, valuation analysis and financing scheme design, as well as services covering the whole transaction process. The Bank steadily promoted its credit asset-backed securitisation business and optimised the structures of its existing assets. It successfully issued four residential mortgage-backed securities with a total amount of RMB37.949 billion and non-performing credit asset-backed securities with a total amount of RMB163.88 million.

Custody Business

The Bank strived to enhance the overall competitiveness of its custody business by expanding mutual fund custody, strengthening pension fund custody, refining cross-border custody and optimising banking wealth management custody. Seizing opportunities arising from the two-way opening up of China's capital markets, the Bank became the first Chinese commercial bank to obtain the pilot depository qualifications for Chinese Depository Receipt (CDR). It pushed forward advancement through technology and system building, and led the market in launching a depository system alongside the CDR and Shanghai-London Stock Connect programmes. In addition, it improved the accounting, valuation and investment supervision functions of its global custody system and rolled out a non-securities custody business system and a new version of its online custody service, thus further enhancing its global custody service capabilities. The Bank won bids for occupational pension custody schemes in Xinjiang and Shandong, as well as for the issuance of the first local government debt ETF in the Chinese mainland. It was granted "Best QDII Mandate" and "Best QDII Custodian" by *The Asset*, securing its position as customers' preferred bank for cross-border investment. At the end of 2018, the Group's assets under custody stood at approximately RMB10 trillion, and the scale of its cross-border custody business ranked top among Chinese banks.

Column III: Financially supporting the Olympic Winter Games Beijing 2022

As the Official Banking Partner of the Olympic and Paralympic Winter Games Beijing 2022, the Bank spared no efforts to support the preparations for Beijing 2022 by improving its financial services and carrying out marketing and promotion.

The Bank provided all-around financial services for Beijing 2022. The Bank firmly supported the construction for Beijing 2022 by providing bank credit for projects such as the National Speed Skating Oval, the venue construction in Yanqing, and the Sports Injuries Treatment Centre. The Bank also provided comprehensive financial services including account management, settlement and exchange, foreign exchange risk prevention and control, and letters of guarantee for Beijing 2022. In addition, it established the Beijing Olympics Winter Games Sub-branch.

The Bank financially supported the promotion of the Olympic Winter Games Beijing 2022 and the development of related industries. The Bank has published the *Bank of China Action Plan for Beijing 2022 and Winter Sports*. It actively implemented this plan for promoting Beijing 2022, raising the public profile of winter sports and developing the related industry. Through the medium of financial products, the Bank provided a unique channel for consumers to understand and connect to the Olympic Winter Games. It released licensed precious metal products themed on Beijing 2022 for sale across the Bank, acting as the sole banking distributor of such products. In addition, the Bank issued more than five million BOC Winter Sports-themed Debit Cards and Credit Cards, which provide cardholders with discounts for winter sports equipment, venues and trainings.

The Bank promoted the Olympic Winter Games Beijing 2022 in diverse ways. On 23 June 2018, the Bank participated in events to celebrate the 32nd Olympic Day 2018 by hosting interactive running, skiing and skating activities, as well as Olympic cultural camps in Beijing, Harbin and Shenzhen. It was the first time winter sports had been included in the celebrations of Olympic Days, and the events received a positive response. The Bank also innovatively promoted Beijing 2022 online by joining with the Beijing Organising Committee for the 2022 Olympic and Paralympic Winter Games in producing a short film series, titled "Beijing 2022 Inside Stories". To further assist in promoting the Winter Olympic Games Beijing 2022, these short films were broadcast on the official publicity channels of Beijing 2022 and the Bank. By participating in the Olympic Expo 2018 and the World Winter Sports (Beijing) Expo 2018, the Bank shared its progress in Beijing 2022-related financial services, popularised public awareness of the Olympics Winter Games and promoted the Olympic spirit.

Village Bank

BOC Fullerton Community Bank actively implemented the national strategy of rural revitalisation with the aim of "focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities". It is committed to providing modern financial services to county micro and small-sized enterprises, individual merchants, the wage-earning class and farmers, thus promoting the construction of a beautiful countryside with a pleasant living environment.

BOC Fullerton Community Bank expedited the construction of its institutional distribution network, thus supporting financial development in county areas. Having already acquired shares in village banks held by China Development Bank, it successfully acquired shares in 27 village banks held by China Construction Bank, further expanding its business scale and providing stronger support for the development of China's central and western regions and county economies. As at the end of 2018, BOC Fullerton Community Bank controlled 125 village banks and 142 sub-branches in 22 provinces (including municipalities directly under the Central Government) through self-establishment and acquisition. BOC Fullerton Community Bank has become the largest domestic village bank group in terms of total institutions and business scope. It also continuously improved its product and service system to further expand its customer base and business scale. As at the end of 2018, the registered capital of BOC Fullerton Community Bank amounted to RMB7.524 billion, with its total assets and net assets standing at RMB60.332 billion and RMB10.040 billion respectively. The balances of total deposits and loans of these banks stood at RMB38.939 billion and RMB39.257 billion respectively, an increase of 38.37% and 43.16% compared with the prior year-end. The NPL ratio was 2.42%, and the ratio of allowance for loan impairment losses to NPLs was 237.80%. In 2018, BOC Fullerton Community Bank achieved a profit for the year of RMB0.674 billion.

Overseas Commercial Banking

In 2018, the Bank continued to promote the establishment of overseas institutions and pushed forward the integrated development of its domestic and overseas operations, thus further enhancing its global service and support capabilities and sharpening its market competitiveness. As at the end of 2018, the Bank's overseas commercial banking customer deposits and loans totalled USD433.444 billion and USD365.282 billion, respectively. In 2018, the Bank's overseas commercial banking business achieved a profit before income tax of USD8.926 billion, accounting for 25.78% of the Group's total profit before income tax.

Regarding branch distribution, the Bank closely tracked customers' financial service needs around the globe, accelerated improvements in institutional network in countries along the Belt and Road and further increased outlets in countries with an existing BOC presence, thus further improving its global service network. As at the end of 2018, the overseas institutions of the Bank totalled 548, covering 56 countries and regions around the globe, with three new countries added during the year.

For corporate banking business, by giving full play to the advantages arising from its integrated commercial and investment banking operations, the Bank provided a full spectrum of premium, efficient, tailor-made and comprehensive financial services for "Going Global" and "Bringing In" customers, "Fortune Global 500" enterprises and local corporate customers. It further improved its globalised customer service system and continually enhanced its middle and high-end products and services. Through core products including syndicated loans, project financing, cross-border M&A, export credit, global cash management and letters of guarantee, the Bank provided great support to key projects related to infrastructure construction, energy resource development and overseas industrial parks, with the aim of providing sound financial services for the Belt and Road Initiative, promoting international cooperation in production capacity and helping enterprises achieve sustainability in their foreign investments and operations.

For personal banking business, the Bank provided one-stop financial services for personal "Going Global" customers by leveraging its extensive overseas institutional network. It continued to expand its overseas account opening witness service, which now covers 18 countries and regions in North America, Europe, Asia and Oceania. The Bank enhanced its services for customers studying abroad by launching such brands as "Brilliant Tomorrow" in the US, "Golden Age" and "UK Manager" in the UK, "Home in Canada" in Canada, "Golden Years" in Australia, "Sail in Lion City" in Singapore and "Splendid Life" in Macao. It built up its cross-border marketing ecosystem, consolidated marketing resources across platforms, improved the availability of cross-border credit card services and established a star rating system for cross-border credit card customers, so as to provide customers with preferential, convenient and quality cross-border credit card services, thus enhancing the brand influence of its cross-border business. It expanded its overseas credit card issuance and acquiring business, developed new products such as BOC Qoo10 Credit Card and BOC Miles Credit Card in Singapore, and Greater Bay Area Credit Card in Macao, and supported its overseas branches in developing integrated online and offline merchant acquiring business, thus further enhancing its influence in local payment markets. It optimised the framework of its overseas debit cards and issued UnionPay, Visa and MasterCard debit cards in 19 countries and regions. In addition to withdrawal, consumption and other basic functions, it introduced new features including contactless payment, non-card payment and 3D secure payment, which can be used via multiple channels including domestic and overseas counters, online banking and mobile banking, thereby better satisfying the world-wide consumption demands of overseas customers.

For financial markets business, the Bank fully leveraged its advantages in integrated global operations and actively engaged in RMB futures market-making on the exchanges in Singapore, South Korea and Dubai, in line with the national opening up strategy. As a result, it enhanced its capacity for customer base expansion in Asia, Europe and Oceania, further optimised its product line structure for exchange rates, interest rates and commodities, and continuously improved its business scale and profitability. The Bank seized opportunities arising from the two-way opening up of capital markets and exerted every effort to market custody services to "Going Global" and "Bringing In" customers. It sped up efforts to shape its global customer service network and enhanced its global custody service capability, as well as the local and cross-border customer custody service capabilities of its key overseas institutions. It actively innovated its capital market connectivity service mechanisms and accomplished the integration of its cross-border custody service processes. On 2 November, the Bank successfully obtained a custody license from the UK's Prudential Regulation Authority, making it the first Chinese bank qualified to conduct custody business in the UK. At the end of 2018, the Bank had the largest market share among domestic peers in cross-border custody, reaching 28.44%. The Bank also made active efforts to build bridges to international capital markets. It successfully issued the Belt and Road-themed bonds with a total volume equivalent to USD3.2 billion, the first Guangdong-Hong Kong-Macao Greater Bay Area-themed bonds worth USD1.8 billion equivalent, green bonds worth USD1.4 billion equivalent, and the first Sustainability Bond issued by a Chinese bank in the overseas markets with an amount of USD400 million equivalent.

For clearing services, the Bank continuously improved its cross-border RMB clearing capabilities and consolidated its position at the leading edge of international payments. It was authorised to serve as the RMB clearing bank in Japan, which means that it now accounts for 12 of the world's 25 authorised RMB clearing banks and continues to lead its peers. It also ranked first in terms of the number of CIPS indirect participants. In 2018, the Bank's cross-border RMB clearing transactions totalled RMB389 trillion, an increase of 11% year-on-year, securing first place in the global market. It launched the Bank of China Group Remittance product in order to offer an exclusive and efficient remittance channel for the Group's customers, thus enhancing customer experience in the field of cross-border remittance and maintaining its position as the market leader.

For e-banking, the Bank further expanded the coverage of its overseas channel services. It released the upgraded international version of its mobile banking service, increasing the availability of overseas mobile banking services to 18 countries and regions, and overseas online banking services to 46 countries and regions. It added mobile banking services in the Lao language and now enables its overseas e-channels to provide services in 13 languages. Its cross-border corporate online banking services expanded to include overseas services such as precious metal clearing service, global financial resources transferring service and corporate online banking GPI transferring service. It constructed overseas bank-enterprise connection channels to serve key global customers. As a result, the Bank continued to lead its peers in cross-border business.

BOCHK

In 2018, BOCHK remained committed to its strategy of building a top-class, full-service and internationalised regional bank, and adhered to its philosophy of stable, long-term and sustainable development. It fully leveraged its competitive advantages and steadily pushed forward its business priorities. Its core businesses realised satisfactory growth, with major financial indicators remaining at solid levels. It improved its integrated regional business model and promoted the integration of its Southeast Asian entities, achieving steady growth in its Southeast Asian business. BOCHK remained committed to expanding cross-border business development and drove forward the development of the Guangdong-Hong Kong-Macao Greater Bay Area with the aim of becoming the area's first-choice bank. In pursuit of full-service development, BOCHK accelerated the construction of its diversified business platforms. Moreover, it sped up FinTech innovations and product research so as to drive its digital development. At the end of the year, BOCHK's issued share capital was HKD52.864 billion. Its total assets amounted to HKD2,952.903 billion and net assets reached HKD284.907 billion. Its profit for the year was HKD32.584 billion.

BOCHK continued to develop its core market in Hong Kong and outperformed its peers in key business areas. The growth of its total customer deposits and loans was above the market average. Its asset and liability structure was further optimised, with asset quality outperforming the local market. Moreover, it diversified its corporate finance business and successfully arranged a number of significant syndicated loans, project finance deals and debt issuances. As a result, BOCHK remained the top mandated arranger in the Hong Kong-Macao syndicated loan market for the 14th consecutive year. It also maintained its leading market position as the main receiving bank for IPOs in Hong Kong for the eighth consecutive year. BOCHK deepened business relationships with commercial customers in Hong Kong and helped them to establish a convenient and effective financial service platform so as to mutually enhance market competitiveness and penetration. It further reinforced its business relationships with governmental and institutional customers and expedited the regional development of its cash pooling and treasury centre businesses. Adhering to its customer-centric philosophy, it enhanced the scenario-based and comprehensive application of its products and services to improve the competitiveness of its financial services. It catered to the different needs of individual clients and provided exclusive and premium services for its mid- to high-end clients, which led to continuous growth in the total number of mid- to high-end customers. In addition, it actively promoted the development of inclusive finance by accelerating the upgrading of its products and services to individual customers, thus establishing an all-round service capability to meet the basic necessities of customers' daily lives. It maintained its leadership in UnionPay card issuing and cardholder spending business in Hong Kong.

BOCHK integrated its Southeast Asian entities and saw effective regional synergies begin to emerge. BOCHK successfully completed the acquisition of the Vietnam Business and the Philippines Business of the Bank in January 2018 and also entered into an agreement with the Bank in relation to the transfer of BOC Vientiane Branch on 4 December 2018 and subsequently completed the transfer on 21 January 2019. BOCHK's Southeast Asian entities now operate in Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Brunei and Laos. It accelerated the logical integration of its Southeast Asian entities and comprehensively enhanced their capability levels for credit risk management, internal control and compliance. It pushed forward the development of its regional management transformation, reinforced resource support to its Southeast Asian entities and implemented differentiated development strategies among those entities. BOCHK continuously enriched its product and service portfolios for these entities so as to expand into local mainstream markets. It focused on major clients and projects, actively developing business with institutional clients and promoting RMB products and treasury business. Regional synergies were further enhanced through integrated marketing, resulting in continuous expansion of customer base and business scale.

BOCHK strengthened collaboration within the Group and actively expanded its cross-border business. It continued to capitalise on its competitive edges in the Chinese mainland and Hong Kong, and strengthened its collaboration with other entities of the Group to gradually enrich its product range in the Greater Bay Area across four major aspects of cross-border activities: people flow, commodities flow, fund flow and information flow in order to further increase its market share and enhance its market influence. It promoted the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. The organisation of the Guangdong-Hong Kong-Macao Greater Bay Area Financial Summit Forum further enhanced cross-border collaborations and elevated the Group's brand image in the Greater Bay Area. It also launched the "Guangdong-Hong Kong Business Registration and Banking Services Connect" to provide cross-border business registration for SMEs in Hong Kong to assist their development in the Greater Bay Area. By establishing branches and automated banking services in Hong Kong's major cross-border transportation termini, including Hong Kong International Airport, West Kowloon Rail Station of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge, it fully expanded its service network for cross-border customers. It accelerated the mutual access of cross-border services and mutual brand recognition so as to meet the demand of customers from Guangdong, Hong Kong and Macao for financial services, including account opening, payment services, wealth management and financing, thus helping to build the Greater Bay Area into a high-quality lifestyle destination that is ideal for living, working and travelling. As a result, it achieved an encouraging increase in the number of cross-border customers.

BOCHK elevated its competitive edge in financial markets and accelerated the development of its diversified business platforms. Actively responding to market changes, BOCHK promoted business diversification and conducted stringent risk management and control measures. It strengthened its trading system infrastructure and refined its electronic trading platform in order to improve its trading capability. It also enhanced the development of innovative treasury products and enriched its product and service portfolios, which led to continuous growth in market competitiveness and customer base, and a relatively rapid growth in customer-driven business. Leveraging its leading position in the banknote market, BOCHK actively developed its banknote business in the Asia Pacific region and further reinforced its competitive edge in the wholesale banknotes business. Its bond underwriting business was satisfactory as it assisted corporates and institutions to successfully issue a number of USD, EUR and RMB-denominated green bonds. Capitalising on the collaborative synergy of its diversified business platforms, BOCHK continued to boost the development of its business platforms, including life insurance, asset management, custody and trust services as well as securities and futures, to provide customers with whole-value-chain financial services and forge new competitive advantages.

BOCHK expedited digital development and promoted innovation in FinTech. BOCHK strengthened O2O integration and remained committed to becoming a customer-centric digital bank. As a result, both the total number of customers using e-channels and the number of e-channel transactions continued to rise. BOCHK continued to enhance its cross-border payment and collection services with the launch of the BoC Pay, the first one-stop cross-border payment mobile application to support UnionPay QR code payment and added-value services for customers in both the Chinese mainland and Hong Kong. It also launched BoC Bill, the first comprehensive collection platform in Hong Kong to support UnionPay QR code payment, providing merchants with comprehensive collection services through different collection channels. In support of the Faster Payment System (FPS) introduced by the Hong Kong Monetary Authority (HKMA), it provided HKD and RMB real-time interbank transfer and cross-platform merchant collection services for personal and corporate customers. It enhanced iService to support branch personnel and its cloud-based call centre with mobile terminals, leading to a notable improvement in the overall productivity of its service network. The promotion of finger vein authentication services provided customers with a more convenient identity authentication process. BOCHK also enhanced the development of a new smart branch model and launched a new customer service process. With the aim of building a green bank, it continued to enhance paperless business operations and digital information in order to reduce the adverse environmental impact.

BOCHK was awarded "Strongest Bank in Asia Pacific and Hong Kong", "Best Trade Finance Bank in Hong Kong" and "Best Corporate Trade Finance Deal in Hong Kong" from *The Asian Banker*, "Best Bank for CSR in Hong Kong" from *Asiamoney*, "Hong Kong Domestic Cash Management Bank of the Year", "Gold and Precious Metals Bank of the Year — Hong Kong", "Service Innovation of the Year — Hong Kong", "Mobile Banking Initiative of the Year — Hong Kong" and "Digital Banking Initiative of the Year — Hong Kong" from *Asian Banking and Finance*, "Best Hong Kong Deal" from *FinanceAsia* and "Best SME's Partner Gold Award" from the Hong Kong General Chamber of Small and Medium Business. Its issuance of additional tier 1 capital securities during the year also received the "Best Hong Kong Deal" award from *FinanceAsia*.

(Please refer to the results report of BOCHK for a full review of BOCHK's business performance and related information.)

Comprehensive Operation Platforms

The Bank gave full play to the competitive advantages inherent in its integrated operations and actively seized opportunities arising from the Belt and Road Initiative and the development of China's multi-layered capital markets. By focusing on its specialised business areas, deepening business collaboration and promoting cross-selling and product innovation, it provided comprehensive and high-quality financial services to customers.

Investment Banking Business

BOCI

The Bank is engaged in investment banking business through BOCI. As at the end of 2018, BOCI had an issued share capital of HKD3.539 billion, total assets of HKD64.058 billion, and net assets of HKD18.483 billion. In 2018, BOCI realised a profit for the year of HKD1.607 billion. BOCI holds leading positions in a number of its core businesses.

BOCI actively captured strategic opportunities arising from the Belt and Road Initiative, Chinese enterprises' "Going Global" efforts, mixed ownership reform of state-owned enterprises and the development of the Guangdong-Hong Kong-Macao Greater Bay Area. It continuously strengthened its marketing efforts, reinforced internal controls and enhanced risk management practices. With the aims of serving the real economy and supporting private enterprises, BOCI strived to improve its core businesses and strengthened its integrated "investment banking + commercial banking" services.

BOCI made solid progress in providing integrated cross-border services for global clients. It actively explored opportunities in the Southeast Asian market, strengthened its development in M&A business and leveraged its structural advantages in government services and its financial solution expert panel to promote cross-border cooperation with the Group's branches and subsidiaries. In addition, it achieved steady progress in its equity underwriting and financial advisory businesses, including assisting Qingdao Haier's IPO, which was the first Chinese D-share to be listed on the China Europe International Exchange in Frankfurt. BOCI's bond issuance and underwriting businesses continued to maintain leading positions in the market. Deeply rooted in Hong Kong and Macao, BOCI leveraged its competitive edges in the Chinese mainland and continued to expand its sales network globally. Keeping abreast of market changes, it further improved its value and influence as a think tank in terms of research capability.

BOCI steadily upgraded its brokerage and trading system with the aid of big data and AI technologies, thus strengthening its cross-selling and improving its targeted marketing and customer services. To keep ahead of market trends, BOCI launched callable bull/bear contracts, thereby solidifying its leading positions in terms of brokerage and equity derivatives business in Hong Kong. It improved its asset management business structure with a focus on providing differentiated investment products and services for its clients. Moreover, it offered a full range of comprehensive wealth management and inheritance solutions and private banking investment products, and continuously improved its service and system platforms in a bid to consolidate its leading position and competitive advantages among Chinese-funded private banks. BOCI-Prudential Asset Management Limited, a subsidiary of BOCI, maintained its position as a top-ranked service provider in the Hong Kong Mandatory Provident Fund (MPF) and Macao Pension Fund businesses. BOCI further enriched its investment fund offering and actively participated in the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme to provide quality services to Chinese mainland investors.

BOCI seized opportunities arising from capital market developments in the Chinese mainland, strengthened cross-border business cooperation, explored high-quality projects in line with industry development trends and increased RMB equity investment. In addition, it established a new benchmark in the global commodities market by launching the "BOCI China Commodities Index", and boosted the internationalisation of China's futures market by completing the first offshore trades of Chinese domestic crude oil and iron ore futures.

BOCI received a number of awards from respected media organisations, including "Best Corporate & Investment Bank", "Best Private Bank, Hong Kong — High Net Worth Individuals", "Best Overall Chinese Bank for BRI", "Best Bond House", "Base Metals House of the Year, Asia", "Innovation House of the Year, Asia" and "Mutual Funds — Equity–Hong Kong — Outstanding Performer", and "MPFs (10 Years) — Equity–Global — Outstanding Performer".

BOCI China

The Bank is engaged in securities-related business in the Chinese mainland through BOCI China. As at the end of 2018, the registered capital, total assets and net assets of BOCI China were RMB2.500 billion, RMB47.200 billion and RMB12.045 billion, respectively. It realised a profit for the year of RMB706 million in 2018.

BOCI China endeavoured to push forward business transformation and outperform its peers. Deepening the synergistic advantages of "investment bank + commercial bank", "investment bank + investment" and "domestic + overseas" in its investment banking business. BOCI China shifted its investment banking focus towards transaction-driven comprehensive financial services, shifted its asset management business focus towards active management. In 2018, it ranked ninth for both stock and bond underwriting scale, and seventh and eighth for asset under management (AUM) and income respectively. BOCI China pushed forward its brokerage business transformation with a focus towards wealth management, while improving the versatility of its branches. As a result, BOCI China continually increased its service capability and market influence.

BOCI China was awarded "Top Ten Asset Securitisation Investment Banks", "Excellent Emerging Investment Bank", "Five-star Green Bond Programme", "Excellent Asset Management Broker", "Top Ten Innovative Asset Management/Fund Products" and "Excellent Fixed-income Investment Team" by *Securities Times*, "Avant-garde Customer Services Delivered by Chinese Institutions" by *International Financial News* and "Most Valuable Golden Bull Analyst" by *China Securities Journal*.

BOCIM

The Bank is engaged in fund management business in the Chinese mainland through BOCIM. As at the end of 2018, BOCIM's registered capital amounted to RMB100 million, its total assets stood at RMB4.060 billion and its net assets totalled RMB3.020 billion. Its profit for the year reached RMB973 million.

By steadily expanding its asset management business and implementing sound internal controls and risk management, BOCIM achieved continuous growth in profitability, improved its brand and market reputation and further enhanced its comprehensive strengths. As at the end of 2018, BOCIM's AUM reached RMB769.2 billion. In particular, its public-offered funds reached RMB401.1 billion and its non-monetary public-offered funds reached RMB187.6 billion.

In 2018, BOCIM won "the 20th Anniversary of Fund Industry — Best Fixed Income Fund Manager" from *China Fund*, as well as the "Gold Fund" Top Fund Company Award from *Shanghai Securities News* and other prestigious awards.

Insurance

BOCG Insurance

The Bank is engaged in general insurance business in Hong Kong through BOCG Insurance. As at the end of 2018, BOCG Insurance reported issued share capital of HKD3.749 billion, total assets of HKD8.563 billion and net assets of HKD4.002 billion. In 2018, BOCG Insurance recorded gross written premiums of HKD2.344 billion and a profit for the year of HKD21 million. It remained at the forefront of the Hong Kong general insurance market in terms of gross written premium.

BOCG Insurance actively served the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area. Through strengthened collaboration with the Group's institutions, it secured a contract for all-risk property insurance with the Vientiane World Trade Centre in Laos and a contract for third-party liability insurance covering cars passing over the Hong Kong-Zhuhai-Macao Bridge, representing new breakthroughs in collaboration formats that have enhanced its integrated financial service capacity.

Upholding the strategic philosophy of "advancing development through technology, featured businesses, innovation and market-oriented approaches" and the market development strategy of "deepen services in Hong Kong, refine business approach in the Chinese mainland, reach out to overseas markets and widen brand awareness", BOCG Insurance continuously deepened cooperation with other insurance companies. It seized market opportunities through reinsurance channels, thus expanding its business coverage from regional to international. It also promoted the upgrade of its core business system and its new official website, and adopted membership management of customers, thus further improving customer experience.

Taking its strategy, market conditions, regulations and technology into consideration, BOCG Insurance continued to improve its organisational structure in accordance with the management principles governing customers, products and channels. It also made a concerted effort to establish a full-scale, whole-process and all-staff risk management system so as to ensure the sound function of the "three lines of defence" for internal control. BOCG Insurance strengthened its risk management early warning mechanism, which effectively reduced the impacts of natural disasters including Typhoon Mangkhut. Moreover, it reinforced its risk appetite management for insurance underwriting, reinsurance and investment, and efficiently enhanced risk compliance awareness, all of which led to more professional risk management.

BOC Life

The Bank is engaged in life insurance business in Hong Kong through BOC Life. As at the end of 2018, BOC Life's issued share capital was HKD3.538 billion, total assets amounted to HKD132.415 billion and net assets amounted to HKD8.317 billion. Its profit for the year was HKD854 million.

BOC Life proactively broadened its multiple distribution channels and developed innovative products and value-added services. Meeting differentiated customers' needs, BOC Life launched the revamped "SmartUp Plus Whole Life Insurance Plan" and the new "SmartGuard Critical Illness Plan" to increase the value of new business. It introduced a new annuity product "Smart Immediate Annuity Plan" to cater to customers' demands in annuity product and retirement protection. As part of its innovation in distribution platforms, BOC Life gained a foothold in the insurance product platforms of renowned internet companies so as to attract more customers from the mobile segment. It launched its first critical illness product "AlongPro Critical Illness Plan" on these online platforms as well as on the BOC Life official website. 2018 marked the 20th anniversary of BOC Life. It rolled out a series of promotional programmes to raise awareness of its life insurance business and further strengthen its brand image.

BOC Life increased the application of innovative technology and effectively enhanced customer experience. It launched an innovative AI chatbot service to provide customers with information about insurance, payments, claims, etc. In an effort to develop the younger customer segment, BOC Life promoted its electronic policy services and launched "eClaims" to provide customers with convenient and efficient claim assessment services. In line with the FPS introduced by the HKMA, BOC Life was among the first batch of insurance companies in Hong Kong to apply its instant payment functions for premium collection and claims payment.

BOC Life achieved sound financial performance. Moody's Investors Service upgraded its insurance financial strength rating by one notch to A1, which reflects BOC Life's track record of solid profitability, solvency ratio and capital strength.

BOC Insurance

The Bank is engaged in property insurance business in the Chinese mainland through BOC Insurance. As at the end of 2018, BOC Insurance reported registered capital of RMB4.535 billion, total assets of RMB12.606 billion and net assets of RMB3.969 billion. In 2018, it realised gross written premiums of RMB6.050 billion, and a profit for the year of RMB205 million.

Following national strategies, BOC Insurance paid attention to market trends and customer needs, remained committed to serving the real economy and continued to improve its comprehensive financial services. It actively responded to the Belt and Road Initiative by supporting large domestic enterprises in their "Going Global" efforts. It maintained a leading position in overseas insurance business, covering nearly 30 industries in more than 70 countries and regions including Asia, Africa and South America. It pioneered customs bond insurance to make customs clearance more convenient for import enterprises. BOC Insurance supported enterprises' technological innovations by being an authorized insurer in the pilot program of the insurance compensation mechanism for the first (set of) major technical equipment, so as to facilitate equipment improvement. It supported regional development strategies and assisted in the development of Guangdong-Hong Kong-Macao Greater Bay Area by providing insurance services for the Hong Kong-Zhuhai-Macao Bridge. In addition, it assumed its share of social responsibility by joining the single-purpose pre-paid card performance bond insurance pool and the China Urban and Rural Residential Building Earthquakes Catastrophe Insurance Pool for Chinese urban and rural residential buildings. BOC Insurance handled various insurance claims in an efficient and dedicated manner. It launched a timely emergency mechanism to deal with natural disasters and major accidents. It also ensured fast claim handling in order to effectively support customers in restoring production and continuously enhance the customer experience.

Thanks to a sound risk condition and steady operations, BOC Insurance received an "A" regulatory rating for the ninth consecutive quarter, and also maintained an "A-" rating and "stable" outlook from Standard & Poor's in recognition of the remarkable enhancement in its overall capabilities. It received "Outstanding Insurance Brand" award in the 2018 leading in China Awards organised by JRJ.com, as well as being recognised as "2018 Excellent Competitive Property Insurance Company" by *China Business*. Its customs bond insurance product won the "Innovative Insurance Product" award at Hexun's 2018 China's Financial Annual Champion Awards.

BOC-Samsung Life

The Bank is engaged in life insurance business in the Chinese mainland through BOC-Samsung Life. As at the end of 2018, BOC-Samsung Life's registered capital stood at RMB1.667 billion, total assets amounted to RMB14.805 billion and net assets amounted to RMB1.291 billion. In 2018, BOC-Samsung Life recorded written premiums and premium deposits of RMB7.204 billion and a profit for the year of RMB35 million.

BOC-Samsung Life continued to enhance its cross-selling and collaborative service capabilities within the Group. It realised a year-on-year increase of 96% in group insurance premiums brokered by the Bank, and a year-on-year increase of 105% in premiums insuring BOC credit card clients. It expanded its customer service channels by launching new branches in seven regions including Suzhou, Jiangsu, and Zhongshan, Guangdong. BOC-Samsung Life also constructed a comprehensive life insurance service portal on the BOC mobile banking platform and provided a physical examination service at the Samsung Medical Centre for high-end clients. It upgraded its mobile sales system and service platforms and launched a new core system for group insurance, improving its automatic underwriting efficiency by nearly 60% and increasing the proportion of after-sale service processes conducted via the WeChat official account by nearly 20%. Moreover, BOC-Samsung Life strengthened its product development capability and introduced a specific illness insurance product "AiJiaBao", which strengthened the protection function of its product line.

BOC-Samsung Life was awarded "2018 China's Insurance Annual Champion Awards-Excellent Foreign Insurance Company" by *National Business Daily*. Its lifetime critical illness insurance product "XiangYou" and life insurance product "ZunXiangJiaYing II" won the "Health Products of the Year Award" and "Life Insurance Products of the Year Award" respectively at the 2018 Insurance Product Innovation Forum held by *China Insurance News*.

Investment Business

BOCG Investment

The Bank is engaged in direct investment and investment management business through BOCG Investment. BOCG Investment's business scope includes private equity investment, fund investment and management, real estate investment and management and NPA investment. As at the end of 2018, BOCG Investment recorded issued share capital of HKD34.052 billion, total assets of HKD116.299 billion and net assets of HKD61.264 billion. In 2018, it recorded a profit for the year of HKD3.892 billion.

BOCG Investment effectively implemented the Group's overall development strategies and steadily pushed forward its business transformation from "investment" to "investment + investment management". It focused on opportunities arising from new industries and new business types and formats, and completed investments in a number of major projects. It actively participated in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and initiated the establishment of the Greater Bay Area Homeland Development Fund. In the course of diversifying its financing channels, BOCG Investment issued RMB1.0 billion and RMB2.0 billion of Panda Bonds in the Shanghai Stock Exchange and domestic interbank bond market respectively in 2018. In line with the Group's targeted poverty alleviation initiatives, it completed the initial stage of capital injection in the Xianyang City — CP Group Pig-Farming Project. BOCG Investment achieved sustainable development through strengthening post-investment management and exit management.

BOC Asset Investment

The Bank is engaged in debt-for-equity conversion and related business in the Chinese mainland through BOC Asset Investment. As at the end of 2018, the registered capital of BOC Asset Investment was RMB10.000 billion, with its total assets and net assets standing at RMB21.172 billion and RMB10.107 billion respectively. Its profit for the year totalled RMB234 million.

BOC Asset Investment actively implemented the national strategy of deepening supply-side structural reform. It conducted debt-for-equity conversions based on both market-oriented and law-based principles, with the aim of improving enterprises' business operations and helping them to reduce leverage ratios and improve market value. In 2018, the market-oriented debt-for-equity conversion business of BOC Asset Investment reached RMB43.861 billion. Seventeen director-supervisors were appointed to participate in the corporate governance of the enterprises conducting the conversion. BOC Asset Investment established a subsidiary company engaged in private equity investment funds and successfully launched its first debt-to-equity private equity investment fund. The company also explored a new approach to market-oriented debt-for-equity conversion business by completing the first project in China to convert non-listed non-public joint-stock companies into preferred shares.

Leasing Business

BOC Aviation

The Bank is engaged in the aircraft leasing business through BOC Aviation. BOC Aviation is one of the world's leading aircraft operating leasing companies and is the largest aircraft operating leasing company headquartered in Asia, as measured by the value of owned aircraft. As at 31 December 2018, BOC Aviation recorded issued share capital of USD1.158 billion, total assets of USD18.256 billion and net assets of USD4.199 billion. It recorded a profit for the full year of USD620 million.

Committed to pursuing sustainable growth, BOC Aviation continued to implement its proactive business strategy and steadily promoted its standing in the aircraft leasing industry. Actively supporting the Belt and Road Initiative, it had leased more than 75% of its aircraft to airlines of Belt and Road countries and regions, as well as airlines based in the Chinese mainland, Hong Kong, Macao and Taiwan, as of 31 December 2018. Actively targeting customer demand, the company took delivery of 55 aircraft, including five aircraft that airline customers purchased at delivery, all of which have been placed on long-term leases, as its owned fleet continued to expand. During the 2018 year, BOC Aviation signed 92 leases for future deliveries and added 17 new customers. The company consistently sought to optimise its asset structure and improve its sustainable development. It sold 34 owned and seven managed aircraft in 2018, leaving it with an average owned fleet age of three years (weighted by net book value) as at 31 December 2018, one of the youngest aircraft portfolios in the aircraft leasing industry.

(Please refer to the BOC Aviation Annual Report for a full review of its business performance.)

Service Channels

The Bank has established professional and diversified service channels and provides comprehensive financial services to customers in the Chinese mainland and many other countries and regions. Centred on enhancing customer experience, the Bank pushed forward its service channel integration and outlet transformation so as to attract more customers and drive stronger economies of scale. As a result, it cultivated an ecosystem wherein online and offline channels are integrated and financial and non-financial scenarios are seamlessly connected.

Outlet Development

The Bank pushed forward the construction of its next-generation intelligent outlets, featuring smart counters. Led by the popularisation and upgrading of smart counters, it endeavoured to transform its outlets' service model from transaction-processing to value-creating. In 2018, the Bank completed nine smart counter upgrades and rolled out 41 categories of service scenarios with 186 sub-categories. Smart counters provide an intelligent service system covering basic finance, targeted sales, online and offline coordination, cross-border features and corporate banking. At the same time, the Bank installed smart counters in all of its banking outlets in the Chinese mainland, further increasing the Bank's smart service capability and coverage. Mobile counters covers 36 tier-1 branches in the Chinese mainland with the aim of encouraging a proactive approach to acquiring customers beyond the boundary of the outlet hall, thus expanding the Bank's financial service coverage and transforming its operation model. The Bank piloted corporate account opening via mobile counters. It extended its services, including corporate account opening, product enabling and online services, to off-premises marketing scenarios for the first time. As a result, the launch of mobile counters further improved the Bank's basic customer and account service capabilities. The Bank also piloted a cash version of smart counters. Taking RMB banknotes as the starting point, these smart counters provide a one-stop smart cash service integrating multiple mediums, denominations and transaction options for customers. The cash-based smart counters represented a breakthrough in solving the "last mile" problem in the migration of counter-based services.

The Bank optimised its outlet performance assessment system and carried forward the classification and differentiated development of its outlets. It also extended its service channels and improved financial services in county areas. The Bank consistently refined the operational management of its outlets and adjusted the authority and responsibilities of outlet employee positions. It improved outlets' marketing service approaches to improve customer experience and strengthened the risk management of each outlet business line, thus enhancing comprehensive operational efficiency.

As at the end of 2018, the Bank's domestic commercial banking network (including Head Office, tier-1 branches, tier-2 branches and outlets) comprised 10,726 branches and outlets. Its domestic non-commercial banking institutions totalled 467, and the number of its institutions in Hong Kong, Macao, Taiwan and other countries and regions totalled 548.

Unit: single item, except percentages

Items	**As at 31 December 2018**	As at 31 December 2017	Change (%)
ATM	**41,723**	42,507	(1.84%)
Smart Counter	**26,044**	16,235	60.42%
Self-service terminal	**17,627**	31,239	(43.57%)

Internet Finance

Pursuing innovation-driven development in internet finance, the Bank realised rapid growth in its mobile banking business with enriched functions and improved user experience. The Bank's internet finance business ranking rose significantly in evaluations made by authorities and mainstream media. In 2018, the Bank's substitution ratio of e-banking channels for outlet-based business transactions reached 93.99%. Its e-channel transaction amount reached RMB223.53 trillion, an increase of 16.18% year on year. Among this, mobile banking transaction volumes reached RMB20.03 trillion, an increase of 82.68% year on year, making mobile banking the online trading channel with the most active customers.

Items	As at 31 December 2018	As at 31 December 2017	Change (%)
			Unit: million customers, except percentages
Number of corporate online banking customers	**3.8905**	3.4169	13.86%
Number of personal online banking customers	**166.2361**	147.9722	12.34%
Number of mobile banking customers	**145.3118**	115.3257	26.00%
Number of telephone banking customers	**113.7678**	113.3691	0.35%

Unit: RMB billion, except percentages

Items	2018	2017	Change (%)
Transaction amount of corporate online banking	**190,007.123**	165,881.831	14.54%
Transaction amount of personal e-banking	**30,076.152**	22,591.912	33.13%
Transaction amount of mobile banking	**20,031.165**	10,965.139	82.68%

Following a "Mobile First" strategy, the Bank built a mobile portal for its integrated financial services. Its new mobile banking offers approximately 200 types of financial services, further improving its functions and user experience. The Bank's mobile banking portal also created customised services by leveraging new technologies such as AI, big data and biometric identification. The Bank introduced new features to its mobile banking service including facial recognition and authentication, speech recognition search, gesture login, and rolled out intelligent investment advisor and smart customer service functions, etc. As a result, it improved the intelligent service levels of its mobile banking. The Bank provided featured services such as cross-border finance, integrated finance, mobile payment and asset management, as well as functions including digital credit cards, Visa Express and reservation of foreign currency banknotes. To increase customer interactions and customer stickiness, the Bank utilised webcasting for mobile banking by building BOC Live Platform. It also created more security authentication methods for its mobile banking services, promoting SIM Key and Mobile Key on a pilot basis. The Bank further improved the service functions of its online banking, telephone banking, WeChat banking and SMS banking, thus creating better customer experience.

The Bank continuously enriched its internet finance products. Based on market and customer demand, the Bank offered leading products such as online payment, financial supermarket, "BOC E-Credit", "BOC E Rong Hui" and "BOC Easy-trade Cyber-tariff". It promoted the development of online payments, and became the first bank to connect to, conduct transactions on, and switch directly-connected transactions to the online clearing platform. It also introduced the pioneering cross-border UnionPay QR code payment product. The Bank has built a one-stop financial supermarket to integrate Group-wide resources. It offers 18 categories of investment and wealth management products covering bank wealth management, funds distribution, precious metals, foreign exchange, etc. Focusing on data and scenarios, the Bank endeavoured to expand the customer base and enrich the customer acquisition scenarios of "BOC E-Credit". It established an innovation and incubation mechanism for online financing, and developed a credit risk assessment model for personal customers based on consumer behaviours and scenario data. The Bank maintained its competitive advantages in tariff business. Cooperating with the General Administration of Customs and PBOC, it became the first bank in the industry to pilot and launch the "Single Window" model for tax payment and electronic letter of guarantee for tariff payments services nation-wide. The "BOC Easy-trade Cyber-tariff" business continued to lead its peers in market share.

The Bank enriched its service scenarios to improve customer stickiness. Using mobile banking as a unified portal, the Bank reinforced external scenario cooperation, attracted more quality merchants to its "Life Channel" and provided more cross-border services, branch-featured services as well as other value-added services. The Bank launched the E-BOC scenario expansion platform. It embedded its products into internet scenarios to deliver public services such as online account opening, inter-bank transfer, and risk evaluation. It also released scenario-based financial services, including Precious Metals Savings and reservation of foreign currency banknotes, together with partners.

The Bank further leveraged FinTech to enhance the fundamental service capacity of its internet finance business. It established an enterprise-level concurrent risk control system and a whole-process internet finance risk management and control system that covers pre-event, concurrent and post-event risk control. The Bank further enhanced its big data analysis capabilities by building a customer tag service system. This system covers both corporate and personal customers, and has allowed the Bank to construct targeted service of data mining, data analysis, marketing strategy and outcome feedback. The Bank also rolled out the main functions of its new-generation customer service programme, building a cross-channel, cross-scenario and cross-platform intelligent customer contact centre. It also introduced a video-based online global expert service, thus constantly improving its smart customer service capability. The Bank upgraded its corporate mobile banking by adding biometric identification, account management, electronic reconciliation and comprehensive transfer functions, and by launching online corporate account opening, corporate group insurance and proactive marketing for wealth management products.

Information Technology Development

Following a technology and innovation-driven strategy, the Bank continuously improved its IT governance and promoted the integrated development of the Group's information technology. These improvements actively facilitated the implementation of the Group's strategy.

The Bank successfully completed its overseas information system integration and transformation project, an effort which lasted for six years and covered 50 countries and regions on six continents. Through this system, the Bank realises global coverage with one core system, information system version unification, centralised deployment and integrated operation and management. The Bank launched key projects including mobile banking, smart counters, transaction banking, smart customer service, intelligent investment advisor, intelligent customer management, consumer finance, a quantitative trading platform, a smart risk control system and a scenario-based financial ecosystem, thus supporting its business development and promoting the Group's digital transformation.

The Bank followed a technical development route that gives equal emphasis to centralised and distributed architectures, so as to push forward the strategic transformation of its technical architecture. It established three new technology platforms: cloud computing, big data and AI. These platforms are the foundations for the network-based, intelligent and ecological management of the Bank's business and operations. It also made substantial breakthroughs in disaster-recovery backup and high availability architecture, laying a foundation for the long-term development of the Bank's IT capacity. Adapting to development trends in the digital era, the

Bank boosted the transformation of its IT systems and mechanisms by establishing its first global innovation and R&D base in Singapore and launching an international version of its mobile banking service.

The Bank conducted research into the applications of such novel technologies as AI, biometric identification, and blockchain technology. The research focused on applying such technologies to prevent and control risks, enhance customer experience, strengthen business transactions, and improve security operations, etc. Adhering to the principle that FinTech innovation should essentially serve business development, the Bank closely tracked developments in core FinTech applications, explored scenario-based applications, and pushed forward the integration of innovative technologies within its businesses. It launched a forfaiting trading platform designed and developed jointly with other banks based on blockchain technology. The Bank deepened the application of AI technologies to conduct research and development of its foreign exchange price forecast model and intelligent SWIFT routing model. It also explored the application of deep learning technology to improve its modelling result, in order to enhance the reliability of its forecasting.

Column IV: Pushing forward innovation-driven development

Focusing on the Group's development strategy and adhering to the strategy of driving development through innovation, the Bank endeavoured to consolidate the foundation of its products and services, improve customer experience and facilitate the integration of technological innovation and business innovation.

Strengthening top-level design and building an innovation management system. The Bank continued to optimise its innovation mechanism and established an Innovation and Product Management Committee. In November 2018, the Bank established its first global innovation and R&D base in Singapore. Drawing on its advantages in overseas financial services, it focused on investment and financing services for cross-border customers, trade finance, cross-border clearing and RMB internationalisation, thus driving efforts to build BOC into a world-class bank in the new era.

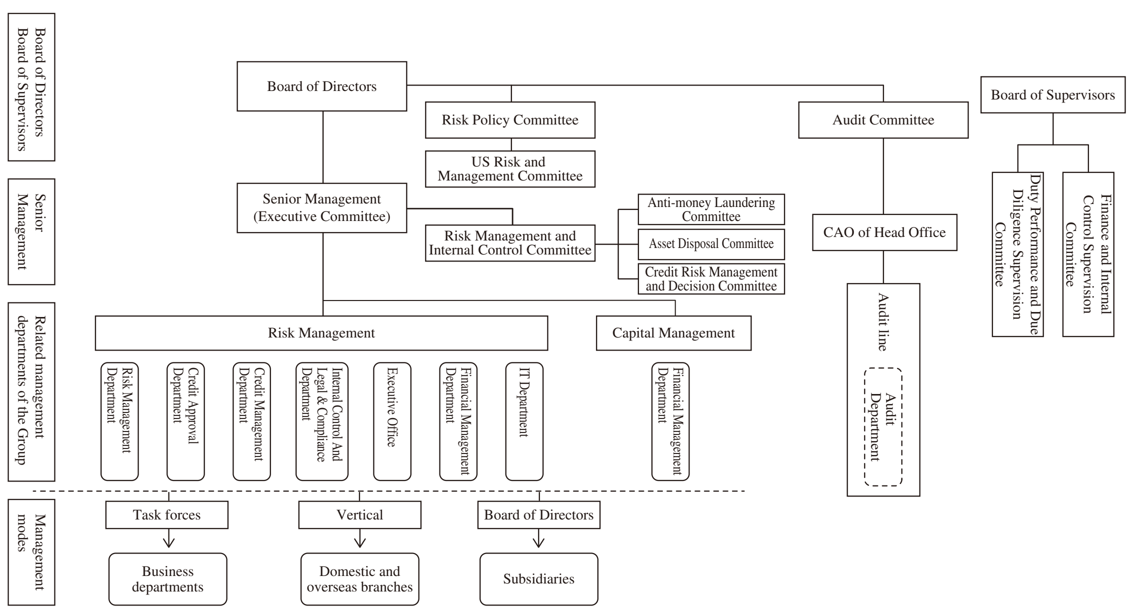
Intensifying innovation in products and services based on customer needs. The Bank endeavoured to build landmark products by emphasising the promotion of "BOC Robot Advisor", "Corporate Options on Commodities" and "Sustainability Bonds". Many of the Bank's products and achievements received market recognition and provincial or ministerial awards, including those in such areas as the Belt and Road initiative, cross-border finance, green finance, inclusive finance and digital banking.

Fostering an innovation-friendly atmosphere and incentivising employee innovation. The Bank built a diversified and multi-faceted programme of innovation activities, including innovation forums, innovation contests, themed "innovation months", annual innovation selection and other campaigns, thus effectively stimulating employees' enthusiasm for innovation. The Bank also stepped up efforts to cultivate innovative personnel, establishing a three-tier system whereby innovation-focused employees are classified as innovation experts, innovation talent and young innovation specialists.

RISK MANAGEMENT

The Bank continued to improve its risk management system in line with the Group's strategies. To ensure compliant operations, it implemented local and overseas regulatory requirements, carried out in-depth rectification and accountability for regulatory initiatives such as the governance of market disruptions, on-site efficiency examination of risk management, as well as internal control and quarterly regulatory notifications. It also pushed forward compliance efforts in effective risk data aggregation and risk reporting. The Bank also optimised its comprehensive risk governance structure, enhanced the Group's consolidated management capabilities and refined the risk assessment process for new products. It promoted the implementation of advanced capital management approaches, accelerated the upgrading and application of its risk measurement model, and improved its risk-weighted asset (RWA) measurement detailed rules. At the same time, the Bank sped up the construction of its risk management information system, with its Global Limit Control System being awarded "First Prize for Banks' Technological Progress" by the PBOC. It strengthened its risk data governance, improved its risk data standards and risk reporting capability, and earnestly promoted the application of big data and other new technologies in risk management.

The risk management framework of the Bank is set forth below:



Credit Risk Management

Closely tracking changes in macroeconomic and financial conditions, the Bank controlled and mitigated credit risks. It adjusted the structure, promoted the development and consolidated the foundations of its credit risk management function. In addition, the Bank strengthened credit asset quality management, pushed forward the optimisation of its credit structure, further improved its credit risk management policies and took a proactive and forward-looking stance on risk management.

Taking a customer-centric approach, the Bank further strengthened its unified credit granting management and enhanced full-scope centralised credit risk management. It improved its long-acting credit management mechanism and asset quality monitoring system and further enhanced potential risk identification, control and mitigation mechanisms by intensifying post-lending management and reinforcing customer concentration management and control. The Bank enhanced the supervision of risk analysis and asset quality control in key regions and strengthened window guidance on all business lines. In order to effectively strengthen the management and control of customer concentration risk, the Bank constructed the management policies of large exposures, which specified the management structure, working process and measurement rules, etc.

The Bank continuously adjusted and optimised its credit structure. With the aim of advancing strategic implementation and balancing risk, capital and return, it stepped up the application of the New Basel Capital Accord and improved the management plans of its credit portfolios. In line with the government's macro-control measures and the direction of industrial policy, the Bank enacted guidelines for industrial lending and continued to push forward the building of an industrial policy system so as to optimise its credit structure.

In terms of corporate banking, the Bank further strengthened risk identification and control, proactively reduced and exited credit relationships in key fields, strictly controlled the gross outstanding amount and use of loans through limit management and prevented and mitigated risk from overcapacity industries. It intensified the management of loans to local government financing vehicles (LGFVs) and strictly controlled the outstanding balances. In addition, the Bank implemented the government's macro-control policies and regulatory measures in the real estate sector so as to strengthen the risk management of real estate loans. In terms of personal banking, the Bank improved unified credit granting management for personal customers and revised management policies for unsecured start-up loans, small-amount loans for poverty alleviation, and loans mortgaged against rural contracted land management rights or farmers' housing property rights, thus supporting the development of its inclusive finance business. It kept improving management policies for personal online loans and credit card overdrafts, in order to prevent the risks of excessive credit and cross-infection. The Bank enforced regulatory requirements and continued to strictly implement differentiated policies on residential mortgages. It also strengthened the risk control of key products and regions.

The Bank strengthened country risk management. It performed an annual review of country risk ratings and implemented limit management and control of country risk exposures. It pushed forward the production and launch of the new Country Risk System, realised timely tally of country risk exposure at the Group level and assess, monitor, analyse and report its exposures on a regular basis. The Bank also established a country risk monitoring and reporting system covering "yearly reporting and the timely reporting of material risk events", which made it possible to regularly publish country risk analysis reports within the Group and make timely assessments of the impact of material country risk events. In addition, the Bank adopted differentiated management of potentially high-risk and sensitive countries and regions. By concentrating its net exposures to country risk in countries and regions that are relatively low or low, the Bank contained its overall country risk at a reasonable level.

The Bank further stepped up the collection of NPAs. It re-allocated internal and external collection resources, and continued to adopt centralised and tiered management of NPA projects. It reinforced the supervision of key regions and key projects, in order to improve the quality and efficiency of disposals. The Bank proactively explored the application of "Internet Plus" in NPA collection, and diversified its disposal channels. In addition, it adopted policies based on the actual conditions of individual enterprises and took multiple measures where necessary. It gave full play to the role of creditor committee and enhanced the application of debt-for-equity swaps and restructuring efforts to help enterprises get out of difficulties, with the aim of realising mutual benefit for the Bank and the enterprises, and to support the real economy.

The Bank scientifically measured and managed the quality of credit assets based on the *Guidelines for Loan Credit Risk Classification*, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are recognised as NPLs. In order to further refine its credit asset risk management, the Bank used a 13-tier risk classification criteria scheme for corporate loans to domestic companies, covering on-balance sheet and off-balance sheet credit assets. In addition, the Bank strengthened risk classification management of key industries, regions and material risk events, and dynamically adjusted classification results. It strengthened the management of loan terms, managed overdue loans by the name list system and made timely adjustments to risk classification results, so as to truly reflect asset quality. The overseas institutions of the Bank operated in line with the *Guidelines for Loan Credit Risk Classification* or the local applicable rules and requirements on credit risk classification, whichever is stricter.

As at the end of 2018, the Group's NPLs[6] totalled RMB166.941 billion, an increase of RMB8.472 billion compared with the prior year-end. The NPL ratio was 1.42%, down by 0.03 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB303.781 billion, an increase of RMB51.527 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 181.97%, up by 22.79 percentage points from the prior year-end. The NPLs of domestic institutions totalled RMB162.778 billion, an increase of RMB8.570 billion compared with the prior year-end. Domestic institutions' NPL ratio was 1.76%, down by 0.04 percentage point compared with the prior year-end. The Group's outstanding special-mention loans stood at RMB342.363 billion, an increase of RMB25.338 billion compared with the prior year-end, accounting for 2.90% of total loans and advances, down by 0.01 percentage point from the prior year-end.

[6] The loans and advances to customers in "Risk Management — Credit Risk Management" section are exclusive of accrued interest.

Five-category Loan Classification

Unit: RMB million, except percentages

Items	As at 31 December 2018 Amount	As at 31 December 2018 % of total	As at 31 December 2017 Amount	As at 31 December 2017 % of total
Group				
Pass	**11,278,379**	**95.68%**	10,421,064	95.64%
Special-mention	**342,363**	**2.90%**	317,025	2.91%
Substandard	**49,788**	**0.42%**	59,265	0.54%
Doubtful	**49,341**	**0.42%**	45,404	0.42%
Loss	**67,812**	**0.58%**	53,800	0.49%
Total	**11,787,683**	**100.00%**	10,896,558	100.00%
NPLs	**166,941**	**1.42%**	158,469	1.45%
Domestic				
Pass	**8,818,838**	**95.10%**	8,140,120	94.83%
Special-mention	**291,933**	**3.15%**	288,857	3.37%
Substandard	**48,281**	**0.52%**	57,659	0.67%
Doubtful	**47,536**	**0.51%**	43,370	0.51%
Loss	**66,961**	**0.72%**	53,179	0.62%
Total	**9,273,549**	**100.00%**	8,583,185	100.00%
NPLs	**162,778**	**1.76%**	154,208	1.80%

Migration Ratio

Unit: %

Items	2018	2017	2016
Pass	**2.20**	1.97	3.05
Special-mention	**23.70**	20.37	19.39
Substandard	**51.89**	57.97	36.67
Doubtful	**33.57**	31.98	44.31

In accordance with IFRS 9, the Bank assesses expected credit losses (ECL) with forward-looking information and makes relevant allowances. In particular, it makes allowances for assets classified as stage 1 and assets classified as stage 2 and stage 3 according to ECL of 12 months and ECL of the entire lifetime of the asset, respectively. As at the end of 2018, the Group's stage 1, stage 2 and stage 3 loans totalled RMB11,183.826 billion, RMB433.375 billion and RMB166.952 billion respectively, accounting for 94.90%, 3.68% and 1.42% of total loans.

As at the end of 2018, the Group's credit-impaired loans totalled RMB166.952 billion, an increase of RMB9.070 billion compared with the prior year-end. The credit-impaired loans to total loans ratio was 1.42%, a decrease of 0.03 percentage point compared with the prior year-end. For domestic institutions, credit-impaired loans totalled RMB162.778 billion, an increase of RMB8.570 billion compared with the prior year-end. The credit-impaired loans to total loans ratio of domestic institutions was 1.76%, down by 0.04 percentage point compared with the prior year-end. The Bank's operations in Hong Kong, Macao, Taiwan and other countries and regions reported credit-impaired loans of RMB4.174 billion and a credit-impaired loans to total loans ratio of 0.17%, representing an increase of RMB500 million and an increase of 0.01 percentage point compared with the prior year-end respectively.

Movement of Credit-Impaired Loans

			Unit: RMB million
Items	**2018**	2017	2016
Group			
Balance at the beginning of the year	**157,882**	145,311	130,237
Increase during the year	**83,009**	71,573	72,721
Decrease during the year	**(73,939)**	(59,002)	(57,647)
Balance at the end of the year	**166,952**	157,882	145,311
Domestic			
Balance at the beginning of the year	**154,208**	141,458	127,635
Increase during the year	**80,680**	69,854	70,700
Decrease during the year	**(72,110)**	(57,104)	(56,877)
Balance at the end of the year	**162,778**	154,208	141,458

Loans and Credit-Impaired Loans by Currency

						Unit: RMB million
	As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
Items	**Total loans**	**Impaired loans**	Total loans	Impaired loans	Total loans	Impaired loans
Group						
RMB	**9,074,501**	**151,313**	8,325,013	145,605	7,607,730	130,301
Foreign currency	**2,713,182**	**15,639**	2,571,545	12,277	2,365,632	15,010
Total	**11,787,683**	**166,952**	10,896,558	157,882	9,973,362	145,311
Domestic						
RMB	**8,991,494**	**151,292**	8,243,556	145,540	7,480,833	130,277
Foreign currency	**282,055**	**11,486**	339,629	8,668	337,675	11,181
Total	**9,273,549**	**162,778**	8,583,185	154,208	7,818,508	141,458

The Bank makes adequate and timely allowances for loan impairment losses based on the expected credit loss module in accordance with the principles of authenticity and forward looking approach. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for the accounting policy in relation to allowances for impairment losses.

In 2018, the Group's impairment losses on loans and advances stood at RMB107.905 billion, an increase of RMB23.880 billion compared with the prior year. The credit cost was 0.95%, an increase of 0.14 percentage point compared with the prior year. Specifically, domestic institutions registered impairment losses on loans and advances of RMB106.850 billion, an increase of RMB25.481 billion compared with the prior year. The credit cost of domestic institutions was 1.20%, an increase of 0.21 percentage point compared with the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with regulatory requirements on borrower concentration.

Unit: %

Indicators	Regulatory Standard	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Loan concentration ratio of the largest single borrower	≤10	**3.6**	3.8	2.3
Loan concentration ratio of the ten largest borrowers	≤50	**15.3**	17.4	14.2

Notes:

1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower ÷ net regulatory capital.

2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers ÷ net regulatory capital.

Please refer to Notes V.17 and VI.3 to the Consolidated Financial Statements for detailed information regarding loan classification, stage determination, credit-impaired loans and allowance for loan impairment losses.

The following table shows the top ten individual borrowers as at the end of 2018.

Unit: RMB million, except percentages

	Industry	Related Parties or not	Outstanding loans	% of total loans
Customer A	Manufacturing	No	68,632	0.58%
Customer B	Transportation, storage and postal services	No	43,176	0.37%
Customer C	Transportation, storage and postal services	No	35,011	0.30%
Customer D	Commerce and services	No	25,312	0.21%
Customer E	Transportation, storage and postal services	No	23,868	0.20%
Customer F	Manufacturing	No	21,519	0.18%
Customer G	Production and supply of electricity, heating, gas and water	No	20,523	0.17%
Customer H	Commerce and services	No	20,185	0.17%
Customer I	Transportation, storage and postal services	No	18,350	0.16%
Customer J	Production and supply of electricity, heating, gas and water	No	16,521	0.14%

Market Risk Management

In response to changes in the market environment, the Bank continued to refine its market risk management system in order to effectively control its market risk.

The Bank actively adapted to changes in its business and the market by improving its market risk appetite transmission mechanism and refining its model for the Group's market risk limit management. It conducted forward-looking research and judgment regarding market risks and cross-financial risks in order to improve its counterparty credit risk management process and mechanism, thus bolstering its risk warning and mitigation capabilities. The Bank enhanced the accuracy of its risk measurement and improved its risk quantification capability by continuously advancing the construction of its market risk data mart and management system, and by studying and applying advanced risk measurement approaches. Please refer to Note VI.4 to the Consolidated Financial Statements for detailed information regarding market risk.

The Bank strengthened risk management of the Group's bond investments by closely tracking market volatility and changes in regulatory policy. Based on the market and business needs, it has shortened its response time to risks and made timely adjustments and refinements to its investment policies. In response to high default rates in the bond market, the Bank has improved the effectiveness of risk inspections and strengthened risk management and control in major areas.

The Bank assessed the interest rate risk in its banking book mainly through analysis of interest rate re-pricing gaps, made timely adjustments to the structure of its assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level. Assuming that the yield curves of all currencies were to shift up or down by 25 basis points in parallel, the Group's sensitivity analysis of net interest income on all currencies is as follows[7]:

Unit: RMB million

	As at 31 December 2018				As at 31 December 2017			
Items	**RMB**	**USD**	**HKD**	**Other**	RMB	USD	HKD	Other
Up 25 bps	**(3,520)**	**(670)**	**328**	**(274)**	(3,503)	(563)	360	(487)
Down 25 bps	**3,520**	**670**	**(328)**	**274**	3,503	563	(360)	487

In terms of exchange rate risk management, the Bank sought to achieve currency matching between fund source and application and managed exchange rate risk through timely settlement and hedging, thus effectively controlling its foreign exchange exposure.

7 This analysis is based on the approach prescribed by the CBIRC, which includes all off-balance sheet positions.

Liquidity Risk Management

The Bank endeavoured to develop a sound liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and Group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

Adhering to an appropriate balance of safety, liquidity and profitability, and following regulatory requirements, the Bank improved its liquidity risk management in a forward-looking and scientific manner. The Bank enhanced liquidity risk management at the institution and Group level, including that of branches, subsidiaries and business lines. It formulated sound liquidity risk management policies and contingency plans, periodically re-examined liquidity risk limits, upgraded the early warning system for liquidity risk and strengthened the management of high-quality liquid assets, in order to strike an appropriate balance between risk and return. In addition, the Bank regularly improved its liquidity stress-testing scheme and performed stress tests on a quarterly basis. The stress tests showed that the Bank had adequate payment ability to cope with distressed scenarios.

As at the end of 2018, the Group's liquidity risk indicator met regulatory requirements. The Group's liquidity ratio is shown in the table below (in accordance with relevant provisions of domestic regulatory authorities):

Unit: %

Ratio		Regulatory standard	**As at 31 December 2018**	As at 31 December 2017	As at 31 December 2016
Liquidity ratio	RMB	≥25	**58.7**	47.1	45.6
	Foreign currency	≥25	**54.8**	56.9	52.7

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing. As at the end of 2018, the Bank's liquidity gap was as follows (please refer to Note VI.5 to the Consolidated Financial Statements):

Unit: RMB million

Items	**As at 31 December 2018**	As at 31 December 2017
Overdue/undated	**2,071,988**	2,213,972
On demand	**(7,669,897)**	(6,879,942)
Up to 1 month	**(651,459)**	(1,429,232)
1–3 months (inclusive)	**(591,520)**	(312,210)
3–12 months (inclusive)	**(54,305)**	163,908
1–5 years (inclusive)	**3,238,374**	3,050,952
Over 5 years	**5,382,216**	4,769,231
Total	**1,725,397**	1,576,679

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature in the same period.

Reputational Risk Management

The Bank earnestly implemented regulatory requirements on reputational risk management, continued to enhance its reputational risk management system and mechanism and strengthened the consolidated management of reputational risk, so as to enhance the overall reputational risk management level of the Group. It attached great importance to the investigation and pre-warning of potential reputational risk factors, further improved its routine public opinion monitoring capability, conducted reputational risk identification, assessment and reporting, established a coordination mechanism between reputational risk management departments and liable departments and dealt appropriately with reputational risk events, thus effectively maintaining the brand reputation of the Group. In addition, the Bank continued to roll out reputational risk training so as to enhance employees' awareness and foster a culture of reputational risk management across the Group.

Internal Control and Operational Risk Management

Internal Control

The Board of Directors, senior management and their special committees earnestly performed their duties regarding internal control and supervision, emphasising early risk warning and prevention, so as to improve the Group's level of compliance operation.

The Bank continued to adopt the "three lines of defence" mechanism for internal control. The first line of defence consists of business departments and all banking outlets. They are the owners of, and are accountable for, local risks and controls. They undertake self-directed risk control and management functions in the course of their business operations, including formulating and implementing policies, conducting business examination, reporting control deficiencies and organising rectifications.

The internal control and risk management departments of the Bank's institutions at all levels form the second line of defence. They are responsible for the overall planning, implementing, examining and assessing of risk management and internal control, as well as for identifying, measuring, monitoring and controlling risks. They led the first line of defence to enhance its use of the Group's operational risk monitoring and analysis platform. Through regular monitoring of material risks, the Bank identified and mitigated risks in a timely manner and promoted the optimisation of business processes and systems.

The third line of defence rests in the audit and inspection departments of the Bank. The audit department is responsible for performing internal audit of the Bank's internal control and risk management in respect of its adequacy and effectiveness. The inspection department is responsible for staff non-compliance sanctions, investigation of cases and management accountability. The Bank continuously strengthened education and raised employees' awareness of moral hazards. It reinforced employee behaviour management, seriously investigated internal fraud cases and strictly pursued accountability according to the basic principles of "inquiry of four accountable subjects into one case", "both institutional and business-line management accountability" and "management two levels higher than the branch-outlet accountable where serious fraud occurs". The Bank also continued to push forward the reform of its human resource management system for the audit line, and further intensified the vertical management of its audit function. It enhanced audit team-building, accelerated the implementation of the three-year plan for IT applications in audit, reinforced the use of IT-based audit approaches and further advanced circulatory monitoring. Taking an issue-oriented approach, the Bank focused on comprehensive audits of its institutions and special audits of its businesses. It strengthened audits and inspections of high-risk institutions and businesses, as well as fields prioritised by the Group and of special concern to regulators. Focused on systemic, trend, emergence and importance issues, it brought the audit function forward in its business process, so as to practically perform its internal audit function. It re-examined and optimised rectification procedures in order to improve rectification quality and efficiency, urged the effective rectification of audit findings, and thereby continually improved the Bank's internal governance and control mechanism.

Rigorously implementing the requirements of the CBIRC regarding further rectification of market disruption in the banking sector, the Bank organised bank-wide risk inspections to actively identify and mitigate risks. It launched a staff compliance file system to reinforce behaviour management and foster a compliance culture. In addition, the Bank developed an internal control and compliance management evaluation system so as to enhance the routine management and control of its branches.

The Bank continued to implement the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, adhering to the primary goal of ensuring the effectiveness of its internal control over financial reporting and the accuracy of its financial information. It also constantly improved non-financial internal control. The Bank earnestly implemented the *Guidelines for Internal Control of Commercial Banks* by following the basic principles of "complete coverage, checks and balances, prudence and correspondence", so as to promote internal control governance and an organisational structure characterised by a reasonable delegation of work, well-defined responsibilities and clear reporting relationships.

The Bank established and implemented a systematic financial accounting policy framework in accordance with relevant accounting laws and regulations. Accordingly, its accounting basis was solidified and the level of standardisation and refinement of its financial accounting management was further improved. The Bank has endeavoured to further the qualification of accounting groundwork and establish the long-term accounting management mechanism since 2018. It continuously strengthened the quality management of its accounting information, so as to ensure the internal control effectiveness over financial reporting. The financial statements of the Bank were prepared in accordance with the applicable accounting standards and related accounting regulations, and the financial position, operational performance and cash flows of the Bank were fairly presented in all material respects.

The Bank paid close attention to fraud risk prevention and control, proactively identifying, assessing, controlling and mitigating risks. In 2018, the Bank succeeded in preventing 229 external cases involving RMB180 million.

Operational Risk Management

The Bank continuously improved its operational risk management system. It promoted the application of operational risk management tools, including Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC), etc., to identify, assess and monitor operational risks, thus continuously improving its risk management measures. The Bank enhanced its system support capability by optimising its operational risk management information system. It strengthened its business continuity management system, optimised its operating mechanism to enhance its business operating sustainability, carried out disaster recovery drills and improved the Group's capacity for continuous business operation.

Compliance Management

The Bank continuously improved its compliance risk governance mechanism and management process to ensure the stable and sound development and sustainable operation of the Group. It strengthened the construction of the anti-money-laundering (AML) system, integrated resources for monitoring and analysis, and refined the AML policies and rules system. It pushed forward system and model building and improved the system functions. The Bank reinforced sanction compliance management. It made timely amendments to sanction compliance policies, improved sanction procedures and standardised list maintenance, due diligence, judgment, handling and strengthened sanctions compliance monitoring and management. It drove forward overseas compliance management and improved its cross-border compliance management system by tracking global regulatory trends, regulatory inspection and evaluation as well as other compliance risk information in a timely manner, by implementing the requirements of regulators, and by improving its overseas compliance management capabilities. It delivered the All Employee AML Training Plan by conducting various forms of AML training, so as to enhance all employees' compliance awareness and abilities.

The Bank enhanced the management of its connected transactions and internal transactions. It stepped up efforts in the management of connected parties and consolidated the foundation of its connected transaction management. It strengthened the routine monitoring and examination of connected transactions and strictly controlled their risks. In addition, it continuously implemented internal transaction monitoring and reporting, guided and standardised the operation mechanism for internal transaction verification, and initiated the construction of an internal transaction management system, thereby improving the technological capabilities of its internal transaction management.

Capital Management

Adhering to the principle of value creation, the Bank continuously strengthened its capital management system to ensure bank-wide capital sufficiency and a relatively strong risk mitigation capability, thus further improving its capital efficiencies and value creation capabilities.

The Bank persevered in pursuing the concept of high-quality development and heightened awareness of value creation. It improved its capital budget allocation mechanism, established a remuneration allocation system linked to value creation, and strengthened the management of capital assessment. It optimised its on-balance sheet and off-balance sheet asset structures, developed capital-light businesses, reduced the risk weighting of capital and reasonably controlled increases in off-balance sheet risk assets, so as to enhance value contribution. The Bank replenished its capital via external financing in a proactive and prudent manner. It successfully issued a total of RMB80.0 billion of tier 2 capital bonds in the domestic market, which effectively increased its capital adequacy. As at the end of 2018, the Bank's capital adequacy ratio had significantly increased, further consolidated its capital base. The Bank will continue to optimise its capital management, promote high-quality development of all of its businesses and constantly create value for shareholders.

Capital Adequacy Ratios

As at the end of 2018, the capital adequacy ratios separately calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Regulation Governing Capital Adequacy of Commercial Banks* are listed below:

Capital Adequacy Ratios

Unit: RMB million, except percentages

Items	Group: As at 31 December 2018	Group: As at 31 December 2017	Bank: As at 31 December 2018	Bank: As at 31 December 2017
Calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*				
Net common equity tier 1 capital	**1,465,769**	1,356,088	**1,251,056**	1,180,299
Net tier 1 capital	**1,575,293**	1,461,090	**1,350,770**	1,280,013
Net capital	**1,922,350**	1,725,330	**1,683,893**	1,526,537
Common equity tier 1 capital adequacy ratio	**11.41%**	11.15%	**11.08%**	10.85%
Tier 1 capital adequacy ratio	**12.27%**	12.02%	**11.96%**	11.77%
Capital adequacy ratio	**14.97%**	14.19%	**14.92%**	14.04%
Calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks*				
Core capital adequacy ratio	**11.63%**	11.69%	**10.96%**	11.39%
Capital adequacy ratio	**15.01%**	14.56%	**14.53%**	14.36%

Please refer to Note VI.7 to the Consolidated Financial Statements for detailed information.

Leverage Ratio

As at the end of 2018, the leverage ratio calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* is listed below:

Unit: RMB million, except percentages

Items	As at 31 December 2018	As at 31 December 2017
Net tier 1 capital	**1,575,293**	1,461,090
Adjusted on- and off-balance sheet assets	**22,700,133**	20,927,313
Leverage ratio	**6.94%**	6.98%

Please refer to Supplementary Information II.5 to the Consolidated Financial Statements for detailed information.

ORGANISATIONAL MANAGEMENT AND HUMAN RESOURCES DEVELOPMENT AND MANAGEMENT

Organisational Management

As at the end of 2018, the Bank had a total of 11,741 institutions worldwide, including 11,193 institutions in the Chinese mainland and 548 institutions in Hong Kong, Macao, Taiwan and other countries and regions. Its domestic commercial banking business comprised 10,726 institutions, including 38 tier-1 and direct branches, 353 tier-2 branches and 10,334 outlets.

The geographic distribution of organisations and employees of the Bank was set forth below:

Unit: RMB million/unit/person, except percentages

	Assets		Organisations		Employees	
Items	**Total assets**	**% of total**	**Number**	**% of total**	**Number**	**% of total**
Northern China	6,956,012	29.99%	2,089	17.80%	61,524	19.85%
Northeastern China	698,381	3.01%	952	8.11%	25,040	8.07%
Eastern China	4,401,655	18.98%	3,595	30.62%	92,847	29.94%
Central and Southern China	3,268,088	14.09%	2,830	24.10%	68,416	22.06%
Western China	1,662,692	7.17%	1,727	14.71%	37,970	12.24%
Hong Kong, Macao and Taiwan	4,197,031	18.10%	422	3.59%	18,555	5.98%
Other countries and regions	2,009,680	8.66%	126	1.07%	5,767	1.86%
Elimination	(1,926,264)					
Total	21,267,275	100.00%	11,741	100.00%	310,119	100.00%

Note: The proportion of geographic assets was based on data before intra-group elimination.

Human Resources Development and Management

As at the end of 2018, the Bank had 310,119 employees. There were 285,797 employees in the Chinese mainland, of which 274,263 worked in the Bank's domestic commercial banking business. The Bank had 24,322 employees in Hong Kong, Macao, Taiwan and other countries and regions. As at the end of 2018, the Bank bore costs for a total of 5,493 retirees.

Composition of Staff by Age Group and Education Level

Items	The Group	Domestic commercial banking business	Overseas institutions and subsidiaries
Composition of Staff by Age Group			
Up to 30	29.06%	28.06%	36.66%
Between 31 and 40	30.16%	29.96%	31.74%
Between 41 and 50	29.42%	30.63%	20.20%
51 and above	11.36%	11.35%	11.40%
Composition of Staff by Education Level			
Master's degree and above	9.45%	8.09%	19.85%
Bachelor's degree	65.67%	67.49%	51.77%
Associate degree	19.69%	19.98%	17.45%
Other	5.19%	4.44%	10.93%

Composition of Staff by Job Function (Domestic Commercial Banking Business)

Items	Domestic commercial banking business	Items	Domestic commercial banking business
Corporate banking	13.87%	Operation services and financial management	9.90%
Personal banking	15.40%	Risk and internal control management	9.24%
Financial markets	0.37%	Information technology	2.54%
Cross-marketing and teller	38.64%	Other	10.04%

In 2018, in line with the Group's strategies and annual priorities, the Bank further deepened reform of its organisational structure and management mechanism, and rebuilt its customer and product service system based on customer demands and experience. It improved the organisational structure for inclusive finance, established the SME Services Department at the Head Office, and reinforced the support for micro and small-sized enterprises, so as to enhance its inclusive finance service capabilities. The Bank further refined its product and service system for corporate banking, and set up the Global Transaction Banking Department at the Head Office to provide integrated, scenario-based, and smart transaction banking services for corporate banking customers. It refined the globalised, integrated financial group management structure, and established the Equity Investment and Subsidiary Management Department to strengthen group-level management over its integrated enterprises. Moreover, the Bank enhanced the competitiveness of branches in provincial capitals by further specifying their management modes and development strategies.

The Bank vigorously strengthened its human resources and cultivated management professionals by carrying out the "Hundred-Talent Programme" and "Sailing Programme" and by continuously training internationalised and comprehensive talented personnel. It reinforced the development of its professional personnel resources, enhanced the allocation of FinTech and innovative personnel and built a talent pool of employees fluent in minority languages. Following national targeted poverty alleviation strategies, the Bank implemented a special recruitment plan for impoverished college students and designated management personnel to poverty-stricken areas, so as to ensure tangible poverty alleviation results. The Bank sat atop the ranking for "Best Employer in Financial Industry in the Opinion of Chinese University Students" for the 11th consecutive year.

In active response to national strategies, the Bank leveraged its characteristic advantages in globalised operations. It held Belt and Road International Financial Exchange & Cooperation Seminars for four Central and East European countries and nine African countries. It refined its personnel expense allocation mechanism, and promoted the overall implementation of the Broad Band Salary System so as to enhance the input-output efficiency of its resources. In addition, the Bank actively held special training sessions on topics, such as the development of key areas, including the Beijing-Tianjin-Hebei region, the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Economic Belt and Hainan FTZ, as well as important fields including poverty alleviation, inclusive finance, internal risk control and disposal of NPLs, technology innovation, and business process improvement. In 2018, the domestic commercial banking institutions of the Bank held a variety of training courses, totalling 86,980 sessions with 2,966,118 participants.

The Bank's remuneration policy is in line with corporate governance requirements, business development strategies, market positioning and talent competition strategies. The Board of Directors of the Bank has set up the Personnel and Remuneration Committee to assist the Board of Directors in reviewing the Bank's human resources and remuneration strategies. Independent director serves as the Chairman of the Committee. Please refer to the section "Corporate Governance-Special Committees of the Board of Directors" for details of the work progress of the Personnel and Remuneration Committee. Based on the human resources and remuneration strategies determined by the Board of Directors, the Senior Management of the Bank is responsible for formulating rules and regulations for remuneration management.

The Bank's remuneration distribution follows the principle of "remuneration by post, paying by performance", and employee remuneration consists of basic salary, performance remuneration and benefits. Among them, the basic salary depends on the post value and the ability of employees to perform their duties; performance remuneration depends on performance evaluation results of the Group, the institution or department of the employee and the employee, and is linked to performance, risk, internal control, ability and other factors. Deferred payment is required for more than 40% of performance remuneration of personnel who are responsible for major risk management and control, with not less than 3 years of the period of deferred payment. If the risk loss within the responsibility is excessively exposed during the term of service, the

Bank may recover part or all of the performance remuneration paid within the corresponding period, and stop the payment of the part that has not been paid. The benefits mainly include social insurance, housing provident fund, enterprise annuity and other non-cash remuneration, which are managed in accordance with local regulatory policies. The Bank's remuneration policy applies to all employees who have established a labor contract relationship with the Bank, with no exceptions beyond the remuneration policy.

The Bank has formulated an allocation mechanism for total remuneration, the distribution of total remuneration of branches is linked to the completion of comprehensive benefits of branches, taking full consideration of risk factors so as to focus on risk-adjusted value creation and enhance long-term performance. The Bank continued to improve the internal remuneration distribution structure, and allocate more remuneration resources to the primary-level institutions and employees to effectively boost the driving forces powering sustainable development of the Bank.

OUTLOOK

The banking sector will face a complicated operating environment in 2019. The growth drivers of the global economy will weaken, international financial markets will remain at risk of fluctuation, and the functioning of the economy will be subject to a number of uncertainties. That said, Chinese economic growth will remain stable during this period of important strategic opportunity, with cross-border finance demonstrating high development potential and many other factors creating favourable conditions for sound growth in the banking sector.

2019 is an important year for the realisation of the Phase I target of the Bank's development strategy. Focused on its strategic goal of building a world-class bank in the new era, the Bank will further increase its support for the real economy and facilitate the execution of its strategy with great determination and effort. Through comprehensive efforts, it will lay the foundation for realising the Phase I target of its development strategy. **First**, it will dedicate to serving the real economy and improve its development quality and effectiveness. The Bank will continue to increase its support for the real economy. It will achieve high-quality development while serving the overall development of China by increasing resource investment, leveraging its unique characteristics and capturing development opportunities. The Bank's domestic RMB-denominated loan portfolio is expected to grow by approximately 10% in 2019. **Second**, it will focus on infrastructure construction and solidify its development foundations. Following a strategic and issue-oriented approach, the Bank will strive to push forward outlet transformation, upgrade its operational capacities and optimise its comprehensive operational models, in order to lay a solid foundation for enhancing its overall customer service and operational management capabilities. **Third**, it will focus on strengthening its unique advantages and increasing development cooperation. The Bank will strive to continuously improve its overall competitiveness by pursuing business globalisation and service integration, accelerating the refinement of related systems and mechanisms, and further consolidating its traditional advantages. **Fourth**, it will focus on preventing and mitigating financial risks and safeguard the development bottom line. The Bank will combine serving the real economy with financial risk prevention and mitigation. In order to safeguard its business development, it will adhere to the bottom line thinking, continuously improve its comprehensive risk management system, optimise its management mechanisms and consolidate management responsibilities. **Fifth**, it will focus on system and mechanism deficiencies and thus release its growth potential. The Bank will reinforce the optimisation of its systems and mechanisms, and continue to push forward strategy, communications and cultural development. As a result, it will further stimulate the enthusiasm of all employees and harness their combined efforts to advance its reform and development.

Corporate Social Responsibilities

In 2018, the Bank assumed its responsibilities as a state-owned commercial bank for serving the real economy, developing inclusive finance, improving people's livelihood and supporting poverty alleviation. The Bank continually expanded and deepened its practices in fulfilling social responsibilities, devoted itself to win-win cooperation with stakeholders and created lasting value for the economy, society and environment.

Responsibility to the country

The Bank continuously supported the construction of the Belt and Road. As at the end of 2018, the Bank followed up on over 600 major projects along the Belt and Road with a total investment of approximately USD455 billion and established additional credit lines totalling USD30.7 billion for countries along the Belt and Road. In support of the country's major regional strategies, its balance of loans to the Beijing-Tianjin-Hebei region, the Yangtze Economic Belt, the Pearl River Delta and the Hainan Free Trade Zone rose by 15.1%. The Bank continued to improve its credit structure by allocating more credit resources to major industries. Its balance of credit to strategic emerging industries stood at RMB447 billion. The Bank issued the *Twenty Provisions on Supporting Private Enterprises,* strengthened credit extension to high-quality private enterprises and micro, small and medium-sized businesses and provided private enterprises with broader access to financing. Its balance of credit to private enterprises exceeded RMB1.5 trillion. The Bank continuously improved its inclusive finance service network and promoted business innovation in inclusive finance. Its balance of loans for inclusive finance grew by 12.26%. BOC Fullerton Community Bank successfully acquired 27 rural banks from CCB and established 127 banking corporations in 22 provinces (or municipalities) across the country, further expanding the Bank's service network for small and micro businesses, agriculture, rural areas and farmers. The Bank provided all-round financial services for the first China International Import Expo (CIIE) and held the Exhibitor-Businessman Supply-Demand Matchmaking Conference, at which USD4.74 billion worth of cooperation intentions were reached. The Bank also vigorously supported construction projects related to the Beijing 2022 Olympic Winter Games and issued the *Guidelines for Development of the Winter Sports Industry*. The Bank will continue to provide credit support from 2018 to 2024 to promote winter sports and develop the industry, helping 30 million families and 100 million people to get involved in winter sports.

Responsibility to shareholders

The Bank continued to improve its corporate governance capability and effectively protected shareholders' right to be informed, to participate and to make decisions. It kept improving its operation mechanisms of the Board of Directors, information disclosure and stakeholder engagement. The Bank strictly performed its mission to prevent risks, enhanced its risk management capability and market competitiveness and stepped up efforts in credit risk prevention and control and disposal of non-performing assets. During the year, its domestic branches took the initiative to reduce RMB99.4 billion of potential exposure and cut non-performing assets by RMB152.5 billion. As at the end of 2018, the Bank's total assets reached RMB21.27 trillion. Fitch and Moody's upgraded the Bank in terms of Viability Rating/Baseline Credit Assessment. Standard & Poor's, Moody's and Fitch all affirmed the Bank's ratings at the highest level among major peers. Moreover, the Bank ranked 46th among the "Fortune Global 500" by *FORTUNE*, 3rd in the "Top 1,000 World Banks" by *The Banker* and 13th in the "2018 Hurun Brand List" by Hurun Research Institute with a brand value of RMB130.0 billion.

Responsibility to customers

The Bank further expanded its cross-border financial services worldwide, strengthened its integrated global development and gave full play to its unique strengths. It has now set up subsidiaries in 57 countries and regions outside the Chinese mainland, maintaining its position as the global leader in cross-border RMB clearing and settlement. The Bank pursued digital transformation by enabling advancement through technology and made continuous improvements to its financial service capability and to the customer experience. It continuously optimised its mobile banking functions, doubling both the number of active users and mobile banking transaction volumes. Its overseas mobile banking services now covered 18 countries and regions. The Bank pressed forward with the building of its smart outlet service system, with smart counters now adopted at all outlets. The mobile smart counters were promoted to break through physical boundaries and provide customers with a convenient mobile service experience. Door-to-door corporate account opening service was launched to shorten the business process to 30 minutes. It also introduced a cash version of smart counters, which effectively diverted 70% of outlets' cash transactions.

Responsibility to employees

The Bank fully guaranteed its employees' legitimate rights and interests, including democratic rights, by holding the Employee Delegates' Meeting, fostering employees' sense of ownership and unleashing their initiative and creativity. The Bank formulated and implemented its talent development plan and training plan and continuously attracted young talent through global campus recruitment. As a result, it has topped the "Best Employer in Financial Industry in the Opinion of Chinese University Students" ranking organised by ChinaHR.com for 11 consecutive years. The Bank strengthened the training of employees and management personnel. Over 100 excellent middle and senior management personnel were trained through the "1581 Programme", the "Hundred-Talent Programme" and the "Sailing Programme". In addition, the Bank improved its work processes to enhance employees' work-life balance and held various forms of events that demonstrated care for employees.

Responsibility to the society

In 2018, the Bank undertook a variety of measures to explore financial solutions for poverty alleviation, in a bid to implement the decisions and plans of the country for poverty alleviation through finance. It raised the bank-wide motivation for poverty alleviation loans and allocated more credit resources to poverty alleviation by developing a separate credit plan, introducing the due diligence and liability exemption guidelines for poverty alleviation and strengthening related internal appraisal and incentive. It also supported the infrastructure, livelihood development and industrial poverty alleviation programmes in poverty-stricken areas. At the end of 2018, the Bank's poverty alleviation loans registered RMB62.4 billion, an increase of RMB11.5 billion or 23% compared with the prior year-end. It established 23 new outlets established in state-level impoverished counties and 8 new outlets established in the deeply impoverished "three regions, three prefectures", improving its ability of fighting against poverty through financial means. In addition, by leveraging its distinctive features, the Bank pushed forward the work related to agriculture, rural areas and farmers, established close cooperation with land reclamation enterprises in main production areas, and boosted the scale production and intensive development of important agricultural products including grain, cotton, natural rubber and oil plants. At the end of 2018, the Bank granted agriculture-related loans of RMB1.29 trillion.

The Bank strengthened funding and assistance towards the goal of targeted poverty alleviation in designated impoverished regions, with a focus on industrial poverty alleviation, people's livelihood and areas of extreme poverty. It helped obtain over RMB300 million to fund the training of over 20,000 financially underprivileged people, which directly benefited nearly 200,000 members of the registered poverty-stricken population and lifted more than 90,000 people out of poverty. In 2018, the Bank donated RMB75.09 million, an increase of 36% compared with the prior year, to Yongshou, Changwu, Xunyi and Chunhua counties of Xianyang, Shaanxi Province, in order to support 112 local projects related to industrial development, education and training, health and eldercare and the building of primary-level Party organisations.

The Bank extended government-sponsored student loans for the 19th consecutive year and has now accumulatively granted RMB23.539 billion for over 1.8 million financially underprivileged students. In addition, the Bank recruited 291 financially-disadvantaged college students in 2018 under its separate "Financially Underprivileged Students Recruitment Plan" for campus recruitment. It sponsored the Chinese Spring Festival celebration in Trafalgar Square in London, the largest celebration outside Asia, for the 18th consecutive year. It also sponsored the Tan Kah Kee Science Award for the 15th consecutive year, rewarding young people devoting themselves to the country's scientific and technological advancement. For the 10th consecutive year, the Bank conducted strategic cooperation with the National Center for the Performing Arts to support the development of high-end arts in China. It continued to support poverty alleviation programmes in Xinjiang for the 5th consecutive year.

Responsibility to the environment

The Bank spared no effort to develop green finance. It accelerated further innovation in green finance products and channelled credit resources into energy conservation, environmental protection, clean energy and eco-manufacturing. It assisted enterprises in expanding financing channels with green bonds and unleashed the positive role of green finance in enhancing ecological conservation and economic sustainability. In 2018, the Bank successfully issued the Sustainability Bond, the first of its kind to be issued by a Chinese bank in the overseas markets. At the end of 2018, its balance of green bonds was RMB632.667 billion, an increase of 17.42% compared with the prior year. The Bank established an energy management system and managed to reduce energy consumption by formulating water and electricity consumption criteria, strengthening day-to-day management and monitoring the functioning of energy-intensive equipment. Its office buildings have achieved a domestically advanced level in energy efficiency.

The Bank's fulfilment of its social responsibilities was widely recognised by the society. In 2018, it won awards including "Most Socially Responsible Financial Institution in 2018", "Most Socially Responsible Outlet with Special Contribution in 2018", "Best Social Responsibility Manager in 2018" from the China Banking Association, "Most Socially Responsible State-owned Listed Company" from the *Southern Weekly* and "Most Socially Responsible Listed Company — Dividend Distribution" from the *Securities Daily*.

For details of the Bank's corporate social responsibility performance, please refer to the Bank's 2018 Corporate Social Responsibility Report published on the websites of SSE, HKEX and the Bank.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

Changes in Ordinary Share Capital

Unit: Share

	As at 1 January 2018		Increase/decrease during the reporting period					As at 31 December 2018	
	Number of shares	Percentage	Issuance of new shares	Bonus shares	Shares transferred from surplus reserve	Others	Subtotal	Number of shares	Percentage
I. Shares subject to selling restrictions	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restrictions	**294,387,791,241**	**100.00%**	–	–	–	–	–	**294,387,791,241**	**100.00%**
1. RMB-denominated ordinary shares	210,765,514,846	71.59%	–	–	–	–	–	210,765,514,846	71.59%
2. Overseas listed foreign shares	83,622,276,395	28.41%	–	–	–	–	–	83,622,276,395	28.41%
III. Total Ordinary Shares	**294,387,791,241**	**100.00%**	–	–	–	–	–	**294,387,791,241**	**100.00%**

Notes:

1 As at 31 December 2018, the Bank had issued a total of 294,387,791,241 ordinary shares, including 210,765,514,846 A Shares and 83,622,276,395 H Shares.

2 As at 31 December 2018, none of the Bank's A Shares and H Shares were subject to selling restrictions.

Number of Ordinary Shareholders and Shareholdings

Number of ordinary shareholders as at 31 December 2018: 736,594 (including 548,563 A-Share Holders and 188,031 H-Share Holders)

Number of ordinary shareholders as at the end of the last month before the disclosure of this report: 727,085 (including 539,623 A-Share Holders and 187,462 H-Share Holders)

The top ten ordinary shareholders as at 31 December 2018 are set forth below: Unit: Share

No.	Name of ordinary shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total ordinary shares	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of ordinary shares
1	Central Huijin Investment Ltd.	–	188,461,533,607	64.02%	–	None	State	A
2	HKSCC Nominees Limited	39,723,749	81,911,858,658	27.82%	–	Unknown	Foreign legal person	H
3	China Securities Finance Co., Ltd.	524,896,540	8,596,044,925	2.92%	–	None	State–owned legal person	A
4	Central Huijin Asset Management Ltd.	–	1,810,024,500	0.61%	–	None	State–owned legal person	A
5	Buttonwood Investment Platform Ltd.	–	1,060,059,360	0.36%	–	None	State–owned legal person	A
6	HKSCC Limited	152,807,731	649,609,382	0.22%	–	None	Foreign legal person	A
7	MUFG Bank, Ltd.	–	520,357,200	0.18%	–	Unknown	Foreign legal person	H
8	China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH	266,533,363	418,701,556	0.14%	–	None	Other	A
9	China Pacific Life Insurance Co., Ltd. — China Pacific Life Insurance Dividend Equity Portfolio (Traditional) with management of Changjiang Pension Insurance Co., Ltd.	382,238,605	382,238,605	0.13%	–	None	Other	A
10	ICBCCS SSE 50 Index Exchange Traded Fund	328,458,200	328,458,200	0.11%	–	None	Other	A

The number of shares held by H-Share Holders was recorded in the register of members kept at the H-Share Registrar of the Bank.

HKSCC Nominees Limited acted as the nominee for all the institutional and individual investors that maintain an account with it as at 31 December 2018. The aggregate number of the Bank's H Shares held by HKSCC Nominees Limited included the number of shares held by the National Council for Social Security Fund.

Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Central Huijin Investment Ltd.

HKSCC Limited is the nominee holder who holds securities on behalf of others. The securities included the SSE securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect.

Save as disclosed above, the Bank is not aware of any connected relation or concerted action among the aforementioned ordinary shareholders.

Substantial Shareholder Interests

The register maintained by the Bank under section 336 of the SFO recorded that, as at 31 December 2018, the shareholders indicated in the following table were substantial shareholders (as defined in the SFO) having interests in shares of the Bank:

Name of shareholder	Capacity (types of interest)	Number of shares held/ Number of underlying shares (unit: share)	Type of shares	Percentage of total issued A-Share capital	Percentage of total issued H-Share capital	Percentage of total issued ordinary share capital
Central Huijin Investment Ltd.	Beneficial owner	188,461,533,607	A	89.42%	–	64.02%
	Interest of controlled corporations	1,810,024,500	A	0.86%	–	0.61%
	Total	190,271,558,107	A	90.28%	–	64.63%
National Council for Social Security Fund	Beneficial owner	6,684,735,907	H	–	7.99%	2.27%
BlackRock, Inc.	Interest of controlled corporations	5,924,680,117	H	–	7.09%	2.01%
		1,816,000(S)	H	–	0.0022%	0.0006%
Citigroup Inc.	Person having a security interest in shares	238,800	H	–	0.0003%	0.0001%
	Interest of controlled corporations	620,401,815	H	–	0.74%	0.21%
		226,274,847(S)	H	–	0.27%	0.08%
	Approved lending agent	3,621,740,964(P)	H	–	4.33%	1.23%
	Total	4,242,381,579	H	–	5.07%	1.44%
		226,274,847(S)	H	–	0.27%	0.08%
		3,621,740,964(P)	H	–	4.33%	1.23%

Notes:

1 BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., while BlackRock Holdco 2 Inc. holds the entire issued share capital of BlackRock Financial Management, Inc. Thus BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have equal interests in shares of the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 5,924,680,117 H Shares and a short position of 1,816,000 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it. In the long position of 5,924,680,117 H Shares, 10,128,000 H Shares are held through derivatives. In the short position of 1,816,000 H Shares, 1,803,000 H Shares are held through derivatives.

2 Citigroup Inc. holds the entire issued share capital of Citicorp LLC, while Citicorp LLC holds the entire issued share capital of Citibank, N.A. Thus Citigroup Inc. and Citicorp LLC are deemed to have equal interests in shares of the Bank as Citibank, N.A. under the SFO. Citigroup Inc. holds a long position of 4,242,381,579 H Shares and a short position of 226,274,847 H Shares of the Bank through Citibank, N.A. and other corporations controlled by it. In the long position of 4,242,381,579 H Shares, 3,621,740,964 H Shares are held in the lending pool and 348,871,041 H Shares are held through derivatives. The total 226,274,847 H Shares in the short position are held through derivatives.

3 "S" denotes short position, "P" denotes lending pool.

Unless stated otherwise, all interests stated above represented long positions. Save as disclosed above, as at 31 December 2018, no other interests (including derivative interests) or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd.

Central Huijin Investment Ltd. ("Huijin") is a state-owned investment company established on 16 December 2003 under the Company Law, with Mr. DING Xuedong as its legal representative. Wholly owned by China Investment Corporation ("CIC"), Huijin makes equity investments in major state-owned financial institutions, as authorised by the State Council. To the extent of its capital contribution, Huijin exercises its rights and fulfils its obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the major state-owned financial institutions of which it is the controlling shareholder.

As at 31 December 2018, the basic information of companies directly held by Huijin is as follows:

No.	Company name	Proportion of the total capital held by Huijin
1	China Development Bank	34.68%
2	Industrial and Commercial Bank of China Limited ★☆	34.71%
3	Agricultural Bank of China Limited ★☆	40.03%
4	Bank of China Limited ★☆	64.02%
5	China Construction Bank Corporation ★☆	57.11%
6	China Everbright Group Ltd.	55.67%
7	China Everbright Bank Company Limited ★☆	19.53%
8	China Export & Credit Insurance Corporation	73.63%
9	China Reinsurance (Group) Corporation ☆	71.56%
10	New China Life Insurance Company Limited ★☆	31.34%
11	China Jianyin Investment Limited	100.00%
12	China Galaxy Financial Holding Co., Ltd.	69.07%
13	Shenwan Hongyuan Group Co., Ltd. ★	22.28%
14	China International Capital Corporation Limited☆	55.68%
15	China Securities Co., Ltd. ★☆	31.21%
16	Jiantou & Zhongxin Assets Management Limited	70.00%
17	Guotai Junan Investment Management Co., Ltd.	14.54%

[3] Mr. DING Xuedong was transferred to serve as Deputy Secretary General of the State Council (Minister Level). He authorised TU Guangshao to function in the capacity of Legal Representation of CIC, Chairman and Legal Representative of Huijin. The authorisation came into effect on 2 March 2017, and ceased to be effective upon new appointment by the State Council. TU Guangshao currently serves as Vice Chairman and General Manager of CIC.

Notes:

1 ★ denotes A share listed company and ☆ denotes H share listed company.

2 Through public trading on Beijing Financial Assets Exchange, Huijin entered into an equity transfer agreement with Haier Group (Qingdao) Financial Holdings Co., Ltd. on 6 June 2018, and transferred 398.5 million domestic investment shares of China International Capital Corporation Limited ("CICC"). As at the end of 2018, the relevant procedures were still in process. Upon completion of the above transaction, Huijin will directly hold 46.2% of the shares of CICC.

3 Besides the above companies controlled or held by Huijin, Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Central Huijin Asset Management Ltd., established in November 2015 and registered in Beijing with registered capital of RMB5 billion, provides asset management business.

For further details regarding China Investment Corporation, please refer to the information on its website (www.china-inv.cn). Please refer to the *Announcement on Matters Related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank for relevant information of China Investment Corporation.

As at 31 December 2018, no other legal-person shareholder held 10% or more voting shares of the Bank (excluding HKSCC Nominees Limited).

During the reporting period, Non-executive Directors of the Bank Mr. ZHANG Xiangdong (left the post in June 2018), Mr. ZHAO Jie, Mr. LI Jucai, Ms. XIAO Lihong, Ms. WANG Xiaoya and Mr. LIAO Qiang were recommended by Central Huijin Investment Ltd.

Preference Shares

Issuance and Listing of Preference Shares

With the approvals of CBRC (Yinjianfu [2014] No. 563) and CSRC (Zhengjianxuke [2014] No. 938), the Bank made a non-public issuance of RMB39.94 billion (approximately USD6.5 billion) Offshore Preference Shares on 23 October 2014 in the offshore market. Such Offshore Preference Shares have been listed on the Hong Kong Stock Exchange since 24 October 2014.

With the approvals of CBRC (Yinjianfu [2014] No. 562) and CSRC (Zhengjianxuke [2014] No. 990), the Bank made a non-public issuance of RMB32 billion Domestic Preference Shares (First Tranche) on 21 November 2014 in the domestic market. With the approval of SSE (Shangzhenghan [2014] No. 818), Domestic Preference Shares (First Tranche) have been traded on the Comprehensive Business Platform of SSE since 8 December 2014. The Bank made a non-public issuance of RMB28 billion Domestic Preference Shares (Second Tranche) on 13 March 2015 in the domestic market. With the approval of SSE (Shangzhenghan [2015] No. 377), Domestic Preference Shares (Second Tranche) have been traded on the Comprehensive Business Platform of SSE since 31 March 2015.

For the terms of issuance of the Offshore Preference Shares and Domestic Preference Shares, please refer to the Bank's announcements published on the websites of SSE, HKEX and the Bank.

Number of Preference Shareholders and Shareholdings

Number of preference shareholders as at 31 December 2018: 48 (including 47 domestic preference shareholders and 1 offshore preference shareholder)

Number of preference shareholders as at the end of the last month before the disclosure of this report: 48 (including 47 domestic preference shareholders and 1 offshore preference shareholder)

The top ten preference shareholders as at 31 December 2018 are set forth below: Unit: Share

No.	Name of preference shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total preference shares	Number of shares pledged or frozen	Type of shareholder	Type of preference shares
1	Bank of New York Mellon Corporation	–	399,400,000	39.96%	Unknown	Foreign legal person	Offshore Preference Shares
2	China Mobile Communications Group Co., Ltd.	–	180,000,000	18.01%	None	State-owned legal person	Domestic Preference Shares
3	China National Tobacco Corporation	–	50,000,000	5.00%	None	State-owned legal person	Domestic Preference Shares
4	Zhong Wei Capital Holdings Co., Ltd.	–	30,000,000	3.00%	None	State-owned legal person	Domestic Preference Shares
5	Yunnan Branch of China National Tobacco Corporation	–	22,000,000	2.20%	None	State-owned legal person	Domestic Preference Shares
6	China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH	–	21,000,000	2.10%	None	Other	Domestic Preference Shares
7	China Shuangwei Investment Co., Ltd.	–	20,000,000	2.00%	None	State-owned legal person	Domestic Preference Shares
7	National Social Security Fund Portfolio 304	–	20,000,000	2.00%	None	Other	Domestic Preference Shares
7	Bosera Fund — ICBC — Bosera — ICBC — Flexible Allocation No. 5 Specific Multi-customer Assets Management Plan	–	20,000,000	2.00%	None	Other	Domestic Preference Shares
10	Ping An Life Insurance Company of China, Ltd. — proprietary fund	–	19,000,000	1.90%	None	Domestic non-state-owned legal person	Domestic Preference Shares

The Bank of New York Mellon Corporation, acting as the custodian for all the offshore preference shareholders that maintain an account with Euroclear and Clearstream as at 31 December 2018, held 399,400,000 Offshore Preference Shares, representing 100% of the Offshore Preference Shares.

Both Yunnan Branch of China National Tobacco Corporation and China Shuangwei Investment Co., Ltd. are wholly-owned subsidiaries of China National Tobacco Corporation. Zhong Wei Capital Holdings Co., Ltd. is a subsidiary of China Shuangwei Investment Co., Ltd.

As at 31 December 2018, China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH is one of both the Bank's top ten ordinary shareholders and top ten preference shareholders.

Save as disclosed above, the Bank is not aware of any connected relation or concerted action among the aforementioned preference shareholders, and among the aforementioned preference shareholders and the Bank's top ten ordinary shareholders.

Profit Distribution of Preference Shares

For the profit distribution policy of the preference shares and the profit distribution arrangement during the reporting period, please refer to the section "Report of the Board of Directors".

Other Information regarding the Preference Shares

During the reporting period, there was no redemption, conversion into ordinary shares or voting rights recovery in respect of the preference shares of the Bank.

Preference shares issued by the Bank contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; and preference shares issued are non-derivative instruments that will be settled in the entity's own equity instruments, but includes no contractual obligation for the entity to deliver a variable number of its own equity instruments. The Bank classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

The funds raised from the issuance of the Offshore Preference Shares and Domestic Preference Shares have been fully used to replenish the Bank's additional tier 1 capital and increase its capital adequacy ratio.

Issuance of Other Securities

Please refer to Note V.30 to the Consolidated Financial Statements for details of the bonds issued by the Bank.

No shares of the Bank have been specifically issued to its employees.

Directors, Supervisors and Senior Management Members

Basic Information

Incumbent Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position	Term of office
CHEN Siqing	1960	Male	Chairman	From April 2014 to the date of the Annual General Meeting in 2020
LIU Liange	1961	Male	Vice Chairman and President	From October 2018 to the date of the Annual General Meeting in 2021
WU Fulin	1963	Male	Executive Director and Executive Vice President	From February 2019 to the date of the Annual General Meeting in 2021
LIN Jingzhen	1965	Male	Executive Director and Executive Vice President	From February 2019 to the date of the Annual General Meeting in 2021
ZHAO Jie	1962	Male	Non-executive Director	From August 2017 to the date of the Annual General Meeting in 2020
LI Jucai	1964	Male	Non-executive Director	From September 2015 to the date of the Annual General Meeting in 2021
XIAO Lihong	1965	Female	Non-executive Director	From August 2017 to the date of the Annual General Meeting in 2020
WANG Xiaoya	1964	Female	Non-executive Director	From August 2017 to the date of the Annual General Meeting in 2020
LIAO Qiang	1974	Male	Non-executive Director	From September 2018 to the date of the Annual General Meeting in 2021
LU Zhengfei	1963	Male	Independent Director	From July 2013 to the date of the Annual General Meeting in 2019
LEUNG Cheuk Yan	1951	Male	Independent Director	From September 2013 to the date of the Annual General Meeting in 2019
WANG Changyun	1964	Male	Independent Director	From August 2016 to the date of the Annual General Meeting in 2019
Angela CHAO	1973	Female	Independent Director	From January 2017 to the date of the Annual General Meeting in 2019
JIANG Guohua	1971	Male	Independent Director	From December 2018 to the date of the Annual General Meeting in 2021
WANG Xiquan	1960	Male	Chairman of the Board of Supervisors	From November 2016 to the date of the Annual General Meeting in 2019
LIU Wanming	1958	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2019
WANG Zhiheng	1973	Male	Employee Supervisor	From December 2018 to the date of the 2021 Employee Delegates' Meeting
LI Changlin	1962	Male	Employee Supervisor	From December 2018 to the date of the 2021 Employee Delegates' Meeting

Name	Year of birth	Gender	Position	Term of office
LENG Jie	1963	Male	Employee Supervisor	From December 2018 to the date of the 2021 Employee Delegates' Meeting
CHEN Yuhua	1953	Male	External Supervisor	From June 2015 to the date of the Annual General Meeting in 2021
SUN Yu	1973	Male	Executive Vice President	From February 2019
XIAO Wei	1960	Male	Chief Audit Officer	From November 2014
LIU Qiuwan	1961	Male	Chief Information Officer	From June 2018
LIU Jiandong	1969	Male	Chief Risk Officer	From February 2019
MEI Feiqi	1962	Male	Secretary to the Board of Directors and Company Secretary	Company Secretary from March 2018 and Secretary to the Board of Directors from April 2018

Note: No incumbent director, supervisor or senior management member, except Mr. SUN Yu who held 10,000 H shares of the Bank, held any share of the Bank.

Former Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position held before leaving the post	Term of office
GAO Yingxin	1962	Male	Executive Director and Executive Vice President	From December 2016 to January 2018
REN Deqi	1963	Male	Executive Director and Executive Vice President	From December 2016 to June 2018
ZHANG Qingsong	1965	Male	Executive Director and Executive Vice President	From August 2018 to September 2018
ZHANG Xiangdong	1957	Male	Non-executive Director	From July 2011 to June 2018
Nout WELLINK	1943	Male	Independent Director	From October 2012 to June 2018
WANG Xueqiang	1957	Male	Shareholder Supervisor	From August 2004 to March 2018
DENG Zhiying	1959	Male	Employee Supervisor	From August 2010 to December 2018
GAO Zhaogang	1969	Male	Employee Supervisor	From April 2016 to December 2018
XIANG Xi	1971	Female	Employee Supervisor	From August 2012 to December 2018
LIU Qiang	1971	Male	Executive Vice President	From November 2016 to September 2018
PAN Yuehan	1964	Male	Chief Risk Officer	From April 2016 to January 2019
GENG Wei	1963	Male	Secretary to the Board of Directors and Company Secretary	Secretary to the Board of Directors from June 2015 to March 2018 and Company Secretary from October 2015 to March 2018

Note: Except that Mr. GAO Yingxin held 1,100 H shares of the Bank, no former director, supervisor or senior management member held any share of the Bank during their terms of office.

Remuneration of Directors, Supervisors and Senior Management Members Paid in 2018

Name	Position	Remuneration before tax from the Bank in 2018 (Unit: RMB ten thousand)				Whether remunerated by shareholding companies or other connected parties
		Remuneration paid	Contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund	Other monetary income	Total	
Incumbent Directors, Supervisors and Senior Management Members						
CHEN Siqing	Chairman	54.60	14.44	—	69.04	No
LIU Liange	Vice Chairman and President	18.20	5.02	—	23.22	No
WU Fulin	Executive Director and Executive Vice President	—	—	—	—	No
LIN Jingzhen	Executive Director and Executive Vice President	36.86	10.88	—	47.74	No
ZHAO Jie	Non-executive Director	—	—	—	—	Yes
LI Jucai	Non-executive Director	—	—	—	—	Yes
XIAO Lihong	Non-executive Director	—	—	—	—	Yes
WANG Xiaoya	Non-executive Director	—	—	—	—	Yes
LIAO Qiang	Non-executive Director	—	—	—	—	Yes
LU Zhengfei	Independent Director	55.00	—	—	55.00	Yes
LEUNG Cheuk Yan	Independent Director	40.00	—	—	40.00	No
WANG Changyun	Independent Director	49.30	—	—	49.30	Yes
Angela CHAO	Independent Director	42.53	—	—	42.53	Yes
JIANG Guohua	Independent Director	1.69	—	—	1.69	Yes
WANG Xiquan	Chairman of the Board of Supervisors	54.60	14.44	—	69.04	No
LIU Wanming	Shareholder Supervisor	78.65	22.26	4.58	105.49	No
WANG Zhiheng	Employee Supervisor	—	—	—	—	No
LI Changlin	Employee Supervisor	—	—	—	—	No
LENG Jie	Employee Supervisor	—	—	—	—	No
CHEN Yuhua	External Supervisor	26.00	—	—	26.00	No
SUN Yu	Executive Vice President	22.42	4.43	0.40	27.25	No
XIAO Wei	Chief Audit Officer	89.68	24.36	2.54	116.58	No
LIU Qiuwan	Chief Information Officer	44.84	8.83	1.51	55.18	No
LIU Jiandong	Chief Risk Officer	—	—	—	—	—
MEI Feiqi	Secretary to the Board of Directors and Company Secretary	56.94	15.27	3.54	75.75	No

		Remuneration before tax from the Bank in 2018 (Unit: RMB ten thousand)				
Name	Position	Remuneration paid	Contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund	Other monetary income	Total	Whether remunerated by shareholding companies or other connected parties
Former Directors, Supervisors and Senior Management Members						
GAO Yingxin	Executive Director and Executive Vice President	4.10	1.14	—	5.24	No
REN Deqi	Executive Director and Executive Vice President	24.57	6.84	—	31.41	No
ZHANG Qingsong	Executive Director and Executive Vice President	36.86	10.56	—	47.42	No
ZHANG Xiangdong	Non-executive Director	—	—	—	—	Yes
Nout WELLINK	Independent Director	29.67	—	—	29.67	No
WANG Xueqiang	Shareholder Supervisor	21.02	7.35	0.75	29.12	No
DENG Zhiying	Employee Supervisor	5.00	—	—	5.00	No
GAO Zhaogang	Employee Supervisor	5.00	—	—	5.00	No
XIANG Xi	Employee Supervisor	5.00	—	—	5.00	No
LIU Qiang	Executive Vice President	36.86	10.56	—	47.42	No
PAN Yuehan	Chief Risk Officer	89.68	24.35	2.54	116.57	No
GENG Wei	Secretary to the Board of Directors and Company Secretary	14.23	5.44	0.46	20.13	No

Notes:

1 In accordance with the government regulations, since 1 January 2015, the Bank remunerates Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, and executive vice presidents pursuant to the rules on remuneration reform for central enterprises.

2 The 2018 final remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, shareholder supervisors and other senior management remembers is to be determined and will be disclosed in an additional announcement by the Bank.

3 The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income. Independent directors receive directors' remunerations and allowances. Other directors are not remunerated by the Bank. Chairman of the Board of Directors, executive directors and senior management members do not receive any remuneration from the Bank's subsidiaries.

4 Independent directors receive remuneration in accordance with the resolution of the 2007 Annual General Meeting. External supervisors receive remuneration in accordance with the resolution of the 2009 Annual General Meeting. Remuneration for shareholder supervisors is in accordance with relevant remuneration scheme of the Bank and approved by the shareholders' meeting.

5 In 2018, Non-executive Directors Mr. ZHAO Jie, Mr. LI Jucai, Ms. XIAO Lihong, Ms. WANG Xiaoya, Mr. LIAO Qiang, and Mr. ZHANG Xiangdong were not remunerated by the Bank.

6 Mr. SUN Yu's remuneration disclosed in the above table is paid for his service as the Chief Overseas Business Officer of the Bank in 2018.

7 Some independent directors of the Bank served as independent non-executive directors of other legal entities or organisations, which caused such legal entities or organisations to be defined as connected parties of the Bank. Save as disclosed above, none of the directors, supervisors or senior management members of the Bank was remunerated by the connected parties of the Bank during the reporting period.

8 The above persons' remuneration is calculated on the basis of their actual time working as directors, supervisors or senior management members of the Bank in 2018. Employee supervisors' remuneration above is paid for their service as supervisors of the Bank during the reporting period.

9 For the starting time of the term of office of the above-mentioned directors, supervisors and senior management members, please refer to the section "Basic Information".

10 The Bank incurred RMB11.46 million in remuneration to its directors, supervisors and senior management members' services in 2018.

Positions held in Shareholding Companies by Directors, Supervisors and Senior Management Members

Save as disclosed above, in 2018, none of the Bank's directors, supervisors or senior management members held any position in the shareholding companies of the Bank.

Working Experience and Other Positions held by Directors, Supervisors and Senior Management Members

Directors

CHEN Siqing
Chairman

Chairman of the Board of Directors since August 2017. Mr. CHEN joined the Bank in 1990 and served as Vice Chairman of the Bank from April 2014 to August 2017, President of the Bank from February 2014 to August 2017, and Executive Vice President of the Bank from June 2008 to February 2014. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager and Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN previously worked in the Hunan Branch of the Bank before he was dispatched to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. CHEN served as Chairman of the Board of Directors of BOC Aviation Limited from December 2011 to March 2018. Since December 2011, Mr. CHEN has been serving as Non-executive Director of BOC Hong Kong (Holdings) Limited. He served as Vice Chairman of the Board of Directors of BOCHK (Holdings) from March 2014 to August 2017, and has been serving as Chairman of the Board of Directors of BOCHK (Holdings) since August 2017. Mr. CHEN graduated from Hubei Institute of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant and holds the title of Senior Economist.

LIU Liange
Vice Chairman and President

Vice Chairman of the Board of Directors since October 2018 and President of the Bank since August 2018. Mr. LIU joined the Bank in 2018. He served as Vice Chairman and President of the Export-Import Bank of China from July 2015 to June 2018. Mr. LIU served as Vice President of the Export-Import Bank of China from March 2007 to February 2015. He also served as Director of the African Export-Import Bank from September 2007 to February 2015, Chairman of the Board of Supervisors of Sino-Italian Mandarin Capital Partners from March 2009 to June 2015, and Chairman of the Board of Directors of Regional Credit Guarantee and Investment Facility (Asia) from March 2014 to May 2015. Mr. LIU worked in the People's Bank of China for many years, successively serving as Deputy Director-General of the International Department of the PBOC, President of the Fuzhou Central Sub-branch of the PBOC and Director of the Fujian Branch of the State Administration of Foreign Exchange, Director General of the Anti-Money

Laundering Bureau (the Security Bureau) of the PBOC. Mr. LIU has been serving as President of Shanghai RMB Trading Unit since October 2018 and as Vice Chairman of the Board of Directors of BOC Hong Kong (Holdings) Limited since December 2018. He graduated from the Graduate School of the People's Bank of China with a Master's Degree in Economics in 1987. He holds the title of Senior Economist.

WU Fulin
Executive Director and Executive Vice President

Executive Director of the Bank since February 2019 and Executive Vice President of the Bank since December 2018. Mr. WU joined the Bank in 2018. He served as Deputy General Manager of China Everbright Group Limited from March 2015 to October 2018. Mr. WU also served as Chief Economist of China Everbright Group Limited (and its predecessor) from April 2013 to October 2018, Chairman of Sun Life Everbright Life Insurance Company Limited from July 2015 to October 2018. From September 2009 to March 2017, Mr. WU served as General Manager of Strategies Management Department of China Everbright Group Limited (and its predecessor) and also served as Equity Director of Everbright Financial Holding Asset Management Company Limited from April 2010 to June 2017. He worked in China Everbright Bank for many years, and successively served as General Manager of Planning and Treasury Department and the Treasury Department of China Everbright Bank, General Manager of Kunming Branch of China Everbright Bank, General Manager of Shenzhen Branch of China Everbright Bank, General Manager of the Strategies Management Department of China Everbright Bank. He graduated from Fudan University with a Doctor's Degree in Economics in 1995. He has qualification of associate researcher.

LIN Jingzhen
Executive Director and Executive Vice President

Executive Director of the Bank since February 2019 and Executive Vice President of the Bank since March 2018. Mr. LIN joined the Bank in 1987. He served as Deputy Chief Executive of BOC Hong Kong (Holdings) Limited from May 2015 to January 2018, and served as General Manager of the Corporate Banking Department of the Bank from March 2014 to May 2015. He served as General Manager (Corporate Banking) of the Corporate Banking Unit of the Bank from October 2010 to March 2014. Prior to this, he successively served as Deputy General Manager of Corporate Banking Department and Corporate Banking Unit of the Bank. Mr. LIN has been serving as Chairman of BOC International Holdings Limited since April 2018, Chairman of BOC International (China) Co., Ltd. since May 2018, and Non-executive Director of BOC Hong Kong (Holdings) Limited since August 2018. He graduated from Xiamen University in 1987, and obtained a Master of Business Administration Degree from Xiamen University in 2000.

ZHAO Jie
Non-executive Director

Non-executive Director of the Bank since August 2017. Mr. ZHAO served as Inspector of the Agricultural Department of the Ministry of Finance from August 2014 to August 2017. He was an Inspector of the Office of Countryside Comprehensive Reform of the State Council from September 2008 to August 2014. From December 1991 to September 2008, Mr. ZHAO served successively as Chief of Division of Taxation and Chief of Comprehensive Division of the Department of Taxation, Deputy Chief of the Department of Taxation, Deputy Chief of the Department of Tax System and Regulations of the Ministry of Finance, Chief of Office of Panel of Countryside Taxation Reform of the State Council, and Deputy Chief and Inspector of Office of Countryside Comprehensive Reform of the State Council. He graduated from Jiangxi University of Finance and Economics and Public Institute of the Ministry of Finance in August 1982 and July 2005, respectively, with a Bachelor's Degree and a Doctor's Degree.

LI Jucai
Non-executive Director

Non-executive Director of the Bank since September 2015. Mr. LI served as Party Committee Member and Secretary of Party Discipline Committee of the Information Network Center under the Ministry of Finance from December 2014 to September 2015. He acted as the specialised Deputy Secretary of Party Committee of the Information Network Center under the Ministry of Finance from April 2010 to December 2014. From November 1996 to April 2010, he had successively been the Deputy Head of the Science Division of the Culture, Education and Administration Department, Division Head of the Investment Evaluation Center, Director of Administration Office and Head of the Administrative Division of the Information Network Center under the Ministry of Finance. Mr. LI majored in Finance in China Northeast University of Finance and Economics and graduated with a Bachelor's Degree in 1986. Mr. LI has qualification of Senior Economist.

XIAO Lihong
Non-executive Director

Non-executive Director of the Bank since August 2017. Ms. XIAO has been serving as Non-executive Director of China Galaxy Securities Company Limited since February 2019, and as Director of China Galaxy Financial Holdings Company Limited since October 2018. From April 2014 to August 2017, she served as Inspector of the Current Account Management Department of the SAFE. She was Deputy Director-General of the Current Account Management Department of the SAFE from September 2004 to April 2014, and concurrently as Vice General Manager and Party Committee Member of the Beijing Branch of China Construction Bank from July 2011 to July 2012. She served successively as Deputy Chief of the Current Account Division and the Non-trade Foreign Exchange Management Division of the Supervision and Inspection Department, and Chief of the Business Supervision Division of the Current Account Management Department of the SAFE from October 1996 to September 2004. She graduated from the China Central University of Finance and Economics in August 1988 with a Bachelor's Degree, and from the Central University of Finance and Economics and Peking University in September 2003 and July 2012, respectively, both with a Master's Degree.

WANG Xiaoya
Non-executive Director

Non-executive Director of the Bank since August 2017. Ms. WANG served as Non-executive Director of Industrial and Commercial Bank of China Limited from January 2012 to June 2017. From May 2007 to December 2011, she was Deputy Director-General of the Research Bureau of the PBOC. She taught at the Central China Normal University where she served as Assistant Lecturer and Lecturer from July 1985 to January 1995. She served as Deputy Chief and Chief of the Macroeconomic Analysis Division of the Research Bureau of the PBOC from July 1997 to May 2007, and concurrently as Deputy Mayor of Tongliao City in the Inner Mongolia Autonomous Region from October 2005 to February 2007. She received a professional title of research fellow in 2005. Ms. WANG was a member of the Post-Doctoral Academic Committee and a Post-Doctoral Co-mentor at the Institute of Finance of the PBOC. Currently, she is a member of the Academic Committee of the China Institute for Rural Studies of Tsinghua University, Invited Researcher of the National Institute of Financial Research of Tsinghua University, Doctoral Supervisor of Southwestern University of Finance and Economics and Invited Professor at the Graduate School of Chinese Academy of Social Sciences. Ms. WANG graduated from the Economics Faculty of Central China Normal University and the Graduate School of Chinese Academy of Social Sciences in January 1990 and June 1997 with a Master's Degree and a Doctor's Degree, respectively.

LIAO Qiang
Non-executive Director

Non-executive Director of the Bank since September 2018. Mr. LIAO has worked at S&P Global Ratings from 2005 to 2018, successively serving as an associate, associate director, director, and senior director for the rating agency's financial institution ratings group. He was also the Sector Lead and Chief Rating Officer for S&P's Financial Institution Ratings in Greater China, a designated Global Voter on S&P's Banking Industry Country Risk Assessment Committees, and a member of S&P's Global Industry Focus Team on government-related entity ratings. From 1998 to 2005, he successively served in the General Division and Institution Management Division of the Non-bank Financial Institution Supervision Department of the People's Bank of China and the Market Access Division of the Non-bank Financial Institution Supervision Department of former China Banking Regulatory Commission. He is also a non-practicing member of Chinese Institute of Certified Public Accountants and a member of the academic board of Hongfan Institute of Legal and Economic Studies. Mr. LIAO received a Doctor's Degree in Economics from the Graduate School of the Chinese Academy of Social Science in 2010, a Master's Degree in Monetary Banking from the Institute of Finance of the People's Bank of China in 1998, and a Bachelor's Degree in Sociology from Renmin University of China in 1995.

LU Zhengfei
Independent Director

Independent Director of the Bank since July 2013. Mr. LU currently serves as the distinguished professor of Cheung Kong Scholar of Guanghua School of Management, Peking University. He served as the head of the Accounting Department of the School of Business, Nanjing University between 1994 and 1999, and the head of the Accounting Department of Guanghua School of Management, Peking University between 2001 and 2007, and Associate Dean of Guanghua School of Management, Peking University between 2007 and 2014. Mr. LU also currently serves as an executive director of the Accounting Society of China and Deputy Director of Financial Management Committee, an editorial board member of *Accounting Research* and *Audit Research*, and a member of the Disciplinary Committee of the Chinese Institute of Certified Public Accountants. In 2001, he was elected as a member of "The Hundred People Project of Beijing New Century Social Science Theoretical Talent". In 2005, he was elected to the "New Century Excellent Talent Support Plan" of the Ministry of Education, PRC. In 2013, he was elected to the "Renowned Expert Training Project" (first batch) of the Ministry of Finance. In 2014, he was elected as distinguished professor of Cheung Kong Scholar of the Ministry of Education, PRC. He currently serves as an independent non-executive director or an independent supervisor of a number of companies listed on the Hong Kong Stock Exchange, including: independent non-executive director of Sino Biopharmaceutical Ltd. since November 2005, and Independent Supervisor of PICC Property and Casualty Co., Ltd. ("PICC P&C") since January 2011. He was an independent non-executive director of PICC P&C from February 2004 to December 2010, an independent non-executive director of Sinotrans Ltd. from September 2004 to May 2018, and an independent non-executive director of China National Materials Co., Ltd. from December 2009 to April 2018. He has served as an independent non-executive director of China Nuclear Engineering & Construction Corporation Limited since November 2018. Mr. LU graduated from Renmin University of China in 1988 with a Master's Degree in Economics (Accounting), and received his Doctor's Degree in Economics (Management) from Nanjing University in 1996.

LEUNG Cheuk Yan
Independent Director

Independent Director of the Bank since September 2013. Mr. LEUNG is a former partner of Baker & McKenzie, which he joined in July 1987 and from which he retired in June 2011. During 2009 and 2010, he had served as a part-time member of the Central Policy Unit of The Hong Kong Special Administrative Region Government. Mr. LEUNG has been an independent non-executive director of MMG Limited, which is listed on The Stock Exchange of Hong Kong Limited, since July 2012. Mr. LEUNG graduated from The Chinese University of Hong Kong with a Bachelor of Social Science Degree (First Class Honours) in 1976, obtained a Master of Philosophy Degree from The University of Oxford in 1981 and completed his legal study at The College of Law in England in 1982. He was admitted to practice as a solicitor in Hong Kong in 1985, in England and Wales in 1988, in the Australian Capital Territory in 1989 and in Victoria, Australia in 1991. He is a Senior Associate Member of St. Antony's College, Oxford.

WANG Changyun
Independent Director

Independent Director of the Bank since August 2016. Mr. WANG currently serves as professor and doctoral supervisor in finance at Renmin University of China ("RUC"), and the dean of Hanqing Advanced Institute of Economics and Finance, RUC. He served as a lecturer at RUC from 1989 to 1995 and as a lecturer at Business School, National University of Singapore from 1999 to 2005. He served successively as the Chair of Applied Finance Department of RUC, Director of China Financial Policy Research Center (a key research base of Ministry of Education) and Executive Vice Dean of Hanqing Advanced Institute of Economics and Finance at RUC from 2006 to 2016. Mr. WANG is currently also the Vice Chairman of China Investment Specialty Construction Association, Director of China Finance Annual Meeting Committee, Director of China Finance Association, Deputy Editor of *Finance Research Quarterly*, Deputy Editor of *China Finance Research*, and Deputy Editor of *China Financial Review*. He also serves as the standing committee member of Beijing Haidian District People's Political Consultative Conference, the Central Committee member of China Democratic League, the special auditor of State Auditing Administration, the independent non-executive director of Sunway Co., Ltd. (originally named as Sichuan Star Cable Co., Ltd.) and Beijing Haohua Energy Resource Co., Ltd. Mr. WANG has received social recognition and prizes including the Special Government Allowance of State Council, Best Paper Award of Chicago Board of Trade in 2001, and the "Middle Age Experts with National Outstanding Contribution", membership of "the Program for New Century Excellent Talents" of Ministry of Education in 2004, "Financial Support of National Science Fund for Distinguished Young Scholars" in 2007, a member of the "New Century National Hundred, Thousand and Ten Thousand Talent Program" in 2013, and the "Cheung Kong Distinguished Professor" of Ministry of Education in 2014. He obtained his Master's Degree in economics from RUC in July 1989 and Doctorate in Financial Economics from the University of London in January 1999.

Angela CHAO
Independent Director

Independent Director of the Bank since January 2017. Ms. CHAO serves as Chairman and CEO of Foremost Group, an international shipping company. From 1994 to 1996, Ms. CHAO worked in the mergers & acquisitions department of Smith Barney, which is now Morgan Stanley Smith Barney. From 1996 to 1999, Ms. CHAO served as deputy general manager of Foremost Group, and from 2001 to 2017, Ms. CHAO had successively served as Vice President, Senior Vice President and Deputy Chairman of Foremost Group. Since 2018, she has served as Chairman and CEO of Foremost Group. In May 2005, Ms. CHAO was unanimously voted to be BIMCO39's (The Baltic and International Maritime Council 39) Counsellor. In September 2005, she was selected as "Eminent Young Overseas Chinese" by the Overseas Chinese Affairs Office of the State Council of China. In November 2007, she was invited as speaker of World Shipping (China) Summit. In April 2011, she became a Founding Member of the *Wall Street Journal*'s Task Force on Women in the Economy. Ms. CHAO currently serves on the Boards of The Metropolitan Opera, Museum of Modern Art PS1, the UK P&I Marine Insurance Mutual, Foremost Foundation, Shanghai Mulan Education Foundation, and she also serves on the Harvard Business School's Board of Dean's Advisors, Carnegie-Tsinghua Center for Global Policy Board of Advisors, Lincoln Center Global's China Advisory Council, the Chairman's Council of the

Metropolitan Museum of Art and American Bureau of Shipping Council. In addition, she is also a member of the Council on Foreign Relations, serves on the Young Leaders Forum of the National Committee on US-China Relations and serves as the member of Shanghai Jiao Tong University's Antai College of Economics and Management Advisory Board, and honorary chairperson of the Jiao Tong University Alumni Association in America. Ms. CHAO graduated from Harvard College in three years in 1994 with a Bachelor's Degree in economics (Magna Cum Laude), and received her Master of Business Administration Degree from Harvard Business School in 2001.

JIANG Guohua
Independent Director

Independent Director of the Bank since December 2018. Mr. JIANG serves as Professor of Accounting at the Guanghua School of Management, Peking University. Currently he also serves as a member of China National MPAcc Education Steering Committee and Associate Dean of Peking University Graduate School. Mr. JIANG has successively served as Assistant Professor, Associate Professor and Professor of the Accounting Department of Guanghua School of Management, Peking University since 2002, during which he successively served as Director of the Yenching Academy, Executive Associate Dean and Director of the Yenching Academy from 2013 to 2017. From 2007 to 2010, he was a senior investment consultant at Bosera Fund Management Company; from 2010 to 2016, he served as independent director of Datang International Power Generation Co. Ltd.; from 2011 to 2014, he was an academic advisor to the Global Valuation Institute of KPMG International; and from 2014 to 2015, he was a member of the Global Agenda Council of the World Economic Forum. Currently he also serves as independent director of ZRF Fund Management Company Ltd. and China Merchants Life Insurance Company Ltd. Mr. JIANG was named National Leading Talent in Accounting by China Ministry of Finance (2012). He was an Elsevier Chinese Most Cited Researcher consecutively from 2014 to 2017. He was a member of the 17th Stock Issuance Review Committee of China Securities Regulatory Commission. Mr. JIANG graduated from Peking University in 1995 with a Bachelor's Degree in Economics, received his Master's Degree in Accounting from Hong Kong University of Science and Technology in 1997, and obtained his Doctor's Degree in Accounting from the University of California, Berkeley in 2002.

Supervisors

WANG Xiquan
Chairman of the Board of Supervisors

Chairman of the Board of Supervisors of the Bank since November 2016 and Vice Party Secretary of the Bank since June 2016. Mr. WANG previously served in several positions at Industrial and Commercial Bank of China Limited ("ICBC") for many years. He served as the Executive Vice President of ICBC from September 2012 to July 2016 and Executive Director from June 2015 to July 2016. Mr. WANG served as a member of the senior management of ICBC from April 2010 to September 2012. Between September 1999 and April 2010, he successively served as Deputy Head of the Hebei Branch of ICBC, General Manager of Risk Management Department, General Manager of Internal Audit Bureau, and General Manager of Human Resources Department. Mr. WANG graduated from Shanxi Institute of Finance and Economics in 1983 and received a Doctor's Degree in Management from Nanjing University in 2009. He holds the title of Senior Economist.

LIU Wanming
Shareholder Supervisor

Shareholder Supervisor of the Bank since August 2004 and Deputy General Manager of the Office of Board of Supervisors since April 2005. Since January 2014, Mr. LIU has served as Deputy General Manager of the Audit Department of the Head Office of the Bank. From November 2001 to August 2004, Mr. LIU was designated by the State Council to serve as Director Supervisor and Deputy Director General Supervisor at Bank of Communications and the Bank respectively. From August 1984 to November 2001, he worked with the National Audit Office, Agricultural Development Bank of China and the Central Financial Working Commission. Mr. LIU received a Bachelor's Degree in Economics from Jiangxi University of Finance and Economics in 1984.

WANG Zhiheng
Employee Supervisor

Employee Supervisor of the Bank since December 2018. Mr. WANG currently serves as General Manager of the Human Resources Department of the Head Office of the Bank and Director of BOC Aviation Limited, BOC International Holdings Limited and Bank of China Group Insurance Company Limited. Mr. WANG joined the Bank in July 1999, serving successively as Deputy General Manager of the Human Resources Department of the Head Office, Deputy General Manager of the Guangdong Branch and General Manager of the Qinghai Branch of the Bank. Mr. WANG graduated and obtained a Master's Degree in Finance from Nankai University in 1999.

LI Changlin
Employee Supervisor

Employee Supervisor of the Bank since December 2018. Mr. LI currently serves as General Manager of the Credit Approval Department of the Head Office of the Bank and Director of Bank of China Group Investment Limited. Mr. LI joined the Bank in September 1984, serving successively as Deputy General Manager of the Risk Management Department of the Head Office and General Manager of the Credit Approval Division of the Risk Management Unit of the Head Office of the Bank. Mr. LI graduated from Central University of Finance and Economics (finance major) in 1984.

LENG Jie
Employee Supervisor

Employee Supervisor of the Bank since December 2018. Mr. LENG currently serves as General Manager of the Hebei Branch of the Bank. Mr. LENG started working in November 1981 and joined the Bank in September 1988, serving successively as Deputy General Manager of the Shandong Branch, Deputy General Manager of the Shanxi Branch, General Manager of the Ningxia Branch and General Manager of the Chongqing Branch of the Bank. Mr. LENG graduated from Shandong Institute of Light Industry (economics administration major) in 1999 and University of Jinan in 2009 (accounting major).

CHEN Yuhua
External Supervisor

External Supervisor of the Bank since June 2015. Mr. CHEN served as Vice President of China Cinda Asset Management Co., Ltd. from December 2008 to August 2013. He previously served as Chairman of China Cinda Investment Co., Ltd. from April 2004 to December 2008, Head of the Equity Department of China Cinda Asset Management Company and General Manager of China Cinda Investment Co., Ltd. from March 2000 to April 2004, and President of China Cinda Trust & Investment Company from December 1996 to March 2000. Prior to this, he served as Deputy General Manager of the Personnel Department and Deputy General Manager of the Personnel & Training Department of China Construction Bank (CCB) Head Office from April 1994 to December 1996, Division Head of the Construction Economy Department of CCB Head Office and General Manager of CCB Real Estate Consulting Corporation from March 1992 to March 1994, Deputy Head of the Construction Economy Division, Deputy Head of the Real Estate Credit Department and Head of a direct sub-branch of CCB Sichuan Branch from August 1986 to March 1992. Mr. CHEN graduated from Zhongnan University of Finance and Economics in 1986 and received a Master's Degree in Economics.

Senior Management Members

LIU Liange
Vice Chairman and President
Please refer to the section "Directors"

WU Fulin
Executive Vice President
Please refer to the section "Directors"

LIN Jingzhen
Executive Vice President
Please refer to the section "Directors"

SUN Yu
Executive Vice President

Executive Vice President of the Bank since February 2019. Mr. SUN joined the Bank in 1998 and has served as Chief Overseas Business Officer from September 2018 to February 2019. From March 2015 to November 2018, Mr. SUN served as General Manager of London Branch of the Bank, CEO of Bank of China (UK) Limited, and also served as General Manager of London Trading Center of the Bank from December 2015 to November 2018. Mr. SUN previously served as Director of Global Financial Markets Department, Director of Financial Markets Unit (Client Business), Director of Financial Markets Unit (Securities Investment), Deputy General Manager of the Shanghai Branch and General Manager of Global Markets Department of Bank of China (Hong Kong) Limited. Mr. SUN has concurrently served as Director of Bank of China (UK) Limited since March 2015, as Chairman of the Board of Directors of Bank of China (UK) Limited since December 2018, and as Chairman of the Board of Directors of BOC Aviation Limited since February 2019. He graduated from Nankai University with a Master's Degree in Economics in 1998.

XIAO Wei
Chief Audit Officer

Chief Audit Officer of the Bank since November 2014. Mr. XIAO joined the Bank in 1994, and served as General Manager of Financial Management Department of the Bank's Head Office from November 2009 to November 2014. Mr. XIAO served as Deputy General Manager of the Beijing Branch of the Bank from May 2004 to November 2009, and also concurrently served as Chief Financial Officer of the Beijing Branch of the Bank from January 2007 to November 2009. He successively served as Assistant General Manager and Deputy General Manager of the Asset-Liability Management Department of the Bank's Head Office from December 1999 to May 2004, and also served as temporary Deputy General Manager of the Beijing Branch of the Bank from November 2002 to May 2004. Mr. XIAO obtained a Doctor's Degree in Economics from Renmin University of China in 1994. He has the qualification of Senior Accountant.

LIU Qiuwan
Chief Information Officer

Chief Information Officer of the Bank since June 2018. Mr. LIU joined the Bank in 1994. He served as General Manager of Information Technology Department of the Bank since December 2014. From September 2009 to December 2014, he served as General Manager of the Software Center of the Bank. Mr. LIU previously served as Deputy General Manager of the Ningxia Branch and CEO of BOCSOFT Information Industrial (Shenzhen) Co., Ltd. He graduated from Xi'an Mining College with a Bachelor's Degree in Engineering in 1982. He holds the title of Senior Engineer.

LIU Jiandong
Chief Risk Officer

Chief Risk Officer since February 2019. Mr. LIU joined the Bank in 1991. Since March 2014, he has served as General Manager of the Credit Management Department of the Bank. Mr. Liu served as General Manager (Investment Banking) of the Corporate Banking Unit of the Bank from February 2011 to March 2014. Mr. Liu previously served as Deputy General Manager of the Corporate Banking Department and Corporate Banking Unit of the Bank. He graduated from Renmin University of China in 1991 with a Bachelor's Degree in Economics, and obtained a Master's Degree in Economics from Renmin University of China in 2000.

MEI Feiqi
Secretary to the Board of Directors and Company Secretary

Company Secretary of the Bank since March 2018 and Secretary to the Board of Directors since April 2018. Mr. MEI joined the Bank in 1998. He has previously served as Deputy General Manager of the Beijing Branch of the Bank, General Manager (Wealth Management and Personal Banking) of the Personal Banking Unit of the Bank, Spokesman of the Bank and General Manager of the Executive Office of the Bank's Head Office. Prior to joining the Bank, he worked at the Ministry of Geology and Mineral Resources and the General Office of the State Council. He graduated from Chengdu University of Technology with a Bachelor's Degree, and later received on-the-job postgraduate education. He holds the title of Senior Economist.

Changes in Directors, Supervisors and Senior Management Members

Changes in the Bank's directors were as follows:

Mr. GAO Yingxin ceased to serve as Executive Director and member of the Risk Policy Committee of the Board of Directors of the Bank as of 24 January 2018 due to change of job.

Mr. REN Deqi ceased to serve as Executive Director and member of the Connected Transactions Control Committee of the Board of Directors of the Bank as of 12 June 2018 due to change of job.

Mr. ZHANG Xiangdong ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Personnel and Remuneration Committee of the Board of Directors of the Bank as of 29 June 2018 due to reason of age.

Mr. Nout WELLINK ceased to serve as Independent Director, member of the Strategic Development Committee and the Audit Committee, and Chairman and member of the Risk Policy Committee of the Board of Directors of the Bank as of 29 June 2018 due to the expiration of his term of office.

Mr. WANG Changyun began to serve as Chairman of the Risk Policy Committee of the Board of Directors of the Bank as of 29 June 2018.

Mr. ZHANG Qingsong began to serve as Executive Director and member of the Risk Policy Committee of the Board of Directors of the Bank as of 20 August 2018.

Mr. ZHANG Qingsong ceased to serve as Executive Director and member of the Risk Policy Committee of the Board of Directors of the Bank as of 18 September 2018 due to change of job.

Mr. LIAO Qiang began to serve as Non-executive Director and member of the Strategic Development Committee and the Personnel and Remuneration Committee of the Board of Directors of the Bank as of 29 September 2018.

Mr. LIU Liange began to serve as Vice Chairman, Executive Director and member of the Strategic Development Committee of the Board of Directors of the Bank as of 11 October 2018.

Mr. JIANG Guohua began to serve as Independent Director and member of the Audit Committee, the Personnel and Remuneration Committee and the Connected Transactions Control Committee of the Board of Directors of the Bank as of 14 December 2018.

Mr. WU Fulin began to serve as Executive Director and member of the Connected Transactions Control Committee of the Board of Directors of the Bank as of 3 February 2019.

Mr. LIN Jingzhen began to serve as Executive Director and member of the Risk Policy Committee of the Board of Directors of the Bank as of 3 February 2019.

Changes in the Bank's supervisors were as follows:

Mr. WANG Xueqiang ceased to serve as Shareholder Supervisor and member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 31 March 2018 due to the reason of age.

Mr. DENG Zhiying ceased to serve as Employee Supervisor and member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 14 December 2018 due to work-related reasons.

Mr. GAO Zhaogang ceased to serve as Employee Supervisor and member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 14 December 2018 due to work-related reasons.

Ms. XIANG Xi ceased to serve as Employee Supervisor and member of the Financial and Internal Control Supervision Committee of the Board of Supervisors of the Bank as of 14 December 2018 due to work-related reasons.

Mr. WANG Zhiheng began to serve as Employee Supervisor of the Bank as of 14 December 2018, and as member of the Duty Performance and Due Diligence Supervision Committee, member of the Financial and Internal Control Supervision Committee of the Board of Supervisors of the Bank as of 15 January 2019.

Mr. LI Changlin began to serve as Employee Supervisor of the Bank as of 14 December 2018, and as member of the Duty Performance and Due Diligence Supervision Committee, member of the Financial and Internal Control Supervision Committee of the Board of Supervisors of the Bank as of 15 January 2019.

Mr. LENG Jie began to serve Employee Supervisor of the Bank as of 14 December 2018, and as member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 15 January 2019.

Changes in the Bank's senior management members were as follows:

Mr. GAO Yingxin ceased to serve as Executive Vice President of the Bank as of 24 January 2018.

Mr. GENG Wei ceased to serve as Secretary to the Board of Directors and Company Secretary of the Bank as of 2 March 2018.

Mr. MEI Feiqi began to serve as Company Secretary of the Bank as of 2 March 2018. Mr. MEI Feiqi began to serve as Secretary to the Board of Directors of the Bank as of 27 April 2018.

Mr. LIN Jingzhen began to serve as Executive Vice President of the Bank as of 28 March 2018.

Mr. REN Deqi ceased to serve as Executive Vice President of the Bank as of 12 June 2018 due to change of job.

Mr. LIU Quiwan began to serve as Chief Information Officer of the Bank while Mr. ZHANG Qingsong ceased to concurrently serve as Chief Information Officer of the Bank as of 26 June 2018.

Mr. LIU Liange began to serve as President of the Bank as of 27 August 2018.

Mr. SUN Yu began to serve as Chief Overseas Business Officer of the Bank as of 12 September 2018. As of 3 February 2019, Mr. SUN Yu began to serve as Executive Vice President and ceased to serve as Chief Overseas Business Officer of the Bank.

Mr. ZHANG Qingsong ceased to serve as Executive Vice President of the Bank as of 18 September 2018 due to change of job.

Mr. LIU Qiang ceased to serve as Executive Vice President of the Bank as of 18 September 2018 due to change of job.

Mr. WU Fulin began to serve as Executive Vice President of the Bank as of 28 December 2018.

Mr. PAN Yuehan ceased to serve as Chief Risk Officer of the Bank as of 18 January 2019 due to change of job.

Mr. LIU Jiandong began to serve as Chief Risk Officer of the Bank as of 3 February 2019.

Corporate Governance

Overview of Corporate Governance

The Bank takes excellent corporate governance as an important objective. It has constantly pursued the best practice in corporate governance and integrated the Party's leadership with improvement of corporate governance. Adhering to the rules and regulations governing capital markets and relevant industries, the Bank has made constant efforts to improve its corporate governance framework, which comprises the shareholders' meeting, the Board of Directors, the Board of Supervisors and the Senior Management. This framework operates smoothly owing to a clear division of duties. All special committees of the Board of Directors and the Board of Supervisors have performed their duties and functioned effectively, thereby enhancing the Bank's corporate governance capabilities.

The Bank has been working on improving the system of its corporate governance regimes. It has continuously followed up and implemented regulatory requirements on capital market, whichever is stricter, and has comprehensively and systematically reviewed the Articles of Associations and the rules of procedure of each special committee. Upon review by the Board of Directors and the Shareholders' Meeting, some terms relating to the authorisation to the Board of Directors granted by the Shareholders' Meeting and the authorisation to the President granted by the Board of Directors have been updated. The Bank has improved information disclosure rules and enhanced the initiative and timeliness of information disclosure.

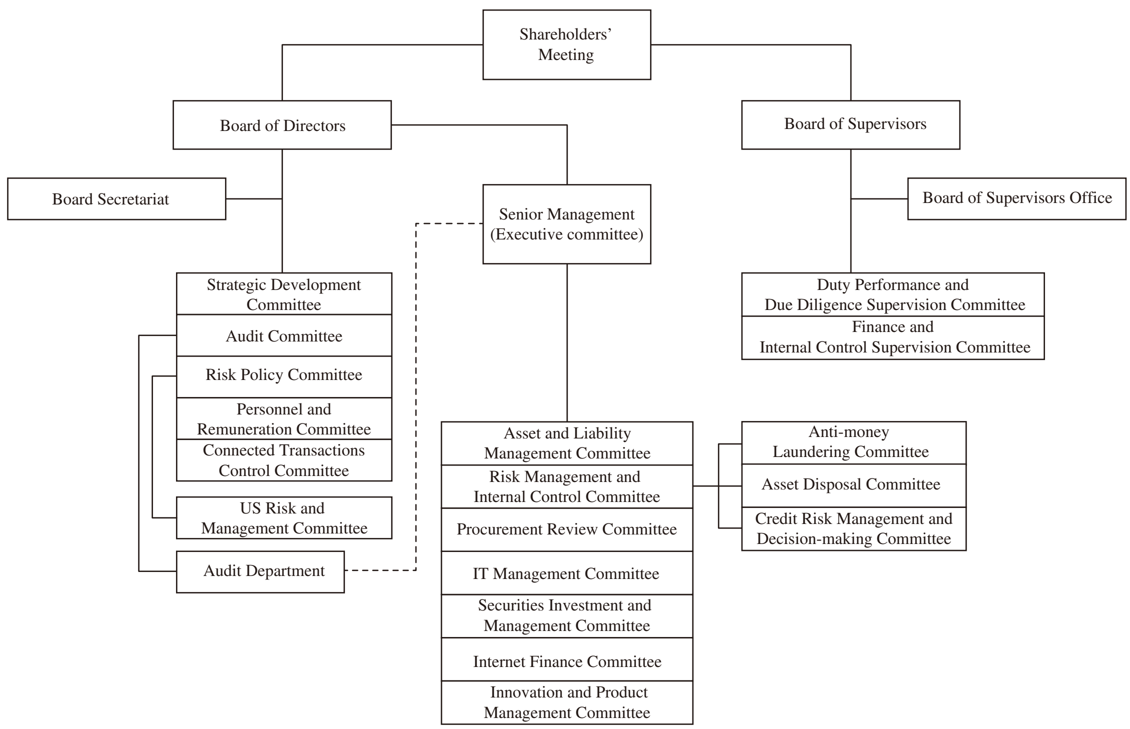
The Bank places great emphasis on improving its corporate governance operation mechanisms. It ensures that minority shareholders are properly informed and able to participate and make decisions. The annual shareholders' meetings are held in Beijing and Hong Kong on-site and connected by way of video conference, allowing shareholders from both the Chinese mainland and Hong Kong to attend in person. In addition, online voting for A-Share Holders is available to safeguard the rights and interests of the minority shareholders. The Bank focuses on constantly enhancing co-ordination with respect to the operation mechanisms of the Board of Directors, information disclosure and stakeholder engagement. It continues to support the Board of Directors in functioning more constructively and making scientific and efficient decisions. The Bank works to heighten transparency and proactively perform the duties it owes to the relevant stakeholders, including shareholders, customers, staff and society.

The Bank makes great efforts to promote Board diversity. It has formulated the *Bank of China Limited Board Diversity Policy*, which lays out the stance of the Bank on the diversity of the members of the Board of Directors and the approaches it adopts to realise such diversity on an on-going basis. All appointments are made on merit, in the context of the skills and experience the Board of Directors as a whole requires, and taking into full consideration and from various perspectives the object and requirements for diversity, including but not limited to regulatory requirements, gender, age, cultural and educational background, geographical location, professional experience, skills, knowledge, and length of service of directors, etc. The Bank applies the aforementioned diversity policy and requirements to the director selection and engagement process.

In 2018, the Bank's corporate governance performance continued to be recognised by the capital markets and the public. The Bank was granted the 13th "Golden Prize of Round Table" for Special Contribution to Board Governance of Chinese Listed Companies.

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Corporate Governance Compliance

During the reporting period, the actual performance of the Bank's corporate governance was fully in compliance with the Company Law and the requirements for the governance of listed companies set out in the normative documents of CSRC.

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "*Code*") as set out in Appendix 14 to the Hong Kong Listing Rules. Save as disclosed in this annual report, during the reporting period, the Bank has complied with all the provisions of the *Code* and has substantially complied with most of the recommended best practices set out in the *Code*.

Amendments to the Articles of Association

No amendment was made to the Articles of Association in 2018.

Shareholders and Shareholders' Rights

The Bank highly values the protection of its shareholders' interests and has established and maintained an effective and multi-channel shareholder communication platform. This includes holding shareholders' meetings and maintaining an investor hotline to ensure that all shareholders are treated equally, properly informed and able to participate in and exercise their voting and other rights regarding the major issues of the Bank. The Bank is independent and completely autonomous in all of its business operations. It operates independently and separately from its controlling shareholder, Huijin, in respect of its business, personnel, asset, institutional and financial matters.

Shareholders' Right to Convene an Extraordinary Shareholders' Meeting and a Meeting of Shareholders of Different Categories

According to the Articles of Association, shareholders individually or in aggregate holding a total of 10% or more voting shares of the Bank have the right to make a written request to the Board of Directors to convene an extraordinary shareholders' meeting. Two or more shareholders holding a total of 10% or more voting shares of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after receipt of a written request for convening an extraordinary shareholders' meeting or a meeting of shareholders of different categories submitted by the proposing shareholders, the proposing shareholders may by themselves convene the meeting within four months after the Board of Directors receives the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are convened by the Board of Directors. Where the proposing shareholders convene and hold a meeting because the Board of Directors fails to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

Shareholders' Right to Propose Resolutions at Shareholders' Meetings

According to the Articles of Association, any shareholder who holds, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose a resolution in a shareholders' meeting. Any shareholder who holds, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose and submit in writing to the Board of Directors interim proposals 10 days prior to the convening of a shareholders' meeting. When the Board of Directors decides not to include such proposals on the meeting agenda, it shall explain and clarify the reasons at the shareholders' meeting. When the proposing shareholders dissent with the Board of Directors' decision to exclude such proposals, they may request to call for an extraordinary shareholders' meeting by themselves based on the procedures stipulated in the Articles of Association.

Shareholders' Right to Present Enquiries

According to the Articles of Association, any shareholder who holds severally or jointly with others 5% or more voting shares of the Bank shall have the right to present enquiries to the shareholders' meeting. The Board of Directors, the Board of Supervisors, or other relevant senior management members shall attend the shareholders' meeting, accept enquiries, and answer or explain accordingly.

Please refer to the Articles of Association for details of the rights pertaining to shareholders. If shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to the section "Reference for Shareholders — Investor Enquiry" for contact details.

Shareholders' Meeting

Functions and Powers of Shareholders' Meeting

The shareholders' meeting is the body of authority of the Bank. The shareholders' meeting is responsible for making decisions on the important issues of the Bank, including considering and approving the Bank's profit distribution plan, annual financial budget and financial statements, changes in the Bank's registered capital, adopting resolutions on matters such as the issue of bonds and other securities, merger and division, amending the Articles of Association of the Bank, electing directors, electing shareholders' representative supervisors and external supervisors and deciding the remunerations of directors and supervisors.

Convening of Shareholders' Meeting

On 28 June 2018, the Bank held its 2017 Annual General Meeting in Beijing and Hong Kong on-site and connected by way of video conference. A-Share Holders could also cast votes online. This meeting considered and approved seventeen proposals including the 2017 work report of the Board of Directors, the 2017 work report of the Board of Supervisors, the 2017 annual financial report, the 2017 profit distribution plan, the 2018 annual budget for fixed assets investment, the appointment of Ernst & Young Hua Ming LLP as the Bank's external auditor for 2018, the election of Mr. ZHANG Qingsong to be appointed as Executive Director of the Bank, the election of Mr. LI Jucai to be re-appointed as Non-executive Director of the Bank, the election of Mr. CHEN Yuhua to be re-appointed as External Supervisor of the Bank, the 2016 remuneration distribution plan for the Chairman of the Board of Directors and Executive Directors, the 2016 remuneration distribution plan for the Chairman of the Board of Supervisors and Shareholder Supervisors, the capital management plan of Bank of China for 2017–2020, adjusting the authorisation of outbound donation to the Board of Directors by Shareholders' Meeting, the issuance of bonds, the issuance of qualified write-down tier 2 capital instruments, the issuance of the write-down undated capital bonds, and the election of Mr. LIAO Qiang to be appointed as Non-executive Director of Bank of China Limited. The meeting also heard the 2017 report on the connected transactions, the 2017 duty report of independent directors and the 2017 report on the implementation on the *Scheme on the Authorisation to the Board of Directors Granted by the Shareholders' Meeting of Bank of China*. The proposals regarding the issuance of bonds, the issuance of the qualified write-down tier 2 capital instruments and the issuance of the write-down undated capital bonds were special resolutions.

On 14 September 2018, the Bank held its 2018 First Extraordinary General Meeting in Beijing. A-Share Holders could also cast votes online. The meeting considered and approved two proposals, namely, the election of Mr. LIU Liange to be appointed as Executive Director of the Bank and the election of Mr. JIANG Guohua to be appointed as Independent Non-executive Director of the Bank.

The aforementioned meetings were convened and held in strict compliance with the relevant laws and regulations as well as the listing rules of the Chinese mainland and Hong Kong. The Bank's directors, supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

The Bank issued announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 28 June 2018 and 14 September 2018 respectively, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEX and the Bank.

Implementation of the Resolutions Passed at the Shareholders' Meeting by the Board of Directors

During the reporting period, the Board of Directors has fully implemented the resolutions passed at the shareholders' meetings and the scheme on the authorisation to the Board of Directors granted by the shareholders' meeting, and earnestly carried out the proposals regarding the 2017 profit distribution plan, the 2018 annual budget for fixed assets investment, the issuance of bonds, the appointments of directors and 2018 external auditor and so on.

Board of Directors

Functions and Powers of the Board of Directors

The Board of Directors, which is responsible to the shareholders' meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association: convening shareholders' meetings and implementing the resolutions of shareholders' meetings; deciding on the Bank's strategic policies, business plans and material investment plans (except for those material investment plans that are subject to shareholders' meeting approval as specified in the Articles of Association); formulating the annual financial budgets, final accounts and plans for profit distribution and loss making-up of the Bank; appointing or dismissing members of special committees and the Senior Management of the Bank; reviewing and deciding on the establishment of the Bank's basic administrative system, internal management framework and important sub-entities; developing and reviewing the corporate governance policies of the Bank; taking charge of performance evaluation and matters of material reward and punishment for senior management members, and hearing the reports of the Senior Management and examining their work, among others. The Board of Directors continuously reviews and updates the Articles of Association and the Bank's corporate governance policies and systems in accordance with the applicable laws and regulations, relevant regulatory requirements and listing rules, and ensures compliance with such policies and systems.

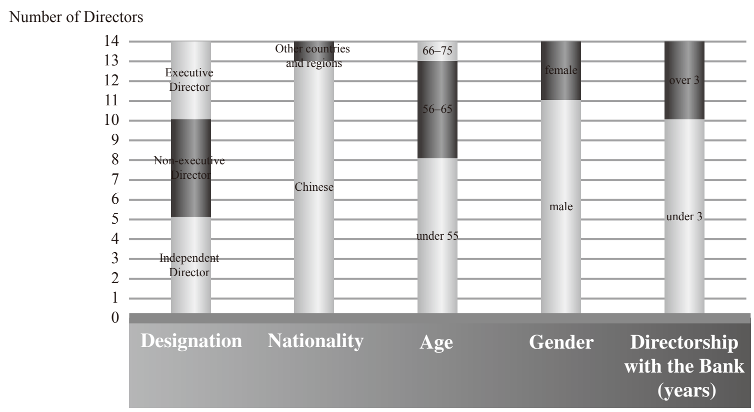
Composition of the Board of Directors

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee, as well as the US Risk and Management Committee established under the Risk Policy Committee, to assist the Board of Directors in performing its functions under the authorisation of the Board of Directors.

The Board of Directors of the Bank is rationally structured and diversified. Currently, the Board of Directors comprises fourteen members. Besides the Chairman, there are three executive directors, five non-executive directors and five independent directors. The proportion of independent directors reaches one-third of the total number of directors. The Bank's directors are elected at the shareholders' meeting, with a term of office of three years starting from the date when the Bank receives approval of the appointment from CBIRC. A director may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations, supervisory requirements and the Articles of Association of the Bank. The positions of Chairman and President of the Bank are assumed by two persons.

For detailed background and an explanation of recent changes to the Board membership, please refer to the section “Directors, Supervisors and Senior Management Members”.

Board Composition



Convening of Board Meetings

In 2018, the Bank convened eleven on-site meetings of the Board of Directors on 19 January, 2 March, 29 March, 27 April, 31 May, 28 June, 17 July, 28 August, 29 October, 16 November and 12 December respectively. At these meetings, the Board of Directors reviewed and approved 69 proposals related to the Bank’s regular reports, the nomination of candidates for the directors, the Bank’s development strategy, the issuance of bonds, the dividend distribution plan, the establishment of overseas branches and subsidiaries, and so on. It also heard nine reports related to the 2017 report on internal control audit and internal control recommendations by the Bank’s external auditors, and other matters.

In 2018, the Bank convened six meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors mainly reviewed and approved the proposal on the establishment of an asset and wealth management subsidiary, among others.

Risk Management and Internal Control by the Board of Directors and its Special Committees

The Board of Directors of the Bank considers a sound risk management system to be the basic prerequisite of realising the Bank's strategic goals. By continuously improving the independence, specialisation, foresight, and initiative of its risk management function, the Bank ensures the sound and sustainable development of its banking businesses and creates greater value for shareholders.

According to regulatory rules and internal management requirements, the Senior Management submits important risk management policies, systems and procedures to the Board of Directors and Risk Policy Committee for review and approval. The Risk Policy Committee regularly reviews the Group's overall risk status (covering major risk categories such as credit risk, market risk, operational risk, liquidity risk, legal and compliance risk and reputational risk) and upcoming work plan and puts forward corresponding work requirements.

The Board of Directors and its Risk Policy Committee have acknowledged the full effectiveness of the existing risk management system of the Bank based on their close monitoring and quarterly evaluation of the system's effectiveness.

The Board of Directors attached great importance to the Group's far-reaching internal control system and continued to promote its development. It regularly heard and reviewed Senior Management reports concerning the implementation of the *Guidelines on Internal Control of Commercial Banks*, bank-wide operational management, risk management, fraud case management and internal control system development and assessment, thus earnestly assuming its responsibility to improve and deliver a sound and effective internal control function.

The Audit Committee under the Board of Directors closely monitored the changing economic and financial environment at home and abroad, as well as the overall conditions of the Group's internal control function, including the establishment and operation of its internal control systems for both financial reporting and non-financial reporting. In addition, the committee heard and reviewed, on a regular and ad hoc basis, internal audit reports and assessment opinions on internal control, reports on the progress of internal control improvements and remediation suggested by external auditors, as well as the overall situation regarding the prevention, control and redress of fraud cases and risk events. The committee guided and urged the Senior Management to improve the "three lines of defence" system of internal control, and members of the committee conducted researches into the independence and effectiveness of the audits of the Bank's comprehensive operation platforms.

During the reporting period, the Bank performed self-assessment on internal control in line with the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. No material deficiencies were identified in the internal control systems for both the financial reporting and non-financial reporting of the Bank. Ernst & Young Hua Ming LLP, as the Bank's external auditor for internal control, audited the effectiveness of the Bank's internal controls over financial reporting and issued a standard unqualified opinion. The *2018 Internal Control Assessment Report of Bank of China Limited* and the *2018 Auditor's Report on Internal Control* issued by Ernst & Young Hua Ming LLP have been published on the websites of SSE, HKEX and the Bank.

Duty Performance of Directors

Directors' Attendance of Shareholders' Meetings, Meetings of the Board of Directors and Special Committees

During the reporting period, the attendance rate of each director of the shareholders' meetings, meetings of the Board of Directors and special committees is given below:

Number of meetings attended in person/Number of meetings convened during term of office

			Meetings of the Special Committees of the Board of Directors				
Directors	**Shareholders' Meetings**	**Meetings of the Board of Directors**	**Strategic Development Committee**	**Audit Committee**	**Risk Policy Committee**	**Personnel and Remuneration Committee**	**Connected Transactions Control Committee**
Incumbent Directors							
CHEN Siqing	2/2	14/17	9/9	–	–	–	–
LIU Liange	0/0	5/5	2/2	–	–	–	–
ZHAO Jie	2/2	17/17	–	6/6	9/9	–	–
LI Jucai	2/2	16/17	9/9	6/6	–	–	–
XIAO Lihong	2/2	15/17	9/9	–	8/9	–	–
WANG Xiaoya	2/2	16/17	9/9	–	–	9/10	–
LIAO Qiang	0/0	5/5	2/2	–	–	2/2	–
LU Zhengfei	2/2	17/17	–	6/6	–	10/10	2/3
LEUNG Cheuk Yan	2/2	17/17	–	6/6	–	10/10	3/3
WANG Changyun	2/2	17/17	9/9	6/6	9/9	8/10	–
Angela CHAO	2/2	12/17	–	6/6	8/9	–	2/3
JIANG Guohua	0/0	0/0	–	0/0	–	0/0	0/0
Former Directors							
GAO Yingxin	0/0	1/1	–	–	–	–	–
REN Deqi	0/0	7/7	–	–	–	–	1/1
ZHANG Qingsong	0/1	1/1	–	–	1/1	–	–
ZHANG Xiangdong	1/1	10/10	6/6	–	–	6/6	–
Nout WELLINK	1/1	9/10	6/6	4/4	6/6	–	–

Notes:

1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in directors.

2 Directors who did not attend the meetings of the Board of Directors and its special committees in person have authorised other directors to attend and vote at the meetings as their proxy.

Training and Expertise Enhancement of Directors

In 2018, the Board of Directors paid significant attention to enhancing directors' expertise, with a special focus on arranging relevant training. All directors of the Bank fully observed Rule A.6.5 of the *Code* as well as PRC regulatory requirements, actively participating in specialised training including sessions on the international economic situation, IT development status and planning, the application and outlook of AI in Chinese financial institutions, and smart banking, among others. The Bank also gave special presentations and training to the directors newly appointed in 2018 regarding its business development, directors' responsibilities and internal control assessment. The Bank's directors also took it upon themselves to enhance their professional skills in various ways, including writing and publishing professional articles, attending forums and seminars, meeting with domestic and overseas regulators and conducting on-site research exercises at the Bank's domestic and overseas branches as well as at other advanced international banks.

Independence and Duty Performance of Independent Directors

There are currently five independent directors on the Board of Directors. This reaches one-third of the total number of directors and is in compliance with the quorum requirement specified in the Articles of Association and relevant regulatory requirements. For the professional backgrounds and other details of the independent directors, please refer to the section "Directors, Supervisors and Senior Management Members". Independent directors individually serve as the Chairman of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee. As stipulated in the relevant domestic regulatory requirements and Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent director with regard to their independence. Based on these confirmations and relevant information in possession of the Board of Directors, the Bank confirms their independent status.

In 2018, the Bank's independent directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. Please refer to the section "Directors' Attendance of the Shareholders' Meeting, Meetings of the Board of Directors and Special Committees" for the attendance of independent directors at meetings.

In 2018, independent directors put forward constructive recommendations on capital replenishment, strategic planning, group risk management, anti-money laundering and the development of overseas institutions, among others. These recommendations were adopted and diligently implemented by the Bank.

In 2018, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

Specific Explanation and Independent Opinions of Independent Directors on the Guarantee Business of the Bank

Pursuant to the provisions and requirements set forth in the circular (ZhengJianFa [2003] No. 56) issued by CSRC, and according to the principles of justice, fairness and objectivity, the Independent Directors of the Bank, Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun, Ms. Angela CHAO and Mr. JIANG Guohua have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities approved by PBOC and CBIRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business principally comprises letters of guarantee. As at 31 December 2018, the outstanding amount of letters of guarantee issued by the Bank was RMB1,070.825 billion.

Responsibility Statement of Directors on Financial Reports

The following statement, which sets out the responsibilities of the directors regarding financial statements, should be read in conjunction with, but understood separately from, the auditor's statement of their responsibilities as set out in the Independent Auditor's Report contained in this annual report.

The directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the directors, there was no material event or condition during the reporting period that might have a material adverse effect on the continuing operation of the Bank.

Special Committees of the Board of Directors

Strategic Development Committee

The Strategic Development Committee comprises seven members, including Chairman Mr. CHEN Siqing, Vice Chairman and President Mr. LIU Liange, Non-executive Directors Mr. LI Jucai, Ms. XIAO Lihong, Ms. WANG Xiaoya and Mr. LIAO Qiang and Independent Director Mr. WANG Changyun. Chairman Mr. CHEN Siqing serves as the Chairman of the committee.

The committee is mainly responsible for reviewing the strategic development plans presented by the Senior Management, assessing the factors that may affect the strategies of the Bank and their implementation, and advising the Board with regard to strategy adjustments; reviewing the annual budget, strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off), the objectives of asset-liability management, IT development and other special strategic development plans of the Bank, and advising the Board accordingly; coordinating strategies on the overall development of various financial businesses and the development of domestic and overseas institutions, and deciding on the setup, cancellation and increase or decrease of capital of the Bank's domestic and overseas institutions within its scope of authorisation; designing and formulating key investment and financing plans and merger and acquisition plans of the Bank; and reviewing the substantial internal reorganisation and adjustment plans of the Bank, and advising the Board accordingly; reviewing the Bank's green credit strategy and its implementation of social responsibilities, and making relevant suggestions to the Board; establishing the Bank's strategic development plan and basic management regimes with regard to its inclusive finance business, reviewing the annual business plan and assessment measures for its inclusive finance business, and supervising the Bank's implementation of inclusive finance strategies, policies and regulations.

The Strategic Development Committee held six on-site meetings and three meetings via written resolutions in 2018. At these meetings, it mainly approved the proposal on Development Strategy of Bank of China, the profit distribution plan for 2017, the business plan and financial budget for 2018, the dividend distribution plan for preference shares, the report on corporate social responsibility for 2017, the issuance of the qualified write-down tier 2 capital instruments, the issuance of write-down undated capital bonds, the issuance of preference shares, and the establishment of asset and wealth management subsidiary and so on. In response to changes in international and domestic economic and financial situations, the Strategic Development Committee stepped up its analysis of the operating environment, paid constant attention to opportunities and challenges, and put forward many important comments and recommendations regarding the Bank's strategy implementation and transformational development thus providing strong support to the scientific decision-making of the Board of Directors.

Audit Committee

The Audit Committee comprises seven members, including Non-executive Directors Mr. ZHAO Jie and Mr. LI Jucai and Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun, Ms. Angela CHAO and Mr. Jiang Guohua. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations formulated by the Senior Management; reviewing the external auditors' audit opinion on financial reporting, annual audit plan and recommendations for management; approving the annual internal audit plan and budget; appraising the duty performance, work quality and effectiveness of the external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing material deficiencies in internal control design and execution by the Senior Management and investigating fraud cases; reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held five on-site meetings and one meeting via written resolutions in 2018. It mainly reviewed and approved the 2018 work plan and financial budget for internal audit, reviewed the Bank's 2017 financial report, 2018 interim financial report and financial reports for the first and third quarters of 2018, the internal control work report for 2017 and the first half of 2018, the 2017 internal control assessment report, the audit results on internal control and management proposal, and the proposal on appointment of external auditors and audit fees for 2018 and 2019. In addition, it heard the report on the Senior Management response to Ernst & Young's management proposal for 2017, reports on internal audit in 2017 and the first half of 2018, the report on three-year plan for IT application in audit and implementation progress (three times) , the 2017 report on the overseas supervision information, the report on progress in internal control audit of Ernst & Young in 2017, updates on compliance with the principle of independence and the report on 2018 audit plan and self-assessment report, the report on asset quality in the first quarter of 2018, and the report on prevention and control of external infringement cases in 2017.

Moreover, in response to changes in domestic and overseas economic trends, the Audit Committee paid close attention to developments in the Bank's progress towards improving business performance and cost-effectiveness control. Through joint meetings, the committee heard the Group risk report and the remediation plan for regulatory statement and CBRIC's examination on effectiveness of risk management and internal control, among others, thus assisting the Board of Directors in performing its responsibilities and duties. It also put forward many important opinions and suggestions regarding the improvement of the corporate governance mechanism, the enhancement of internal audit independence, the advancement of IT application in audit, the upgrading of credit asset quality and the improvement of internal control measures.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2018 audit plan, including areas of focus for auditing the 2018 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control, compliance and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any difference of judgment between the auditors and the Senior Management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee heard and reviewed reports from the Senior Management concerning the Bank's business performance and primary financial data. It also requested that the Senior Management submit the annual financial statements to the auditors in a timely manner, so as to ensure sufficient time for the annual audit. During the audit, the committee maintained independent communications with the auditors and arranged independent communications between the auditors and the independent directors. At its second meeting of 2019, the Audit Committee reviewed and approved the Bank's 2018 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the external auditors made a summary audit report and submitted a report on their independence compliance to the committee. The Bank's Senior Management appraised the external auditors' work. Based on this appraisal, the Audit Committee conducted its own assessment on the auditors' performance, effectiveness and independence compliance in 2018. It discussed re-engagement matters, and decided to reappoint Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2019, and to reappoint Ernst & Young as the Bank's international auditor for 2019. Such proposals have been submitted to the Board of Directors for approval.

Risk Policy Committee

The Risk Policy Committee of the Bank comprises five members, including Executive Director Mr. LIN Jingzhen, Non-executive Directors Mr. Zhao Jie and Ms. Xiao Lihong, Independent Directors Mr. WANG Changyun and Ms. Angela CHAO. Independent Director Mr. WANG Changyun serves as the Chairman of the committee.

The committee is mainly responsible for performing functions and exercising powers in relation to comprehensive risk management; reviewing the Bank's risk management strategies, substantial risk management policies, and risk management procedures and regimes, and advising the Board accordingly; discussing the risk management procedures and regimes with the management and making suggestions on how to improve them in order to ensure that the risk management policies, procedures and regimes are uniformly adhered to throughout the Bank; reviewing the Group's risk data aggregation and risk reporting framework and ensuring that there is adequate resource support in place; examining the material risk activities of the Bank and judiciously exercising veto power regarding commitments that expose the Bank to credit and/or market risk exceeding the individual risk limits approved by the Risk Policy Committee or the Board of Directors or that lead to breaches of approved aggregate limits; supervising the implementation status of the Bank's risk management strategy, policy and procedure, and advising the Board accordingly; examining the Bank's risk management status and reviewing its risk management procedures and regimes; regularly evaluating and hearing reports on the implementation of risk management and internal control responsibilities by the Bank's management, functional departments and institutions, as well as risk data aggregation and risk reporting work, and proposing requirements for improvement; supervising the status of the Bank's compliance with laws and regulations; reviewing and examining relevant administrative systems related to legal compliance and making suggestions which are submitted to the Board for examination and approval, and hearing and examining the report on the implementation status of the legal compliance policy of the Bank; assessing the material investigation results of risk management matters and the management's response to such results (either voluntarily or as required by the Board of Directors); reviewing the Bank's consumer rights protection strategy, policy and objective according to the Bank's overall strategic development plan, and making relevant suggestions to the Board of Directors; supervising and assessing the Bank's consumer rights protection work, and regularly hearing reports on the Bank's consumer rights protection efforts; reviewing and approving the Bank's general policy on case prevention and control, and defining the management's functions, powers and authorities in relation to case prevention and control; putting forth overall requirements on case prevention and control, and reviewing related working reports; checking and effectively supervising the Bank's case prevention and control work, assessing the effectiveness of case prevention and control, and promoting the construction of its case prevention and control management system.

The Risk Policy Committee held five on-site meetings and four meetings via written resolutions in 2018, at which it mainly reviewed and approved the capital adequacy ratio report, internal capital adequacy assessment report, market risk limits, and country risk ratings and limits. The committee also regularly reviewed the Group risk reports as well as the progress report on the compliance work plan for effective risk data aggregation and risk reporting and so on.

In addition, the committee paid close attention to critical risk issues, in response to changes in overseas and domestic economic and financial conditions, adjustments of the government's macro policies and overall overseas and domestic regulations. The committee expressed important opinions and recommendations regarding the improvement of the Bank's risk governance mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk and so on.

The US Risk and Management Committee is established under the Risk Policy Committee, and it oversees and manages all the risks incurred by the Bank's institutions in the US, and performs the duties of the board of directors of the Bank's New York Branch and its special committees.

The US Risk and Management Committee currently comprises four members, all of whom are members of the Risk Policy Committee, including Non-executive Directors Mr. ZHAO Jie and Ms. XIAO Lihong, Independent Directors Mr. WANG Changyun and Ms. Angela CHAO. Independent Director Ms. Angela CHAO serves as the Chairman of the US Risk and Management Committee.

In 2018, the US Risk and Management Committee convened four on-site meetings and six meetings via written resolutions. It regularly heard reports regarding the risk management and operations of all the Bank's institutions in the US, the latest US regulatory trends and dynamics, among others. In addition, the committee reviewed and approved the relevant framework documents and important policies and regulations of the Bank's institutions in the US and the New York Branch.

The US Risk and Management Committee put forward important opinions and recommendations regarding strengthening the prevention and control of risks and compliance based on US regulatory dynamics, market changes and the business development strategies of the Bank's US operations.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises six members, including Non-executive Directors Ms. WANG Xiaoya and Mr. LIAO Qiang, Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun and Mr. JIANG Guohua. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and Senior Management, and making relevant recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for Senior Management positions and the chairmanship of Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; drafting the remuneration plan of directors and senior management members, and making recommendations to the Board of Directors; and formulating the performance appraisal standards for the Senior Management members of the Bank, and evaluating their performances.

The Personnel and Remuneration Committee held seven on-site meetings and three meetings by written resolutions in 2018. At these meetings, the committee mainly approved proposals on the performance evaluation results and remuneration distribution plan for the Chairman, executive directors and other senior management members for 2017, and the performance evaluation measures and the 2018 implementation plan for performance evaluation of the Chairman, the President, and other senior management members, the proposal on appointing Mr. LIU Liange as President of the Bank, the proposals on appointing Mr. LIN Jingzhen and Mr. WU Fulin as Executive Vice Presidents of the Bank, the proposal on appointing Mr. LIU Qiuwan as Chief Information Officer of the Bank, the proposal on appointing Mr. SUN Yu as Chief Overseas Business Officer of the Bank, the proposals on nominating Mr. LIU Liange, Mr. ZHANG Qingsong, Mr. WU Fulin, and Mr. LIN Jingzhen as candidates for Executive Directors of the Bank, the proposal on nominating Mr. LIU Liange as Vice Chairman of the Bank, the proposal on nominating Mr. LI Jucai to be re-appointed as Non-executive Director of the Bank, the proposal on nominating Mr. JIANG Guohua as candidate for Independent Non-executive Director of the Bank, and the proposal on appointing Mr. MEI Feiqi as Secretary to the Board of Directors and Company Secretary of the Bank. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in line with regulatory requirements.

According to the Articles of Association of the Bank, any shareholder who holds by himself or jointly with others 3% or more of the total number of voting shares of the Bank may, by submitting a written proposal to the shareholders' meeting, recommend candidates for directors, provided the number of candidates nominated shall be in accordance with the provisions of the Articles of Association (between 5 and 17) and not exceed the number to be elected. List of candidates for directors may be recommended by the Board of Directors within the number of candidates stipulated in the Articles of Association, with reference to the diversity policy of the Bank and according to the number to be elected. The Personnel and Remuneration Committee shall preliminarily review the qualifications and conditions of candidates for directors, and refer those qualified candidates to the Board of Directors for further examination. After the Board of Directors' approval by resolutions, the candidates shall be referred to the shareholders' meeting in written proposals. When directors need to be added or filled temporarily, the Board of Directors shall raise the proposal and make recommendation to the shareholders' meeting to elect or replace. During the reporting period, the Bank appointed directors in strict compliance with the Articles of Association.

Connected Transactions Control Committee

The Connected Transactions Control Committee comprises five members, including Executive Director Mr. WU Fulin, Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Ms. Angela CHAO and Mr. JIANG Guohua. Independent Director Mr. LEUNG Cheuk Yan serves as the Chairman of the committee.

The committee is mainly responsible for administering the connected transactions of the Bank in accordance with relevant laws, regulations and normative documents, and formulating administrative regulations with regard to connected transactions; confirming the Bank's connected parties according to laws, regulations and normative documents, and reporting the relevant confirmation to the Board of Directors and the Board of Supervisors; defining the connected transactions of the Bank in accordance with laws, regulations and normative documents; examining the connected transactions of the Bank pursuant to relevant laws, regulations and normative documents, as well as to the business principles of justice and fairness; and examining information disclosure matters related to significant connected transactions of the Bank.

The Connected Transactions Control Committee held three meetings in 2018, at which it mainly reviewed and approved the report on connected transactions in 2017 and the report on the connected party list, among others. It also reviewed the statement of connected transactions of the Bank in 2017, among others. During the reporting period, the Connected Transactions Control Committee paid constant attention to the development of the Bank's connected party management and connected transaction monitoring system. Committee members put forward constructive suggestions regarding connected party management and connected transaction monitoring system development.

Board of Supervisors

Functions and Powers of the Board of Supervisors

The Board of Supervisors is the Bank's supervisory organ and is responsible to the shareholders' meeting. As stipulated in the Company Law and the Articles of Association of the Bank, the Board of Supervisors is responsible for overseeing the Board of Directors so as to ensure the establishment of a stable operation principle, value criterion and an appropriate development strategy. It supervises the duty performance and due diligence of the Board of Directors, the Senior Management and its members as well as the Bank's financial activities, internal control and, risk management.

Composition of the Board of Supervisors

The Board of Supervisors currently comprises six members. There are two shareholder supervisors (including the Chairman of the Board of Supervisors), three employee supervisors and one external supervisor. According to the Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations, supervisory requirements and the Articles of Association of the Bank. Shareholder supervisors and external supervisors are elected or replaced by the shareholders' meeting.

The Board of Supervisors has set up the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to assist in performing its authorised duties. The special committees mentioned above are made up of supervisors and responsible to the Board of Supervisors. Each committee shall have at least three members.

Duty Performance of the Board of Supervisors

In 2018, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held four meetings and made relevant resolutions. The Duty Performance and Due Diligence Supervision Committee held four meetings, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of, and supervisory opinions from the Board of Supervisors during the reporting period, please refer to the section "Report of the Board of Supervisors".

Senior Management

Functions and Powers of the Senior Management

The Senior Management is the executive organ of the Bank. It is headed by the President, with executive vice presidents and other senior management members assisting the President's work. The main functions and powers of the President include presiding over the Bank's daily administrative, business and financial management; organising the implementation of the business plan and investment schemes; drafting basic management regulations and specific rules; nominating candidates for other senior management positions; and reviewing employees' remuneration, benefit, reward and punishment measures.

Duty Performance of the Senior Management

In 2018, the Senior Management of the Bank managed the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorisations of the Board of Directors. In line with the annual performance objectives approved by the Board of Directors and by adhering to the strategic goal of "persistently enabling advancement through technology, driving development through innovation, delivering performance through transformation and enhancing strength through reform", the Senior Management actively seized development opportunities, strived to eliminate bottlenecks, firmly held the bottom line for risk management and made solid work progress on all fronts, thus continuously enhancing the Bank's operating results.

During the reporting period, the Senior Management of the Bank held 29 regular meetings, at which it discussed and decided upon a series of significant matters, including the Group's business development, performance management, risk management, IT system development, globalised development and integrated operation. It also convened 193 special meetings to arrange for matters relating to corporate banking, personal banking, financial markets, product innovation, inclusive finance, and data governance.

During the reporting period, the Senior Management (Executive committee) established the Innovation and Product Management Committee, which is responsible for reviewing innovation and product management policies and rules and studying annual product innovation plans. The Senior Management currently presides over the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (which governs the Anti-money Laundering Committee, the Asset Disposal Committee and the Credit Risk Management and Decision-making Committee), the Procurement Review Committee, the IT Management Committee, the Securities Investment and Management Committee, the Internet Finance Committee and the Innovation and Product Management Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Executive Committee, and pushed forward the sound development of the Bank's various operations.

Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated and implemented the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the "*Management Rules*") to govern securities transactions by directors, supervisors and senior management members of the Bank. The terms of the *Management Rules* are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the "*Model Code*"). All directors and supervisors confirmed that they have complied with the standards set out in both the *Management Rules* and the *Model Code* throughout the reporting period.

Appointment of External Auditors

Upon approval by the 2017 Annual General Meeting, Ernst & Young Hua Ming LLP was reappointed as the Bank's domestic auditor and internal control auditor for 2018 and Ernst & Young was reappointed as the Bank's international auditor for 2018.

Fees paid to Ernst & Young and its member firms for financial statements audit of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB232 million for the year ended 31 December 2018, of which the fees for internal control audit paid to Ernst & Young Hua Ming LLP totalled RMB14 million.

Ernst & Young and its member firms were not engaged in other significant non-auditing services with the Bank in 2018. The Bank paid RMB36.0214 million for non-auditing services to Ernst & Young and its member firms in the year.

Ernst & Young Hua Ming LLP and Ernst & Young have provided audit services to the Bank for six consecutive years. Mr. YANG Bo and Mr. FENG Suoteng are the certified public accountants who signed the auditor's report on the Bank's financial statements prepared in accordance with CAS for the year ended 31 December 2018.

At the forthcoming 2018 Annual General Meeting, the Board of Directors will tender a resolution for review and approval regarding the proposal on engaging Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2019, providing audit services on its financial statements and internal control pursuant to CAS; and engaging Ernst & Young as the Bank's international auditor for 2019, providing financial statements audit services pursuant to IFRS.

Investor Relations and Information Disclosure

In 2018, the Bank continued to expand the depth and breadth of its capital market tracking and analysis, further enriched the forms of market communications, improved market communication levels and enhanced the initiative and effectiveness of its investor relations activities. The Bank successfully arranged its 2017 annual results presentation, 2018 first quarterly results teleconference and 2018 interim results presentation. Through holding road shows, participating in influential investment forums, meeting visitors (including analysts and investors), as well as other measures, the Bank proactively promoted its development strategies and operating performance, timely responded to market concerns, and earnestly listened to market feedback. During the reporting period, the Bank held approximately 200 meetings for various investors and received positive feedback from the market. The Bank continued to optimise electronic communication channels, continuously updated the investor relations webpage on its official website and provided timely and comprehensive responses to enquiries from investors via the investor hotline, email, and e-interaction online platform run by SSE and maintained convenient communication with minority shareholders, thus effectively protecting the rights of shareholders. Through multi-dimensional and high-quality market communications, the Bank actively introduced its strategic promotion and investment value, which played an important role in solidifying market and investor confidence. In addition, the Bank further strengthened communications with its external credit rating agencies. In 2018, Fitch Ratings upgraded the Bank's Viability Rating to "bb+". Moody's Investors Service upgraded the Bank's viability rating Baseline Credit Assessment to "baa1", and raised the Bank's preference shares and subordinated debt ratings accordingly. At present, the Bank's external ratings are at the highest level among comparable domestic peers, which has the positive effect of lowering financing costs and enhancing the Bank's market image.

In 2018, the Bank prepared and disclosed its regular and provisional reports in strict adherence to the principles of truthfulness, accuracy, completeness, timeliness and fairness. It continuously enhanced the pertinence, effectiveness and transparency of information disclosure in order to guarantee investors' access to relevant information and ensure that the investors in the Chinese mainland and Hong Kong are provided with equal opportunity to access relevant information. It carefully organised compliance analysis and disclosure of material events, as well as actively exploring voluntary information disclosure to provide more comprehensive and effective information to investors.

The Bank has established a comprehensive and complete information disclosure system and put in place clear specifications regarding information disclosure standard and the scope of application, responsibility and division of work of the parties concerned, as well as information handling and disclosure procedures and internal monitoring measures. The Bank carried out the registration and submission of insider information in strict compliance with relevant regulatory requirements and the rules of the Bank. The Bank reinforced the principal responsibility system and information correspondent mechanism at the Group level, organised information disclosure training and conducted guidance on information disclosure obligations, so as to promote the building of a strong compliance culture of information disclosure and to improve the initiative and long-term perspective of its information disclosure management work.

In 2018, the Bank continued to receive wide recognition for its work in investor relations and information disclosure. The Bank won awards including "Quam IR Awards 2017 — The Most Remarkable Investor Relations Recognition", "Overall Top 100 Listed Companies in Hong Kong" and "Top 100 Enterprises in China" etc. The Bank's annual report won a Gold Award in the overall category of the annual report competition and Technical Achievement Award of the League of American Communications Professionals (LACP). It also won a Bronze Award in Chairman's/President's letter and an Honour Award in Financial Data of the Annual Report Competition (ARC). It also won an Excellence Award for H-Share & Red Chip Entries from the Hong Kong Management Association (HKMA).

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2018.

Principal Activities

The Bank provides a range of banking and related financial services, including commercial banking, investment banking, insurance, direct investment and investment management, fund management and aircraft leasing business.

Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

Results and Profit Distribution

The Group's annual results for 2018 are set out in the Consolidated Financial Statements. The Board of Directors has recommended a final dividend on ordinary shares for 2018 of RMB0.184 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 17 May 2019. If approved, the 2018 final dividend on the Bank's ordinary shares will be denominated and declared in RMB and paid in RMB or equivalent Hong Kong dollars. The actual amount distributed in Hong Kong dollars will be calculated according to the average of the exchange rates announced by PBOC in the week before 17 May 2019 (inclusive), being the date of the Bank's Annual General Meeting. The A-Share dividend distribution date is expected to be 3 June 2019 and the H-Share dividend distribution date is expected to be 18 June 2019 in accordance with relevant regulatory requirements and business rules. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2017 Annual General Meeting held on 28 June 2018, a final dividend on ordinary shares for 2017 of RMB0.176 per share (before tax) was approved for payment. The A-Share and H-Share dividends were distributed to the shareholders separately in July and August of 2018 in accordance with relevant regulations. The distribution plan has been accomplished and the actual distributed amount for ordinary shares was approximately RMB51.812 billion (before tax). No interim dividend on ordinary shares was paid for the period ended on 30 June 2018 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2018.

At the Board meeting held on 19 January 2018, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2018, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

At the Board meeting held on 28 August 2018, the dividend distribution plans for the Bank's Offshore Preference Shares and Domestic Preference Shares (First Tranche) were approved. The Bank distributed dividends on the Offshore Preference Shares on 23 October 2018. According to the issuance terms of the Offshore Preference Shares, dividends on Offshore Preference Shares were denominated in RMB and paid in US dollars converted at a fixed exchange rate, with a total of approximately USD439 million (after tax) at an annual dividend rate of 6.75% (after tax). The Bank distributed dividends on the Domestic Preference Shares (First Tranche) on 21 November 2018, with a total of RMB1.920 billion (before tax) at an annual dividend rate of 6.00% (before tax). The dividend distribution plans have been accomplished.

At the Board meeting held on 25 January 2019, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2019, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

Cash Dividend Payout for Ordinary Shares and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

Year of dividend distribution	Dividend per share (before tax) (Unit: RMB)	Total dividend (before tax) (Unit: RMB million)	Profit attributable to equity holders of the Bank (Unit: RMB million)	Payout ratio	Capitalisation of the capital reserve to share capital
2017	0.176	51,812	172,407	30%	Nil
2016	0.168	49,457	164,578	30%	Nil
2015	0.175	51,518	170,845	30%	Nil

Dividend Distribution for Preference Shares

Types of preference shares	Dividend payment date	Total dividend	Dividend rate
Offshore Preference Shares	24 October 2016	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2016	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2017	1,540 (RMB million, before tax)	5.50% (before tax)
Offshore Preference Shares	23 October 2017	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2017	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2018	1,540 (RMB million, before tax)	5.50% (before tax)
Offshore Preference Shares	23 October 2018	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2018	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2019	1,540 (RMB million, before tax)	5.50% (before tax)

Formulation and Implementation of Cash Dividend Policy

Ordinary Shares

The Bank takes full account of the return to shareholders, and also takes into account the long-term interests of the Bank, the overall interests of all its shareholders and the sustainable development of the Bank.

In 2009, the Bank amended the Articles of Association to state that the Bank should maintain the continuity and stability of its profit distribution policy.

In 2013, the Bank amended the Articles of Association related to the cash dividend. This amendment clarified the Bank's profit distribution principles, policy and adjustment procedures, the consideration process of the profit distribution plan and other matters. The amendment states that the Bank shall adopt cash dividend as the priority form of profit distribution. Except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the ordinary shareholders of the Bank. The amendment also states that the Bank shall offer online voting to shareholders when considering amendments to the profit distribution policy and profit distribution plan.

The Bank considered and approved the *Shareholder Return Plan for 2018 to 2020* at the 2019 First Extraordinary General Meeting on 4 January 2019, specifying the basic principles, shareholder return plan and decision-making and supervisory mechanisms regarding the formulation, implementation and amendment of the shareholder return of the Bank.

The procedure to formulate the aforementioned dividend distribution policy was compliant, transparent and complete. The criterion and ratio of the dividend are explicit and clear. The independent directors fully expressed their opinions and the legitimate rights and interests of minority shareholders were fully respected and protected. The procedure was in line with the provisions of the Articles of Association and other rules and regulations.

The dividend distribution plan for ordinary shares of the Bank has been approved by the shareholders' meeting. In 2018, the Bank distributed dividends on ordinary shares for 2017 in strict compliance with the Articles of Association, its dividend distribution policy and the shareholders' meeting resolution on profit distribution.

Preference Shares

The preference shareholders of the Bank receive dividend at the specified dividend rate prior to the ordinary shareholders. The Bank shall pay the dividend to the preference shareholders in cash. The Bank shall not distribute dividends on ordinary shares before all the dividends on preference shares have been paid.

Dividends on the Bank's preference shares will be distributed on an annual basis. The first dividend period begins on the date of issuance of the preference shares. Once the preference shareholders have received dividends at the specified dividend rate, they shall not be entitled to participate in the distribution of the remaining profits of the Bank together with the ordinary shareholders.

The preference share dividend is non-cumulative. If any preference share dividend for any dividend period is not paid in full, such remaining amount of dividend shall not be carried forward to the following dividend year. The Bank shall be entitled to cancel the payment of any dividend of the preference shares, and such cancellation shall not constitute a default. The Bank may at its discretion use the funds arising from the cancellation of such dividend payment to repay other indebtedness due and payable.

Dividend payments are independent from the Bank's credit rating, nor do they vary with the credit rating.

The dividend distribution plans for preference shares of the Bank have been approved by the Board of Directors. In 2018, the Bank distributed dividends on domestic and offshore preference shares in strict compliance with the Articles of Association, the terms of issuance of preference shares and the Board of Directors' resolutions on dividend distribution.

Closure of H-Share Register of Members

The H-Share register of members of the Bank will be closed from Monday, 27 May to Friday, 31 May 2019 (both days inclusive), for the purpose of determining the list of shareholders entitled to the proposed final dividends on ordinary shares. In order to qualify for the proposed final dividends, the H-Share Holders of the Bank who have not registered the relevant transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 24 May 2019. The ex-dividend date of the Bank's H Shares will be on Thursday, 23 May 2019.

Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB87.35 million.

Share Capital

As at the latest practicable date prior to the issue of this annual report, the Bank had sufficient public float based on publicly available information, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

Distributable Reserves

Please refer to Note V.38 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

Please refer to Note V.20 to the Consolidated Financial Statements for details of the fixed assets of the Bank.

Financial Summary

Please refer to the section "Financial Highlights" for the summary of the annual results, assets and liabilities of the Bank for the last five years.

Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2018, the Bank has engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements according to the Hong Kong Listing Rules.

Directors' Interests in Competing Businesses of the Bank

None of the directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

Remuneration Policy of Directors, Supervisors and Senior Management Members

The Bank has formulated a clear regulation on the remuneration of directors, supervisors and senior management members. The remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, and executive vice presidents shall be paid in accordance with the rules on remuneration reform for central enterprises, which consists of basic annual remuneration, performance-based annual remuneration and incentive income linked to term appraisal. The remuneration for other senior management members and shareholder supervisors consists of basic annual remuneration and performance-based remuneration, with part of performance-based remuneration paid in a deferred manner. Independent directors as well as external supervisors and employee supervisors are remunerated by the Bank while non-executive directors are not remunerated by the Bank. The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income.

Please refer to the section "Directors, Supervisors and Senior Management Members" for details of the remuneration of directors, supervisors and senior management members.

Directors' and Supervisors' Service Contracts

None of the directors or supervisors of the Bank has a service contract with the Bank or its subsidiaries that is not determinable within one year or is not determinable without payment of compensation other than normal statutory compensation.

Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts of Significance

No transaction, arrangement or contract of significance, in relation to the Bank's business to which the Bank, its holding companies, or its subsidiaries or fellow subsidiaries was a party and in which a director or a supervisor or any entity connected with them was materially interested, directly or indirectly, subsisted during the reporting period.

Directors' and Supervisors' Rights to Acquire Shares

During the reporting period, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party to any arrangement that would enable the Bank's directors and supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

To the best knowledge of the Bank, as at 31 December 2018, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code* as set out in Appendix 10 of the Hong Kong Listing Rules.

Financial, Business and Family Relations among Directors

Directors of the Bank are not related to one another with respect to finance, business and family, or other material relations.

Substantial Shareholder Interests

Please refer to the section "Changes in Share Capital and Shareholdings of Shareholders" for the details of the Bank's substantial shareholder interests.

Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank was entered into or existed during the reporting period.

Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.34 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option scheme of the Group.

Purchase, Sale or Redemption of the Bank's Securities

As at 31 December 2018, approximately 22.80 million shares of the Bank were held as treasury shares.

Please refer to the Notes to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's securities by the Bank and its subsidiaries.

Pre-emptive Rights

There are no compulsory provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association. The Articles of Association provide that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring its capital reserve, issuing convertible bonds, or through other means as permitted by laws, administrative regulations and relevant regulatory authorities.

Permitted Indemnity Provision

As stipulated in the Articles of Association, within the scope permitted under applicable laws, administrative regulations and the Articles of Association, the Bank may purchase and maintain any liabilities insurance for the Bank's former and incumbent directors. The Bank will indemnify every former and incumbent director out of its own assets against any liability incurred when he/she served as director of the Bank to the maximum extent permitted by law and administrative regulations or alternatively to the extent that it is not prohibited by law and administrative regulations unless it is established that the director has not acted honestly or in good faith in performing his/her duties.

During the reporting period, the Bank renewed its directors' liability insurance to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

Equity-linked Agreement

The Bank has not been engaged in any equity-linked agreement during the reporting period.

Business Review

For disclosures of the Bank in respect of business review under paragraph 28 of Appendix 16 to the Hong Kong Listing Rules, please refer to sections "Management Discussion and Analysis" and "Corporate Social Responsibilities". The relevant disclosure constitutes part of the Report of the Board of Directors.

Use of Raised Funds

All proceeds raised from initial public offerings, issuance of subordinated bonds, the rights issue, issuances of tier 2 capital bonds, preference shares and undated capital bonds have been used to replenish the Bank's capital and increase the level of capital adequacy.

For details, please refer to the related announcements on the websites of SSE, HKEX and the Bank and the Notes to the Consolidated Financial Statements.

Tax and Tax Relief

Shareholders of the Bank are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2018.

A-Share Holders

In accordance with the provisions of the *Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2012] No. 85) and the *Notice on Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2015] No. 101) issued jointly by MOF, State Administration of Taxation of PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the transfer market, where the holding period is less than one month (inclusive), the dividends and bonuses shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends and bonuses shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, the dividends and bonuses shall not be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. The individual income tax levied on dividends and bonuses obtained by equity investment funds from listed companies is also calculated in accordance with the aforementioned rules.

In accordance with the provisions of Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

In accordance with Article 83 of the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* mean those investment proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

H-Share Holders

In accordance with Chinese tax laws and regulations, the dividends and bonuses received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macao. Accordingly, the Bank generally withholds 10% of the dividends to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax laws, regulations and agreements.

In accordance with the provisions of the *Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders who are Overseas Non-resident Enterprises* (Guoshuihan [2008] No. 897) published by the State Administration of Taxation of PRC, when Chinese resident enterprises distribute annual dividends for 2008 onwards to H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends on H Shares paid by the Bank.

The tax and tax relief of Shanghai-Hong Kong Stock Connect shall comply with the *Notice on the Relevant Taxation Policy regarding the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong* issued jointly by MOF, State Administration of Taxation of PRC, and CSRC.

Domestic Preference Share Holders

The individual income tax levied on dividends obtained by individuals from non-public issuance of domestic preference shares is calculated in accordance with the relevant Chinese tax laws and regulations.

In accordance with the provisions of the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income from domestic preference shares distributed between qualified resident enterprises are non-taxable, and dividend income from domestic preference shares obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

Offshore Preference Share Holders

In accordance with Chinese tax laws and regulations, when distributing dividends to overseas non-resident enterprises on offshore preference shares, the Bank shall withhold enterprise income tax at a rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of the dividends on offshore preference shares paid by the Bank.

Auditors

Please refer to the section "Corporate Governance — Appointment of External Auditors" for details of the Bank's external auditors.

Consumer Rights Protection

The Bank incorporates consumer protection efforts into its corporate governance and corporate culture, and integrates consumer protection into its development strategies and operational management. It keeps improving the governance structure and policy system for consumer protection. Focusing on consumer needs, the Bank has constantly launched new products and improved service quality. It attaches great importance to consumer comments, provides smooth complaint channels, and improves complaint handling process, hence earnestly protecting the legitimate rights and interests of consumers. Dedicated to raising the financial literacy of consumers, the Bank has carried out all-round and multifaceted publicity and education campaigns.

Members of the Board of Directors

Executive Directors: CHEN Siqing, LIU Liange, WU Fulin, LIN Jingzhen

Non-executive Directors: ZHAO Jie, LI Jucai, XIAO Lihong, WANG Xiaoya, LIAO Qiang

Independent Directors: LU Zhengfei, LEUNG Cheuk Yan, WANG Changyun, Angela CHAO, JIANG Guohua

On behalf of the Board of Directors
CHEN Siqing
Chairman
29 March 2019

Report of the Board of Supervisors

Meetings of the Board of Supervisors

In 2018, the Bank convened four on-site meetings of the Board of Supervisors on 29 March, 27 April, 28 August and 29 October. At these meetings, the Board of Supervisors reviewed and approved 16 proposals regarding the Bank's 2017 Annual Report, 2017 profit distribution plan, 2017 internal control assessment report, 2017 corporate social responsibility report, 2017 work report of the Board of Supervisors, 2018 work plan of the Board of Supervisors, evaluation opinions of the Board of Supervisors on the duty performance of directors and senior management members for 2017, nomination of Mr. CHEN Yuhua to be re-appointed as candidate for external supervisor of the Bank, Report for the First Quarter ended 31 March 2018, 2018 Interim Report, Report for the Third Quarter ended 30 September 2018, performance evaluation results for the Chairman of the Board of Supervisors for 2017, 2016 remuneration distribution plan for Chairman of the Board of Supervisors and shareholder supervisors, 2017 remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors, performance management measures for the Chairman of the Board of Supervisors and shareholder supervisors (2018 version), implementation plan on performance management for the Chairman of the Board of Supervisors and shareholder supervisors in 2018, among others.

In 2018, the attendance rate of each supervisor of the meetings of the Board of Supervisors is given below:

Supervisors	Number of meetings attended in person/ Number of meetings convened during term of office
Incumbent Supervisors	
WANG Xiquan	3/4
LIU Wanming	4/4
WANG Zhiheng	0/0
LI Changlin	0/0
LENG Jie	0/0
CHEN Yuhua	4/4
Former Supervisors	
WANG Xueqiang	1/1
DENG Zhiying	4/4
GAO Zhaogang	4/4
XIANG Xi	3/4

Notes:

1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in supervisors.

2 Supervisors who did not attend the meetings of the Board of Supervisors have authorised other supervisors to attend and vote at the meetings as their proxy.

In 2018, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held three on-site meetings and one meeting by written resolution, at which it reviewed and approved the proposals on the evaluation opinions of the Board of Supervisors on the duty performance of directors and senior management members for 2017, the nomination of Mr. CHEN Yuhua to be re-appointed as candidate for external supervisor of the Bank, the 2017 remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors, performance management measures for the Chairman of the Board of Supervisors and shareholder supervisors (2018 version), and the implementation plan on performance management for the Chairman of the Board of Supervisors and shareholder supervisors in 2018, among others. It also heard reports on the Bank's remuneration management policy and remuneration plan for senior management members and the Bank's liquidity risk management. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four on-site meetings, at which it reviewed and approved the proposals regarding the Bank's 2017 Annual Report, 2017 profit distribution plan, 2017 internal control assessment report, 2017 corporate social responsibility report, Report for the First Quarter ended 31 March 2018, 2018 Interim Report and Report for the Third Quarter ended 30 September 2018, among others.

Performance of Supervision and Inspection by the Board of Supervisors

In 2018, guided by the strategic goal of building BOC into a world-class bank in the new era, the Board of Supervisors implemented new strategies and planned new moves with a fresh mind-set and solid work style, in compliance with relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank, and in alignment with the Bank's overall reform and development, as well as strategy implementation. It diligently supervised the duty performance, financial management, internal control and risk management, added a great deal of insight and perspective to its work and played a constructive supervisory role for the Bank's sound development.

Performed the supervision and assessment of duty performance of directors and senior management members in an orderly fashion. First, the Board of Supervisors strictly supervised day-to-day duty performance. Supervisors attended the shareholders' meetings, and attended the meetings of the Board of Directors and its special committees and meetings of the Senior Management as non-voting attendees, as well as hearing reports from related departments. This allowed supervisors to stay informed regarding the duty performance of directors and senior management members, and to share supervisory opinions and suggestions on major concerns in a timely fashion. Supervisors continued to collect and analyse information on the routine duty performance of directors and senior management members, centred on the overall strategic focus of the Bank, summarised and analysed the duty performance of senior management members on a monthly basis, and issued reminders on matters requiring particular attention. Second, it earnestly launched annual duty performance assessment. The Board of Supervisors organised interviews with directors and senior management members on their duty performance, and formulated annual duty performance assessment opinions on the Board of Directors, the Senior Management and their members with due regards to routine supervision information. Through review and approval at the meeting of the Board of Supervisors, it reported annual assessment results to the Annual General Meeting, in addition to duly filing duty performance assessment opinions of the Board of Directors, the Senior Management and their members with the CBIRC. The duty performance supervision and assessment helped to urge and guide the directors and senior management members to fulfil their duties diligently and also enhance the overall level of corporate governance.

Solidified the efforts in the supervision of strategy and finance. Taking routine finance supervision as its basis, the Board of Supervisors conducted regular reporting and review, and developed an in-depth understanding of the economic and financial conditions of China and the world at large including emerging characteristics of and new developments. Through deep analysis, it drilled down into the Bank's updates on business, management and strategy implementation, while attaching importance to forethought in supervision. First, the Board of Supervisors strengthened the routine supervision of strategy and finance. By attending the meetings of the Board of Directors and the Senior Management as non-voting attendees, it followed up on the overall implementation progress of the development strategy and business management, put forward concerns on related significant issues and offered independent, objective comments and suggestions regarding the strategy implementation, thus earnestly performing its strategy and finance supervision and assessment function. The Board of Supervisors summarised and analysed the Bank's financial and accounting data on a monthly basis, combining this with the analyses and study of the macro-economic situation and regulatory policies so as to strengthen the forward-looking judgment and early warning regarding its financial position. Second, the Board of Supervisors deepened the review and supervision of regular reports. The Board of Supervisors and its special committees earnestly held meetings, communicated on special issues with related departments and external auditors, heard reports regarding the preparation and audit of regular reports, and compared the Bank's regular reports with those of other banks for researches. It put forward four letters of supervisory recommendations and outlined 18 concerns to the Board of Directors and the Senior Management, which were related to the supervision of the progress of strategy implementation, profitability enhancement, risk compensation capability strengthening, asset quality control improvement, resolving of difficulties in customer bases and funding sources, attending to regional risks, increasing the efforts in NPA disposal, shoring up of the deficiencies in credit risk management, cultivating new growth points in fee income, promoting bankcard business development and advancing the Bank's globalisation strategy. The Board of Directors, the Senior Management and related departments paid much attention to the above-mentioned issues, carefully referred to and adopted the suggestions by the Board of Supervisors, actively remedied the defects and continued to enhance the management level.

Deepened the supervision of risk management and internal control. First, the Board of Supervisors strengthened the supervision and guidance of risk management, and accelerated the improvement of risk control capability. In response to the profound changes in the external environment, the Board of Supervisors adhered to its risk supervision duty, stepped up the efforts in closely watching, analysing and warning risks, helped the Board of Directors and the Senior Management to fulfil their risk management and control responsibilities, and held the bottom line of preventing any systematic risk. The Board of Supervisors tracked the Bank's regional, industrial and policy risk exposures, stayed abreast of key NPA mitigation, including arrangements and implementation, summarised and analysed risk management information on a monthly basis, and strengthened the forward-looking analysis, judgment and warning of the risk status. Second, the Board of Supervisors strengthened the internal control supervision and assessment, and accelerated the improvement of internal control fraud prevention capability. It reviewed the Bank's internal control self-assessment report, heard the external auditor's report on the Bank's internal control and related management proposals, timely tracked and investigated the internal control frauds at the Bank, and reminded the Board of Directors and the Senior

Management of actively analyse and anticipate the new situations, new circumstances and new issues in internal control fraud prevention so as to ensure that the governance of internal control fraud prevention becomes more targeted and effective.

Launched special in-depth surveys. The Board of Supervisors supplemented its day-to-day supervision with special surveys. Taking an issue-oriented approach, it organised and launched four special surveys on topics of domestic branches RMB deposits, corporate credit risk management, integration and development of the Bank's Southeast Asian institutions, and IT supporting capacity, thus targeting key points in the Bank's major work arrangements and strategy implementation process. The survey teams were led by supervisors and consisted of directors and personnel from relevant departments of the Head Office. They held many discussion with Head Office departments and the external auditor, visited a number of branch offices in order to streamline existing problems, dig into their causes, and widely solicit proposed countermeasures, and submitted survey reports. This provided the Board of Directors and the Senior Management with an all-round analysis of problems and forward-looking suggestions. The Board of Directors and the Senior Management fully recognised the value of the survey reports, and mandated management members and relevant departments to carefully study them and earnestly rectify the issued identified. The surveys carried out by the Board of Supervisors yielded more tangible outcomes in supervision, and further improved the Bank's operations and management.

Actively improved the coordination in supervision. First, the Board of Supervisors created innovative methods for interaction between directors and supervisors. It invited directors to participate in its surveys, held talks with directors, followed up on the implementation of survey results in cooperation with the Board of Directors, held exchange meetings with the Board of Directors and the Senior Management and shared training opportunities with each other, thereby further strengthening the communication with the Board of Directors and the Senior Management and pooling the efforts of the entire governance system. Second, it deepened supervision coordination, information sharing and training interaction with the audit and inspection departments in order to reduce supervision costs and improve efficiency.

Strengthened self-improvement. The Board of Supervisors comprehensively fulfilled the requirement of strict governance over the Party organisations, consolidated the foundation of supervision function, and completed tasks related to the selection, appointment and resignation of some of its members. It earnestly carried out, followed up, oversaw and urged the remediation of issues identified by the CBIRC in its inspection notifications. A special seminar was held to review, discuss the work of the Board of Supervisors and the method to further improve and strengthen the work of the Board of Supervisors in light of the current situation and strategy implementation of the Bank. The Board of Supervisors organised and completed annual duty performance assessments of itself and its members, and urged all its members to earnestly perform the duties delegated by the Articles of Association. Special training courses were held to improve the supervisors' expertise and duty performance capability. All supervisors performed their duties faithfully and diligently, made efforts to sharpen their policy competence and duty performance capability, actively attended meetings, earnestly reviewed proposals, heard working reports, undertook special surveys and expressed opinions professionally, rigorously and independently, thus conscientiously carrying out their supervisory function.

The Board of Directors and the Senior Management placed great importance on and offered great support to the work of the Board of Supervisors. By holding Executive Committee meetings and special meetings or in other forms, they earnestly studied the supervisory reminders of the Board of Supervisors, steadfastly pushed forward remediation measures and continually improved the overall level of corporate governance.

In accordance with the regulatory requirements, the Board of Supervisors has put forward the following supervision and assessment opinions regarding the duty performance related to remuneration management by the Board of Directors and the Senior Management of the Bank. During the reporting period, the Bank remained committed to deepening the reform of its remuneration distribution mechanism, improved the allocation of resources, developed annual remuneration plan in strict accordance with the regulatory requirements and corporate governance requirements, strengthened the linkage of remuneration distribution with value creation, business transformation and risk management, and promoted the overall coordinated and sustainable development. The Bank continued to improve the employee remuneration distribution measures, incentivised performance contribution and enhance long-term incentives. The Bank optimised its welfare and security system, stepped up remuneration incentives for key posts and core personnel, and facilitated talent growth. Remuneration resources were skewed towards outlets by putting in place a minimum pay protection system for outlet employees and further strengthening employee welfare and security, so as to earnestly enhance employees' sense of ownership, happiness and safety.

In accordance with the regulatory requirements, the Board of Supervisors issued the following supervision and assessment opinions regarding duty performance regarding liquidity risk management by the Board of Directors and the Senior Management of the Bank. During the reporting period, the Bank adhered to the operating principle of balancing safety, liquidity and profitability, attached great importance to the liquidity risk management, and constructed and continuously optimised the liquidity risk identification, measurement, monitoring and control system that is compatible with the scale, nature and complexity of the Bank's businesses. In compliance with the requirements of regulatory policies, the Bank revised its liquidity risk management policy, reviewed its liquidity risk limits, improved stress testing and emergency plans, reinforced liquidity risks management across its domestic and overseas, on-balance sheet and off-balance sheet, and domestic and foreign-currency operations, and continuously improved its liquidity risk management system. Thanks to these efforts, the Bank's key liquidity risk indicators met the requirements of external regulators and the Board of Directors, and its liquidity risk prevention capability was enhanced.

During the reporting period, the Board of Supervisors held no objection to such matters under its supervision regarding the Bank's operational and legal compliance, financial position, use of raised funds, purchase and sale of assets, connected transactions, internal control and corporate information disclosure.

Working Performance of the External Supervisor

During the reporting period, Mr. CHEN Yuhua, the external supervisor of the Bank, performed his supervisory duty in strict accordance with the provisions of the Articles of Association of the Bank. Mr. CHEN personally attended the 2017 Annual General Meeting and the 2018 First Extraordinary General Meeting, attended all four meetings of the Board of Supervisors, attended and chaired four meetings of the Finance and Internal Control Supervision Committee of the Board of Supervisors, and attended meetings of the Board of Directors, the Risk Policy Committee, the US Risk and Management Committee, and the Audit Committee as a non-voting attendee. Mr. CHEN led a special survey regarding RMB deposits of the Bank's domestic branches, participated in a special survey regarding corporate credit risk management, visited a number of branch offices to learn about the local situation, and guided the completion of high-quality survey reports. Mr. CHEN expressed opinions independently and objectively, and put forward suggestions for improving profitability, enhancing asset quality control, addressing difficulties related to customer bases and funding sources, grasping opportunities from the construction of the Hainan free trade port and strengthening the communication between the Head Office/branches and outlets, thus playing an active role in promoting the improvement of the Bank's corporate governance and management. During the reporting period, Mr. CHEN Yuhua worked at the Bank for more than 15 working days.

Significant Events

Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in its regular course of business. In addition, because of the scope and scale of the Bank's international operations, the Bank is from time to time subject to a variety of claims under the laws of various jurisdictions in which the Bank operates. After consulting legal professionals, the Senior Management holds that none of the litigation and arbitration cases will have a significant impact on the financial position or operating results of the Bank at the current stage.

Purchase and Sale of Material Assets

As part of the Group's strategic restructuring plan in the ASEAN region, on 6 November 2017, the Bank (as transferor) and BOCHK (as transferee) entered into agreements in relation to the transfer of the banking businesses operated by the Bank in Vietnam through Bank of China Limited-Hochiminh City Branch and the banking businesses operated by the Bank in the Philippines through Bank of China Limited, Manila Branch respectively. The completion of the transfers took place on 29 January 2018 in accordance with the respective terms and conditions of the agreements.

For details, please refer to relevant announcements of the Bank on the websites of SSE, HKEX and the Bank.

Implementation of Stock Incentive Plan and Employee Stock Ownership Plan

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the Board meeting and the extraordinary shareholders' meeting held in November 2005. To date, the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan have not been implemented.

Significant Connected Transactions

The Bank had no significant connected transactions during the reporting period. For details of the related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.43 of the Consolidated Financial Statements.

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

During the reporting period, the Bank did not take any significant custody of, sub-contract or lease any material business assets from other companies, or allow its material business assets to be subject to such arrangements that are required to be disclosed.

Material Guarantee Business

As approved by PBOC and CBIRC, the Bank's guarantee business is an off-balance-sheet item in the ordinary course of its business. The Bank operates its guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in accordance with the risks of the guarantee business and carries out this business accordingly. During the reporting period, save as disclosed above, the Bank did not enter into any material guarantee business that is required to be disclosed.

Other Major Contracts

During the reporting period, the Bank had no other major contract that was required to be disclosed.

Misappropriation of Funds by Controlling Shareholder and Other Related Parties

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes.

Undertakings

Huijin made a "non-competing commitment" when the Bank launched its IPO. As at 31 December 2018, Huijin has strictly observed and has not breached such undertaking.

Disciplinary Actions Imposed on the Bank, its Directors, Supervisors, Senior Management Members and Controlling Shareholder

During the reporting period, neither the Bank nor any of its directors, supervisors, senior management members or controlling shareholder was subject to any investigation, compulsory measures or accusation of criminal responsibilities by relevant authorities or any investigation, administrative punishment or regulatory measures by CSRC, or had material administrative punishment imposed on them by other administrative authorities, or were publicly reprimanded by any stock exchange.

Integrity of the Bank and its Controlling Shareholder

During the reporting period, neither the Bank nor its controlling shareholder failed to perform any effective judgment of the court or to pay off any due debt of large amount.

Performing Social Responsibility for Poverty Alleviation

For details of the Bank's performance of social responsibility regarding poverty alleviation during the reporting period, please refer to the section "Corporate Social Responsibilities" and the Bank's *2018 Corporate Social Responsibility Report* published on the websites of SSE, HKEX and the Bank.

Other Significant Events

For announcements regarding other significant events during the reporting period made in accordance with the regulatory requirements, please refer to the websites of SSE, HKEX and the Bank.

Independent Auditor's Report

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the shareholders of Bank of China Limited
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 166 to 393, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of loans and advances to customers

In 2014, the IASB released IFRS 9 – *Financial Instruments* (hereinafter referred to as "IFRS 9"). IFRS 9 was adopted by the Group on 1 January 2018.

IFRS 9 requires that the impairment measurement for financial assets be changed from "incurred loss model" to "expected credit loss model". The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:

- Significant increase in credit risk — The selection of criteria for identifying significant increase in credit risk are highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity;

- Models and parameters — Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions.

- Forward-looking information — Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights;

- Individual impairment assessment — Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows.

Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2018, gross loans and advances to customers amounted to RMB11,819,272 million, representing 56% of total assets, and impairment allowance for loans and advances to customers amounted to RMB303,781 million), impairment of loans and advances is considered a key audit matter.

Relevant disclosures are included in Note III.1, Note V.17 and Note VI.3 to the consolidated financial statements.

We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.

We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.

With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:

1. Expected credit loss model:

- Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk;

- Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios;

- Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, macroeconomic data, as well as impairment system computational logic, inputs and interfaces among relevant systems; • Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets including bonds, funds, equity investments and over-the-counter derivatives. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve subjective judgement and assumptions. Valuation results can vary significantly when different valuation techniques and assumptions are applied. As at 31 December 2018, financial instruments measured at fair value of the Group mainly included RMB2,250,250 million in financial investments, representing 11% of total assets. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2018, 4% of financial investments measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for unlisted equity and fund investments as well as illiquid asset-backed securities, valuation of these financial instruments is considered a key audit matter. Relevant disclosures are included in Note III.2 and Note VI.6 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of key controls related to valuation of financial instruments, independent price verification, and independent model validation and approval. We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. For valuations which used significant unobservable inputs, such as unlisted equity investments and private equity fund investments, we involved our internal valuation specialists in assessing the models used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Structured entities	
The Group has interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter. Relevant disclosures are included in Note III.7 and Note V.46 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities. Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

Other Information included in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Shing Kit.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2019

Consolidated Financial Statements

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CONTENTS (Continued)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Interest income	V.1	687,900	622,616
Interest expense	V.1	(328,194)	(284,227)
Net interest income		**359,706**	**338,389**
Fee and commission income	V.2	99,997	100,800
Fee and commission expense	V.2	(12,789)	(12,109)
Net fee and commission income		**87,208**	**88,691**
Net trading gains	V.3	6,719	1,686
Net gains on financial investments	V.4	2,817	2,406
Other operating income	V.5	47,356	52,589
Operating income		**503,806**	**483,761**
Operating expenses	V.6	(176,979)	(173,859)
Impairment losses on assets	V.9	(99,294)	(88,161)
Operating profit		**227,533**	**221,741**
Share of results of associates and joint ventures	V.19	2,110	1,162
Profit before income tax		**229,643**	**222,903**
Income tax expense	V.10	(37,208)	(37,917)
Profit for the year		**192,435**	**184,986**
Attributable to:			
Equity holders of the Bank		180,086	172,407
Non-controlling interests		12,349	12,579
		192,435	**184,986**
Earnings per share (in RMB)	V.11		
— Basic		0.59	0.56
— Diluted		0.59	0.56

For details of the dividends paid or proposed, please refer to Note V.38.3.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	**2018**	**2017**
Profit for the year		**192,435**	**184,986**
Other comprehensive income:	V.12		
Items that will not be reclassified to profit or loss			
— Actuarial losses on defined benefit plans		(103)	(59)
— Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income		(1,216)	N/A
— Other		(52)	7
Subtotal		(1,371)	(52)
Items that may be reclassified subsequently to profit or loss			
— Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income		22,072	N/A
— Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income		(600)	N/A
— Net fair value losses on available for sale financial assets		N/A	(20,641)
— Share of other comprehensive income of associates and joint ventures accounted for using the equity method		59	521
— Exchange differences from the translation of foreign operations		12,775	(16,226)
— Other		197	324
Subtotal		34,503	(36,022)
Other comprehensive income for the year, net of tax		**33,132**	**(36,074)**
Total comprehensive income for the year		**225,567**	**148,912**
Total comprehensive income attributable to:			
Equity holders of the Bank		209,946	140,688
Non-controlling interests		15,621	8,224
		225,567	148,912

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2018	As at 31 December 2017
ASSETS			
Cash and due from banks and other financial institutions	V.13	439,931	560,463
Balances with central banks	V.14	2,331,053	2,227,614
Placements with and loans to banks and other financial institutions	V.15	1,042,358	575,399
Government certificates of indebtedness for bank notes issued	V.26	145,010	129,350
Precious metals		181,203	172,763
Derivative financial assets	V.16	124,126	94,912
Loans and advances to customers, net	V.17	11,515,764	10,644,304
Financial investments	V.18	5,054,551	4,554,722
— financial assets at fair value through profit or loss		370,491	193,611
— financial assets at fair value through other comprehensive income		1,879,759	N/A
— financial assets at amortised cost		2,804,301	N/A
— available for sale		N/A	1,857,222
— held to maturity		N/A	2,089,864
— loans and receivables		N/A	414,025
Investments in associates and joint ventures	V.19	23,369	17,180
Property and equipment	V.20	227,394	205,614
Investment properties	V.21	22,086	21,026
Deferred income tax assets	V.35	38,204	46,487
Other assets	V.22	122,226	217,590
Total assets		**21,267,275**	**19,467,424**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2018	As at 31 December 2017
LIABILITIES			
Due to banks and other financial institutions	V.24	1,731,209	1,425,262
Due to central banks	V.25	907,521	1,035,797
Bank notes in circulation	V.26	145,187	129,671
Placements from banks and other financial institutions	V.27	612,267	500,092
Financial liabilities held for trading	V.28	14,327	20,372
Derivative financial liabilities	V.16	99,254	111,095
Due to customers	V.29	14,883,596	13,657,924
Bonds issued	V.30	782,127	499,128
Other borrowings	V.31	32,761	30,628
Current tax liabilities	V.32	27,894	34,521
Retirement benefit obligations	V.33	2,825	3,027
Deferred income tax liabilities	V.35	4,548	4,018
Other liabilities	V.36	298,362	439,210
Total liabilities		**19,541,878**	**17,890,745**
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	294,388	294,388
Other equity instruments	V.37.4	99,714	99,714
Capital reserve	V.37.2	142,135	141,880
Treasury shares	V.37.3	(68)	(102)
Other comprehensive income	V.12	1,417	(35,573)
Statutory reserves	V.38.1	157,464	141,334
General and regulatory reserves	V.38.2	231,525	207,817
Undistributed profits	V.38	686,405	646,558
		1,612,980	**1,496,016**
Non-controlling interests	V.39	**112,417**	**80,663**
Total equity		**1,725,397**	**1,576,679**
Total equity and liabilities		**21,267,275**	**19,467,424**

Approved and authorised for issue by the Board of Directors on 29 March 2019.

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

CHEN Siqing
Director

LIU Liange
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 31 December 2017		294,388	99,714	141,880	(35,573)	141,334	207,817	646,558	(102)	80,663	1,576,679
Changes in accounting policies — impact of adopting IFRS 9		–	–	–	7,119	(87)	(415)	(41,281)	–	(753)	(35,417)
As at 1 January 2018		294,388	99,714	141,880	(28,454)	141,247	207,402	605,277	(102)	79,910	1,541,262
Total comprehensive income	V.12	–	–	–	29,860	–	–	180,086	–	15,621	225,567
Appropriation to statutory reserves	V.38.1	–	–	–	–	16,217	–	(16,217)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	24,123	(24,123)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(58,603)	–	(5,101)	(63,704)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	34	–	34
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	20,583	20,583
Other comprehensive income transferred to retained earnings	V.12	–	–	–	11	–	–	(11)	–	–	–
Other		–	–	255	–	–	–	(4)	–	1,404	1,655
As at 31 December 2018		294,388	99,714	142,135	1,417	157,464	231,525	686,405	(68)	112,417	1,725,397

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares	Non-controlling interests	Total
As at 1 January 2017		294,388	99,714	141,972	(3,854)	125,714	193,462	560,339	(53)	75,410	1,487,092
Total comprehensive income	V.12	–	–	–	(31,719)	–	–	172,407	–	8,224	148,912
Appropriation to statutory reserves	V.38.1	–	–	–	–	15,808	–	(15,808)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	14,450	(14,450)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(56,211)	–	(4,508)	(60,719)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	(49)	–	(49)
Capital contribution by non-controlling shareholders		–	–	–	–	–	–	–	–	2,152	2,152
Disposal of subsidiaries and other		–	–	(92)	–	(188)	(95)	281	–	(615)	(709)
As at 31 December 2017		294,388	99,714	141,880	(35,573)	141,334	207,817	646,558	(102)	80,663	1,576,679

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Profit before income tax		229,643	222,903
Adjustments:			
Impairment losses on assets		99,294	88,161
Depreciation of property and equipment		13,403	13,611
Amortisation of intangible assets and other assets		3,640	3,158
Net gains on disposal of property and equipment, intangible assets and other long-term assets		(820)	(606)
Net gains on disposal of investments in subsidiaries, associates and joint ventures		(148)	(4,333)
Share of results of associates and joint ventures		(2,110)	(1,162)
Interest income arising from financial investments		(144,326)	(127,360)
Dividends arising from investment securities		(264)	(1,353)
Net gains on financial investments		(2,817)	(2,406)
Interest expense arising from bonds issued		21,718	15,799
Accreted interest on impaired loans		(1,652)	(1,989)
Net changes in operating assets and liabilities:			
Net decrease in balances with central banks		188,996	27,192
Net decrease in due from and placements with and loans to banks and other financial institutions		107,814	48,496
Net increase in precious metals		(8,447)	(11,459)
Net increase in financial assets held for trading		(63,515)	(45,203)
Net increase in loans and advances to customers		(964,105)	(985,177)
Net (increase)/decrease in other assets		(110,167)	121,362
Net increase in due to banks and other financial institutions		298,113	4,735
Net(decrease)/increase in due to central banks		(138,637)	168,638
Net increase in placements from banks and other financial institutions		110,368	198,560
Net increase in due to customers		1,048,755	712,389
Net increase in other borrowings		2,133	3,476
Net increase/(decrease) in other liabilities		4,004	(2,833)
Cash inflow from operating activities		690,873	444,599
Income tax paid		(28,515)	(38,463)
Net cash inflow from operating activities		**662,358**	**406,136**

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

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
For the year ended 31 December 2018 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		10,273	8,736
Proceeds from disposal of investments in subsidiaries, associates and joint ventures		5,300	5,176
Dividends received		499	1,750
Interest income received from financial investments		140,366	117,396
Proceeds from disposal/maturity of financial investments		2,425,239	2,065,668
Increase in investments in subsidiaries, associates and joint ventures		(3,246)	(3,949)
Purchase of property and equipment, intangible assets and other long-term assets		(42,149)	(46,011)
Purchase of financial investments		(2,722,573)	(2,657,496)
Other net cash flows from investing activities		3,798	3,640
Net cash outflow from investing activities		**(182,493)**	**(505,090)**
Cash flows from financing activities			
Proceeds from issuance of bonds		664,202	586,789
Proceeds from non-controlling shareholders investment		20,583	2,152
Repayments of debts issued		(377,446)	(446,896)
Cash payments for interest on bonds issued		(14,332)	(15,693)
Dividend payments to equity holders of the Bank		(58,603)	(56,211)
Dividend payments to non-controlling shareholders		(5,101)	(4,508)
Other net cash flows from financing activities		34	(49)
Net cash inflow from financing activities		**229,337**	**65,584**
Effect of exchange rate changes on cash and cash equivalents		20,646	(27,125)
Net increase/(decrease) in cash and cash equivalents		729,848	(60,495)
Cash and cash equivalents at beginning of year		958,752	1,019,247
Cash and cash equivalents at end of year	V.42	**1,688,600**	**958,752**

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

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the "Bank"), formerly known as Bank of China, a State-owned joint stock commercial bank, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People's Republic of China (the "PRC") in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC") No. B0003H111000001 and is issued the business license of legal enterprise with unified social credit code No. 911000001000013428 by the State Administration of Industry and Commerce of the PRC. The registered address is No.1, Fuxingmen Nei Dajie, Beijing, China.

The Bank and its subsidiaries (together the "Group") provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macau, Taiwan and other major international financial centres.

The Bank's principal regulator is the CBIRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 64.02% of the ordinary shares of the Bank as at 31 December 2018 (31 December 2017: 64.02%).

These consolidated financial statements have been approved by the Board of Directors on 29 March 2019.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRSs. In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties are measured at their fair values in the consolidated financial statement. Other accounting items are measured at their historical costs. Impairment allowance is recognised and measured as relevant policy.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations.

IAS 40 Amendments	*Transfers of Investment Property*
IFRS 2 Amendments	*Classification and Measurement of Share-based Payment Transactions*
IFRS 4 Amendments	*Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 9 Amendments	*Prepayment Features with Negative Compensation*
IFRS 15 and Amendments	*Revenue from Contracts with Customers*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to IFRSs 2014–2016 Cycle (issued in December 2016):	
IAS 28	*Investments in Associates and Joint Ventures*

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

International Accounting Standard ("IAS") 40 Amendments clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

IFRS 15 and Amendments establish a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains on financial investments which are covered under IFRS 9.

International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of income) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

Annual Improvements to IFRSs 2014-2016 Cycle was issued in December 2016. The amendments to IAS 28 *Investments in Associates and Joint Ventures* clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Except for IFRS 9, the adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

1.1.1 IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project. IFRS 9 replaces IAS 39 *Financial Instruments* for annual periods on or after 1 January 2018.

In October 2017, the IASB issued amendments to IFRS 9 *Financial Instruments*. The amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 amendments from 1 January 2018.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (refer to the 2017 annual report for the accounting policies related to financial instruments of the Group in 2017). Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented in these consolidated financial statements for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in shareholders' equity as at 1 January 2018.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

Classification and Measurement

In IFRS 9, financial assets are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the financial assets and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future. Refer to Note II.4.

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit loss model" ("ECL model") and this way of measurement applies to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts. Refer to Note II.4.6.

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to continue to apply the existing hedge accounting requirements in IAS 39. The Group has chosen to adopt the new hedge accounting requirements in IFRS 9 from 1 January 2018.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9

A reconciliation between the carrying amounts of the assets under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

		IAS 39				Re-measurement		IFRS 9	
	Note	Category	Amount	Accrued Interest	Re-classification	ECL	Other	Amount	Category
Cash and due from banks and other financial institutions		L&R	560,463	6,550	–	(272)	–	566,741	AC
Balances with central banks		L&R	2,227,614	911	–	–	–	2,228,525	AC
Placements with and loans to banks and other financial institutions		L&R	575,399	2,914	–	(96)	–	578,217	AC
Government certificates of indebtedness for bank notes issued		L&R	129,350	–	–	–	–	129,350	AC
Loans and advances to customers, net		L&R	10,644,304	27,512	5,493	(28,309)	–	10,649,000	AC/FVOCI /FVPL
To: Loans and advances to customers at FVOCI		L&R			(179,179)				
From: Loans and advances to customers at AC					179,179				FVOCI
From: Financial assets at FVPL					5,493				FVPL
Loans and receivables		L&R	414,025	4,964	(418,989)			N/A	
To: Financial assets at AC					(384,603)				
To: Debt instruments at FVOCI					(470)				
To: Financial assets at FVPL					(33,916)				
Investment securities available for sale		AFS	1,857,222	21,254	(1,878,476)			N/A	
To: Financial assets at AC	(1)				(252,601)				
To: Debt instruments at FVOCI					(1,507,154)				
To: Equity instruments at FVOCI					(13,685)				
To: Financial assets at FVPL					(105,036)				
Debt securities held to maturity		HTM	2,089,864	30,178	(2,120,042)			N/A	
To: Financial assets at AC					(2,102,815)				
To: Debt instruments at FVOCI					(101)				
To: Financial assets at FVPL					(17,126)				

Note:

L&R	Loans and receivables
AFS	Investment securities available for sale
HTM	Debt securities held to maturity
AC	Amortised cost
FVPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
ECL	Expected credit losses
N/A	Not applicable

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (Continued)

		IAS 39				Re-measurement		IFRS 9	
	Note	Category	Amount	Accrued Interest	Re-classification	ECL	Other	Amount	Category
Financial assets at AC			N/A		2,745,002	(126)	13,643	2,758,519	AC
From: Investment securities available for sale	(1)				252,601	(25)	13,848		
From: Debt securities held to maturity					2,102,815	(368)	(22)		
From: Loans and receivables					384,603	268			
From: Financial assets at FVPL	(3)				4,983	(1)	(183)		
Debt instruments at FVOCI			N/A		1,512,120	–	(1)	1,512,119	FVOCI
From: Investment securities available for sale					1,507,154				
From: Debt securities held to maturity					101		1		
From: Loans and receivables					470		(2)		
From: Financial assets at FVPL	(4)				4,395				
Equity instruments at FVOCI			N/A		13,685	–	–	13,685	FVOCI
From: Investment securities available for sale					13,685				
Financial assets at FVPL– Financial assets held for trading and other financial assets at FVPL		FVPL	143,094	1,038	175,394	–	(892)	318,634	FVPL
To: Financial assets at AC	(3)				(595)				
To: Debt instruments at FVOCI	(4)				(149)				
From: Financial assets at FVPL (designated)	(5)				26,596				
From: Debt securities held to maturity					17,126		(267)		
From: Investment securities available for sale					98,500		(25)		
From: Loans and receivables					33,916		(600)		

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (Continued)

		IAS 39				Re-measurement		IFRS 9	
	Note	Category	Amount	Accrued Interest	Re-classification	ECL	Other	Amount	Category
Financial assets at FVPL (designated)		FVPL	50,517	75	(34,187)	–	–	16,405	FVPL
To: Financial assets at FVPL– Financial assets held for trading and other financial assets at FVPL	(5)				(26,596)				
To: Financial assets at AC	(3)				(4,388)				
To: Debt instruments at FVOCI	(4)				(4,246)				
To: Loans and advances to customers at FVPL					(5,493)				
From: Investment securities available for sale	(2)				6,536				
Derivative financial assets		FVPL	94,912	–	–	–	–	94,912	FVPL
Other assets			680,660	(95,396)	–	14,035	(2,671)	596,628	
Include: Deferred income tax assets			46,487			13,901	(2,671)	57,717	
Interest receivable			96,919	(95,396)				1,523	
Total assets			**19,467,424**	**–**	**–**	**(14,768)**	**10,079**	**19,462,735**	

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (Continued)

		IAS 39				Re-measurement		IFRS 9	
	Note	Category	Amount	Accrued Interest	Re-classification	ECL	Other	Amount	Category
Due to banks and other financial institutions		AC	1,425,262	7,666	1,246	–	–	1,434,174	AC
From: Financial liabilities held for trading		FVPL			1,246				AC
Due to central banks		AC	1,035,797	9,236	–	–	–	1,045,033	AC
Bank notes in circulation		AC	129,671	–	–	–	–	129,671	AC
Placements from banks and other financial institutions		AC	500,092	873	–	–	–	500,965	AC
Derivative financial liabilities		FVPL	111,095	–	49	–	–	111,144	FVPL
From: Due to customers at FVPL (designated)					49				
Due to customers		AC/FVPL	13,657,924	167,329	(49)	–	–	13,825,204	AC/FVPL
To: Due to customers at AC	(6)	FVPL			(359,937)				
To: Derivative financial liabilities		FVPL			(49)				
From: Due to customers at FVPL (designated)	(6)				359,937				AC
Bonds issued		AC	499,128	5,102	1,907	–	1,729	507,866	AC/FVPL
To: Bonds issued at FVPL (designated)	(7)	AC			(15,813)				
From: Financial liabilities held for trading					1,907				FVPL
From: Bonds issued at AC	(7)				15,813		1,729		FVPL
Other borrowings		AC	30,628	–	–	–	–	30,628	AC
Financial liabilities held for trading		FVPL	20,372	20	(3,153)	–	–	17,239	FVPL
To: Bonds issued at FVPL (designated)					(1,907)				
To: Due to banks and other financial institutions					(1,246)				
Other liabilities			480,776	(190,226)	–	29,237	(238)	319,549	
Include: Provision			2,941			29,236		32,177	
Deferred income tax liabilities			4,018			1	133	4,152	
Interest payable			190,226	(190,226)					
Total liabilities			**17,890,745**	**–**	**–**	**29,237**	**1,491**	**17,921,473**	

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (Continued)

(1) As at 1 January 2018, certain debt securities were reclassified to AC out of AFS category, after the Group reviewed the contractual cash flows and the business model. The fair value of these debt securities held by the Group as at 31 December 2018 was RMB262,202 million. The fair value changes over 2018, that would have been recorded in other comprehensive income had these instruments continued to be revalued through other comprehensive income, would have been gains of RMB8,602 million.

(2) As at 1 January 2018, certain AFS securities were designated as financial assets at FVPL as the Group held related derivatives instruments which can hedge the risk according to the risk management strategy of the Group, and these designations can eliminate or significantly reduce an accounting mismatch that would otherwise arise.

(3) As at 1 January 2018, certain debt securities were reclassified to AC from FVPL category, after the Group reviewed the contractual cash flows and the business model.

(4) As at 1 January 2018, certain debt securities were reclassified to FVOCI from FVPL category, after the Group reviewed the contractual cash flows and the business model.

(5) As at 1 January 2018, certain debt securities were no longer designated at FVPL because these investments were managed and whose performances were evaluated on a fair value basis.

As at 1 January 2018, the Group no longer designated fund investments and certain investments in equity instruments as financial assets at FVPL in accordance with IFRS 9.

(6) As at 1 January 2018, the Group no longer designated part of customer deposits as financial liabilities at FVPL in order to eliminate or significantly reduce accounting mismatches.

(7) As at 1 January 2018, the Group re-designated certain bonds issued as financial liabilities at FVPL in order to eliminate or significantly reduce accounting mismatches.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (Continued)

1.1.1 IFRS 9 Financial Instruments (Continued)

1.1.1.2 The impact of transition from IAS 39 to IFRS 9 on impairment allowances is as follows:

The following table reconciles the aggregate opening impairment allowances under IAS 39 at 31 December 2017 to the impairment allowances under IFRS 9 at 1 January 2018:

Measurement category	Impairment allowances under IAS 39/IAS 37 at 31 December 2017	Re-classification	Re-measurement	ECL under IFRS 9 at 1 January 2018
L&R investment securities per IAS 39/financial assets at AC under IFRS 9				
Due from banks and other financial institutions	–	–	272	272
Placements with and loans to banks and other financial institutions	174	–	96	270
Loans and advances to customers	252,254	–	28,309	280,563
Financial investments	5,383	(6)	(268)	5,109
HTM investment securities per IAS 39/financial assets at AC under IFRS 9				
Financial investments	39	1,017	394	1,450
L&R investment securities per IAS 39/financial assets at FVOCI under IFRS 9				
Loans and advances to customers	–	–	1,033	1,033
AFS investment securities per IAS 39/financial assets at FVOCI under IFRS 9				
Financial investments	5,492	(5,492)	906	906
AFS investment securities per IAS 39/financial assets at FVPL under IFRS 9				
Financial investments	1,176	(1,176)	–	–
Credit commitments	1,946	–	29,236	31,182
Others	727	–	(134)	593
Total	267,191	(5,657)	59,844	321,378

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018

		Effective for annual periods beginning on or after
IFRS 16	*Leases*	1 January 2019
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*	1 January 2019
IAS 19 Amendments	*Plan amendment, Curtailment or Settlement*	1 January 2019
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*	1 January 2019
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2015–2017 Cycle (issued in December 2017)		1 January 2019

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 and IFRIC 4. The standard requires that the classifications of finance leases and operating leases be cancelled and that lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases chosen to be accounted for using a practical expedient), and to separately recognise depreciation and interest expense. The Group will adopt IFRS 16 from 1 January 2019 and apply the modified retroactive approach without restating comparative figures. The Group will not reassess existing contracts and will use the practical expedients to leases previously classified as operating leases before 1 January 2019. As a lessee, the Group will elect recognition exemption not to recognise the right-of-use assets and lease liabilities for short-term leases and lease of low value assets, but recognise lease expenses on a straight-line basis over the lease term.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018 (Continued)

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for "significant market fluctuations" in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018 (Continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

IFRS 17 Insurance Contracts replaced IFRS 4 Insurance Contracts. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2015–2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The Group is considering the impact of IFRS 17 on the consolidated financial statements. Except for IFRS 17, the adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that an investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposits taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalents is presented individually in the statement of cash flows.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments

4.1 Initial recognition and measurement

The Group recognises a financial asset or financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial asset or liability, transaction costs are recognised in the initial measurement.

The fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, and if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.

4.2 Classification and Subsequent measurement

4.2.1 Financial assets

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Business model

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. For example, financial assets are held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. If above two situations are not applicable, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on the basis of scenarios which are reasonably expected to occur, taking into account: how cash flows were realised in the past, how the performance are evaluated and reported to the entity's key management personnel; the risks that affect the performance and the way in which those risks are assessed and managed; and how managers of the business are compensated, etc.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.1 Financial assets (Continued)

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, the principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

(1) Financial assets at amortised cost

The Group classifies financial assets as subsequently measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group holds are subsequently measured at amortised cost. That is, the amount at which the financial asset 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 adjusted for any loss allowance.

(2) Financial assets at fair value through other comprehensive income

The Group classifies financial assets as subsequently measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.1 Financial assets (Continued)

(2) Financial assets at fair value through other comprehensive income (Continued)

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in "Other comprehensive income", except for interests calculated using effective interest method, impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The impairment allowances for such financial assets are recognised in other comprehensive income, impairment gains or losses are recognised in profit or loss, and not reduce the carrying amount of such financial assets in the statement of financial position.

(3) Investments in equity instruments

The Group may, at initial recognition, irrevocably designate an investment in equity instrument, which is not held for trading, as at fair value through other comprehensive income when it meets the definition of an equity instrument under IAS 32 Financial Instruments: Presentation. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss in accordance with IFRS 9. No impairment gains or losses are recognised for such equity instruments.

(4) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on such financial asset is recognised in profit or loss unless it is part of a hedging relationship. Dividends, which the Group is entitled to collect, on equity investments in such measurement category are recognised in profit or loss in accordance with IFRS 9.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.1 Financial assets (Continued)

When, and only when, the Group changes the business model for managing financial assets, the Group shall reclassify all affected financial assets. Reclassification is applied prospectively from the first day of the first reporting period following the change in business model.

4.2.2 Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

- financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

Financial liabilities at fair value through profit or loss held by the Group are subsequently measured at fair value. A gain or loss on a financial liability that is measured at fair value is recognised in profit or loss unless:

- it is part of a hedging relationship; or

- it is a financial liability designated as at fair value through profit or loss and the Group presents the effects of changes in the liability's credit risk in other comprehensive income; When such financial liability is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to undistributed profits under equity.

The Group does not reclassify any financial liabilities.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.2 Classification and Subsequent measurement (Continued)

4.2.3 Financial assets and financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if it:

- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or

- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

4.2.4 Financial assets and financial liabilities designated as at fair value through profit or loss

The Group may, at initial recognition, irrevocably designate a financial asset or financial liability as measured at fair value through profit or loss, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a portfolio of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to the Group's key management personnel; or

- the financial liability contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 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 other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the impairment allowance determined by the ECL model, and any increase in the liability relating to guarantees is taken to the income statement.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment allowance for loan commitments is measured using the ECL model.

The impairment allowances for financial guarantees and loan commitments are presented in "Other liabilities-provision".

4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.5 Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or when a financial asset is transferred, the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

Financial liabilities are derecognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires.

4.6 Impairment measurement for losses on assets

At the financial reporting date, the Group assesses and recognises the relevant impairment allowances for financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts on the basis of expected credit losses.

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all cash flows expected to be received by the Group discounted at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instruments for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Measurement of ECL (Continued)

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the financial reporting date, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the financial reporting date according to the ECL in the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the cumulative change in lifetime expected credit losses since initial recognition at the financial reporting date as impairment allowance. At each financial reporting date, the Group recognises in profit or loss the amount of the changes in lifetime expected credit losses as an impairment gain or loss.

The Group measures ECL of a financial instrument in a way that 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.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Measurement of ECL (Continued)

The Group conducted an assessment of ECL according to forward-looking information and used a number of models and assumptions in its measurement of expected credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group uses judgements, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contractual cash flows

Criteria for determining significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each financial reporting date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on an individual financial instrument or a group of financial instruments shared credit risk characteristics, the Group compares the risk of default of financial instruments at the financial reporting date with that at the date of initial recognition in order to figure out the changes of default risk in the expected lifetime of financial instruments.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Criteria for determining significant increases in credit risk (Continued)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a financial asset is credit-impaired under IFRS 9 is consistent with the internal credit risk management objectives, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Definition of credit-impaired financial asset (Continued)

- It becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor is more than 90 days overdue for any of the principal, advances, interest or investments in corporate bonds of the Group.

A financial asset becoming credit-impaired may be caused by the combined effect of several events, but not a single discrete event. For credit-impaired financial assets, the Group mainly evaluate the future cash flow (including the recoverable value of the collateral held) in different circumstances on an individual basis. Expected credit losses are measured as the differences between the present value of estimated cash flows discounted at the original effective interest rate and the asset's gross carrying amount. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Parameters of ECL measurement

According to whether the credit risk has significantly increased and whether the asset is credit-impaired, the Group measures the impairment allowance for different assets with ECL of 12 months or the entire lifetime respectively. The key parameters in ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the models for estimating PD, LGD and EAD.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Parameters of ECL measurement (Continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group adjusts PD based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and removing the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies;

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Based on the analysis of historical data, the Group identifies the key macroeconomic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group applied experts' judgement in this analysis, according to the result of experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to a base economic scenario, the Group conducts statistical analysis with experts' judgement to determine other possible scenarios and their weights. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment measurement for losses on assets (Continued)

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The gross carrying amount of the financial asset is recalculated and the related gain or loss is recognised in profit and loss. The gross carrying amount of the financial asset is determined based on the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after modified, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group, respectively. They are dependent on the expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. When designating a hedging relationship and on an ongoing basis, the Group assesses the hedge effectiveness, that is the extent to which changes in the fair value or cash flows of the hedging instrument offsets changes in fair values or cash flows of the hedged item.

The hedging relationship should meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument. That means the hedging instrument and hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk.

- The effect of credit risk does not dominate the value changes that result from that economic relationship; and

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Possible sources of ineffectiveness are as follows:

- Increase or decrease in the amounts of hedged items or hedging instruments;

- Significant changes in counterparties' credit risk.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

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 the income statement over the period to maturity.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in “Other comprehensive income”. The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged future cash flows affect profit or loss.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

When the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element, the changes in the value of the forward element of the forward contract shall be recognised in other comprehensive income to the extent that it relates to the hedged item. If the hedged items are transaction related, the amount accumulated in other comprehensive income shall be accounted for similarly to cash flow hedges. If the hedged items are time-period related, that amount is amortised on a systematic and rational basis over the period during which the hedged items could affect profit or loss, and the amortisation amount is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is a financial asset, the Group applies the requirements of classification and measurement to the entire hybrid contract. If a hybrid contract contains a host that is not a financial asset, the Group separates the embedded derivative from the host contract and accounts for it as a derivative, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Embedded derivatives (Continued)

- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

If it is unable to measure the embedded derivative separately either at acquisition or at the subsequent financial reporting date, the Group will designate the entire hybrid instrument as at fair value through profit or loss.

4.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metal deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purposes, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not derecognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metals swaps are for trading purposes, they are accounted for as derivative transactions.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases

8.1 Lease classification

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using the effective interest method.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the effective interest method.

8.3 Operating leases

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and are not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits

12.1 Defined contribution plans and Defined benefit plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank (“the Annuity Plan”). The Bank contributes to the Annuity Plan based on certain percentages of the employees’ gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as “Operating expenses” in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in “Other comprehensive income” immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as “Operating expenses” when they occur.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.2 Retirement benefit obligations (Continued)

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in "Other comprehensive income" immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

12.4 Share-based compensation

(1) Equity-settled share-based compensation schemes

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at the grant date and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as "Operating expenses" in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" (nominal value) and "Capital reserve" when the options are exercised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation (Continued)

(2) Cash-settled share-based compensation schemes

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and derecognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group performs a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (investment-linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as “Operating expenses”, with a provision established for losses arising from the liability adequacy test.

15 Treasury shares and preference shares

Where the Bank or other members of the Group purchase the Bank’s ordinary shares, “Treasury shares” are recorded at the amount of consideration paid and deducted from total equity holders’ equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

Preference shares issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and preference shares issued are non-derivative instruments that will be settled in the Group’s own equity instruments, but includes no contractual obligation for the Group to deliver a variable number of its own equity instruments. The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

16 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

17 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

18 Interest income and expense

The "Interest income" and "Interest expense" in the Group's income statement are the interest income and expense calculated by using the effective interest method on financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial liabilities at amortised cost.

The effective interest method is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is that exactly discounts estimated future cash flows through the expected life of a financial asset or financial liability to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For those purchased or originated credit-impaired financial assets, the Group calculates the interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is that exactly discounts the estimated future cash flows through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Interest income and expense (Continued)

For those financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group calculates the interest income by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

19 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

20 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in Equity. In these cases, tax is also directly recognised in Equity.

20.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

20.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payables.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

20 Income taxes (Continued)

20.2 Deferred income tax (Continued)

"Deferred income tax assets" are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

21 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

22 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities in 2018, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

Please refer to the 2017 annual report for critical accounting estimates and judgements made by the Group in the applying of accounting policies in 2017.

1 Impairment loss on loans and advances to customers

The models and assumptions used by the Group in assessing the expected credit losses on loans and advances to customers are highly dependent on management's judgement.

When determining whether the credit risk of a loan has significantly increased since initial recognition, the Group needs to consider internal and external historical information, current conditions and future economic forecasts. The criteria for a significant increase in credit risk will be used to determine whether impairment allowance for a loan should be measured as equal to lifetime expected credit losses, rather than 12 months expected credit losses.

The parameters used by the Group to measure the ECL model, including PD, LGD and EAD, each involve numerous judgements and assumptions. The Group made adjustments based on the results of the internal rating model of the New Basel Capital Accord and considered macroeconomic forecasts information to determine the debtor's PIT PD. When estimating the LGD, the Group also needs to make judgements by considering the type of counterparty, recourse arrangements, compensation seniority, the type and value of the collateral and historical loss data. For off-balance credit commitments and revolving credit facilities, judgements are also needed to determine the time period applicable for the EAD.

The Group applies expert judgements to predict macroeconomic indicators, analyses the correlations with modelled parameters such as PD, and makes forward-looking adjustments on parameters. At the same time, the Group also needs to estimate the probability of occurrence of multiple different macroeconomic scenarios and calculate probability-weighted expected credit losses.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment loss on loans and advances to customers (Continued)

The estimation of future cash flows is critical for a credit-impaired loan for which expected credit losses are measured on an individual basis. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers and cash flows from the sale of collateral.

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against the industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

4 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

5 Taxes

The Group is subject to income, value-added and other taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and value-added tax in the period during which such a determination is made.

6 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Chinese mainland		
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value	6%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
Hong Kong		
Hong Kong profits tax	Assessable profits	16.5%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2018	**2017**
Interest income		
Loans and advances to customers	469,098	414,695
Financial investments [(1)]	144,326	132,167
Due from and placements with and loans to banks and other financial institutions and central banks	74,476	75,754
Subtotal	687,900	622,616
Interest expense		
Due to customers	(229,998)	(204,794)
Due to and placements from banks and other financial institutions	(75,707)	(62,962)
Bonds issued and other	(22,489)	(16,471)
Subtotal	(328,194)	(284,227)
Net interest income	359,706	338,389
Interest income accrued on impaired financial assets (included within interest income)	1,652	1,997

(1) Interest income on "Financial investments" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2018	**2017**
Bank card fees	29,943	25,798
Agency commissions	20,212	23,310
Settlement and clearing fees	13,670	12,323
Credit commitment fees	13,181	15,090
Spread income from foreign exchange business	7,740	8,083
Custodian and other fiduciary service fees	3,597	3,527
Consultancy and advisory fees	3,534	5,615
Other	8,120	7,054
Fee and commission income	99,997	100,800
Fee and commission expense	(12,789)	(12,109)
Net fee and commission income	87,208	88,691

3 Net trading gains

	Year ended 31 December	
	2018	**2017**
Net losses from foreign exchange and foreign exchange products	(4,574)	(2,334)
Net gains from interest rate products	9,910	1,998
Net gains from equity products	423	1,444
Net gains from commodity products	960	578
Total [(1)]	6,719	1,686

(1) Included in "Net trading gains" for the year ended 31 December 2018 are losses of RMB1,355 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (2017: gains of RMB121 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Net gains on financial investments

	Year ended 31 December	
	2018	**2017**
Net gains on derecognition of financial assets at fair value through other comprehensive income	1,700	N/A
Net gains on derecognition of financial assets at amortised cost [(1)]	1,117	N/A
Net gains from investment securities available for sale	N/A	1,637
Net gains from debt securities held to maturity	N/A	770
Other	N/A	(1)
Total	2,817	2,406

(1) All the net gains on the derecognition of financial assets at amortised cost result from trading for the year ended 31 December 2018.

5 Other operating income

	Year ended 31 December	
	2018	**2017**
Insurance premiums [(1)]	20,965	22,249
Aircraft leasing income	10,233	8,651
Revenue from sale of precious metals products	7,658	8,080
Dividend income	1,918	1,697
Gains on disposal of property and equipment, intangible assets and other assets	949	720
Changes in fair value of investment properties (Note V.21)	919	771
Gains on disposal of subsidiaries, associates and joint ventures	148	4,333
Other [(2)]	4,566	6,088
Total	47,356	52,589

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Other operating income (Continued)

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2018	**2017**
Life insurance contracts		
Gross earned premiums	21,037	23,103
Less: gross written premiums ceded to reinsurers	(6,259)	(6,209)
Net insurance premium income	14,778	16,894
Non-life insurance contracts		
Gross earned premiums	7,365	6,480
Less: gross written premiums ceded to reinsurers	(1,178)	(1,125)
Net insurance premium income	6,187	5,355
Total	20,965	22,249

(2) For the year ended 31 December 2018, the government subsidy income from operating activities, as part of other operating income, is RMB620 million (2017: RMB1,511 million).

6 Operating expenses

	Year ended 31 December	
	2018	**2017**
Staff costs (Note V.7)	85,391	82,061
General operating and administrative expenses (1)	42,768	41,235
Insurance benefits and claims		
— Life insurance contracts	13,093	18,946
— Non-life insurance contracts	3,915	3,661
Depreciation and amortisation	13,451	13,667
Cost of sales of precious metal products	7,185	7,306
Taxes and surcharges	4,744	4,676
Other	6,432	2,307
Total (2)	176,979	173,859

(1) Included in the "General operating and administrative expenses" is principal auditors' remuneration of RMB232 million for the year ended 31 December 2018 (2017: RMB215 million), of which RMB71 million is for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2017: RMB59 million).

(2) Included in the "Operating expenses" are operating lease expenses of RMB7,789 million and premises and equipment related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB12,262 million (2017: RMB7,472 million and RMB12,092 million, respectively).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Staff costs

	Year ended 31 December	
	2018	**2017**
Salary, bonus and subsidy	58,242	56,477
Staff welfare	3,583	3,146
Retirement benefits	85	2
Social insurance		
— Medical	3,644	3,404
— Pension	6,835	6,657
— Annuity	2,372	2,060
— Unemployment	206	212
— Injury at work	87	90
— Maternity insurance	243	215
Housing funds	4,628	4,692
Labour union fee and staff education fee	1,941	1,925
Reimbursement for cancellation of labour contract	13	7
Other	3,512	3,174
Total	85,391	82,061

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2018

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
CHEN Siqing [4]	–[2]	546	69	75	690
LIU Liange [4] [5]	–[2]	182	24	26	232
GAO Yingxin [4] [6]	–[2]	41	5	6	52
REN Deqi [4] [6]	–[2]	246	32	36	314
ZHANG Qingsong [4] [5] [6]	–[2]	369	50	56	475
Non-executive directors					
ZHAO Jie [1]	–	–	–	–	–
LI Jucai [1]	–	–	–	–	–
XIAO Lihong [1]	–	–	–	–	–
WANG Xiaoya [1]	–	–	–	–	–
LIAO Qiang [1] [5]	–	–	–	–	–
ZHANG Xiangdong [1] [6]	–	–	–	–	–
Independent directors					
LU Zhengfei	550	–	–	–	550
LEUNG Cheuk Yan	400	–	–	–	400
WANG Changyun	493	–	–	–	493
Angela CHAO	425	–	–	–	425
JIANG Guohua [5]	17	–	–	–	17
Nout WELLINK [6]	297	–	–	–	297
Supervisors					
WANG Xiquan [4]	–	546	69	75	690
LIU Wanming [4]	–	786	83	186	1,055
WANG Zhiheng [5]	–	–	–	–	–
LI Changlin [5]	–	–	–	–	–
LENG Jie [5]	–	–	–	–	–
CHEN Yuhua	260	–	–	–	260
WANG Xueqiang [4] [6]	–	210	20	61	291
DENG Zhiying [6]	50[3]	–	–	–	50
GAO Zhaogang [6]	50[3]	–	–	–	50
XIANG Xi [6]	50[3]	–	–	–	50
	2,592	2,926	352	521	6,391

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2017

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
CHEN Siqing (4)	–(2)	707	64	69	840
REN Deqi (4) (6)	–(2)	636	73	69	778
TIAN Guoli (4)	–(2)	412	67	39	518
GAO Yingxin (4) (6)	–(2)	635	95	69	799
Non-executive directors					
ZHANG Xiangdong (1) (6)	–	–	–	–	–
LI Jucai (1)	–	–	–	–	–
XIAO Lihong (1)	–	–	–	–	–
WANG Xiaoya (1)	–	–	–	–	–
ZHAO Jie (1)	–	–	–	–	–
WANG Wei (1)	–	–	–	–	–
ZHANG Qi (1)	–	–	–	–	–
LIU Xianghui (1)	–	–	–	–	–
Independent directors					
Nout WELLINK (6)	600	–	–	–	600
LU Zhengfei	550	–	–	–	550
LEUNG Cheuk Yan	400	–	–	–	400
WANG Changyun	400	–	–	–	400
Angela CHAO	397	–	–	–	397
Supervisors					
WANG Xiquan (4)	–	707	64	69	840
WANG Xueqiang (4) (6)	–	1,410	118	254	1,782
LIU Wanming (4)	–	1,318	141	243	1,702
DENG Zhiying (6)	50(3)	–	–	–	50
GAO Zhaogang (6)	50(3)	–	–	–	50
XIANG Xi (6)	50(3)	–	–	–	50
CHEN Yuhua	249	–	–	–	249
	2,746	5,825	622	812	10,005

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2018 and 2017, these non-executive directors of the Bank were not remunerated by the Bank.

(2) For the years ended 31 December 2018 and 2017, these executive directors of the Bank did not receive any fees.

(3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.

(4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2018 including discretionary bonus have not yet been finalised in accordance with the relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2018 financial statements. The final compensation for the year ended 31 December 2018 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2017 were restated based on the finalised amounts as disclosed in the Bank's announcement dated 30 August 2018.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years, which is contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(5) LIU Liange began to serve as Executive Director of the Bank as of 11 October 2018. ZHANG Qingsong began to serve as Executive Director of the Bank as of 20 August 2018. LIAO Qiang began to serve as Non-executive Director of the Bank as of 29 September 2018. JIANG Guohua began to serve as Independent Director of the Bank as of 14 December 2018. WANG Zhiheng, LI Changlin and LENG Jie began to serve as Employee Supervisor of the Bank as of 14 December 2018.

(6) GAO Yingxin ceased to serve as Executive Director of the Bank as of 24 January 2018. REN Deqi ceased to serve as Executive Director of the Bank as of 12 June 2018. ZHANG Qingsong ceased to serve as Executive Director of the Bank as of 18 September 2018. ZHANG Xiangdong ceased to serve as Non-executive Director of the Bank as of 29 June 2018. Nout WELLINK ceased to serve as Independent Director of the Bank as of 29 June 2018. WANG Xueqiang ceased to serve as Shareholder Supervisor of the Bank as of 31 March 2018. DENG Zhiying, GAO Zhaogang and XIANG Xi ceased to serve as Employee Supervisor of the Bank as of 14 December 2018.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2018 and 2017 respectively are as follows:

	Year ended 31 December	
	2018	**2017**
Basic salaries and allowances	23	22
Discretionary bonuses	105	85
Contributions to pension schemes and other	4	3
	132	110

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2018**	**2017**
12,000,001–14,000,000	–	1
14,000,001–16,000,000	–	–
16,000,001–20,000,000	1	2
20,000,001–50,000,000	4	2

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2018 and 2017, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Impairment losses on assets

	Year ended 31 December 2018
Loans and advances	
— Loans and advances at amortised cost	108,669
— Loans and advances at fair value through other comprehensive income	(764)
Subtotal	107,905
Financial investments	
— Financial assets at amortised cost	1,132
— Financial assets at fair value through other comprehensive income	(46)
Subtotal	1,086
Credit commitments	(10,194)
Other	346
Subtotal of impairment losses on credit	99,143
Other impairment losses on assets	151
Total	99,294

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Impairment losses on assets (Continued)

	Year ended 31 December 2017
Loans and advances	
— Individually assessed	40,084
— Collectively assessed	43,941
Subtotal	84,025
Financial investments	
— Available for sale	326
— Held to maturity	–
— Loans and receivables	2,910
Subtotal	3,236
Other	900
Total	88,161

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense

	Year ended 31 December	
	2018	**2017**
Current income tax		
— Chinese mainland income tax	20,726	37,940
— Hong Kong profits tax	5,036	5,297
— Macau, Taiwan and other countries and regions taxation	5,917	5,218
Adjustments in respect of current income tax of prior years	(9,255)	(3,595)
Subtotal	22,424	44,860
Deferred income tax (Note V.35.3)	14,784	(6,943)
Total	37,208	37,917

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.5).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense (Continued)

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2018	**2017**
Profit before income tax	229,643	222,903
Tax calculated at the applicable statutory tax rate	57,411	55,726
Effect of different tax rates for Hong Kong, Macau, Taiwan and other countries and regions	(4,712)	(4,084)
Supplementary PRC tax on overseas income	1,347	1,055
Income not subject to tax [(1)]	(23,934)	(20,994)
Items not deductible for tax purposes [(2)]	10,977	9,316
Other	(3,881)	(3,102)
Income tax expense	37,208	37,917

(1) Income not subject to tax is mainly comprised of interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.

(2) Non-deductible items primarily include non-deductible losses resulting from the write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming the conversion of all potentially dilutive shares for the reporting period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the year ended 31 December 2018.

	Year ended 31 December	
	2018	**2017**
Profit attributable to equity holders of the Bank	180,086	172,407
Less: dividends on preference shares declared	(6,791)	(6,754)
Profit attributable to ordinary shareholders of the Bank	173,295	165,653
Weighted average number of ordinary shares in issue (in million shares)	294,373	294,365
Basic and diluted earnings per share (in RMB)	0.59	0.56

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2018	**2017**
Issued ordinary shares as at 1 January	294,388	294,388
Less: weighted average number of treasury shares	(15)	(23)
Weighted average number of ordinary shares in issue	294,373	294,365

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income

Accrual amount of other comprehensive income:

	Year ended 31 December	
	2018	**2017**
Items that will not be reclassified to profit or loss		
Actuarial losses on defined benefit plans	(103)	(59)
Changes in fair value on investments in equity instruments designated at fair value through other comprehensive income	(1,391)	N/A
Less: related income tax impact	175	N/A
Other	(52)	7
Subtotal	(1,371)	(52)
Items that may be reclassified subsequently to profit or loss		
Changes in fair value on investments in debt instruments measured at fair value through other comprehensive income	28,821	N/A
Less: related income tax impact	(5,684)	N/A
Amount transferred to the income statement	(1,410)	N/A
Less: related income tax impact	345	N/A
	22,072	N/A
Allowance for credit losses on investments in debt instruments measured at fair value through other comprehensive income	(804)	N/A
Less: related income tax impact	204	N/A
	(600)	N/A
Fair value losses on available for sale financial assets	N/A	(24,911)
Less: related income tax impact	N/A	5,438
Amount transferred to the income statement	N/A	(1,397)
Less: related income tax impact	N/A	229
	N/A	(20,641)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income (Continued)

	Year ended 31 December	
	2018	**2017**
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	127	646
Less: related income tax impact	(68)	(125)
	59	521
Exchange differences on translation of foreign operations	12,381	(16,013)
Less: net amount transferred to the income statement from other comprehensive income	394	(213)
	12,775	(16,226)
Other	197	324
Subtotal	34,503	(36,022)
Total	33,132	(36,074)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	(Losses)/gains on financial assets at fair value through other comprehensive income	Fair value gains/(losses) on available for sale financial assets	Exchange differences on translation of foreign operations	Other	Total
As at 1 January 2017	N/A	2,130	(8,223)	2,239	(3,854)
Changes in amount for the previous year	N/A	(20,941)	(11,461)	683	(31,719)
As at 31 December 2017	N/A	(18,811)	(19,684)	2,922	(35,573)
Impact of adopting IFRS 9	(11,692)	18,811	–	–	7,119
As at 1 January 2018	(11,692)	N/A	(19,684)	2,922	(28,454)
Changes in amount for the year	21,087	N/A	8,725	59	29,871
As at 31 December 2018	9,395	N/A	(10,959)	2,981	1,417

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Cash and due from banks and other financial institutions

	As at 31 December	
	2018	**2017**
Cash	76,755	75,406
Due from banks in Chinese mainland	270,861	423,479
Due from other financial institutions in Chinese mainland	13,767	6,738
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	75,998	54,757
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	278	83
Subtotal [(1)]	360,904	485,057
Accrued interest	2,698	N/A
Less: allowance for impairment losses [(1)]	(426)	–
Subtotal due from banks and other financial institutions	363,176	485,057
Total	439,931	560,463

(1) As at 31 December 2018, the Group included all due from banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months (12-month ECL).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Balances with central banks

	As at 31 December	
	2018	**2017**
Mandatory reserves (1)	1,575,873	1,740,871
Surplus reserves (2)	82,598	124,331
Other (3)	671,249	362,412
Subtotal	2,329,720	2,227,614
Accrued interest	1,333	N/A
Total	2,331,053	2,227,614

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2018, mandatory reserve funds placed with the PBOC were calculated at 14.0% (31 December 2017: 16.5%) and 5.0% (31 December 2017: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.

(2) This primarily represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland and other funds.

(3) This mainly represented balances other than mandatory reserves and surplus reserves placed with the PBOC and the central banks in Hong Kong, Macau, Taiwan and other countries and regions.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2018	**2017**
Placements with and loans to:		
Banks in Chinese mainland	172,366	133,136
Other financial institutions in Chinese mainland	771,007	355,290
Banks in Hong Kong, Macau, Taiwan and other countries and regions	83,223	74,065
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	11,723	13,082
Subtotal (1)	1,038,319	575,573
Accrued interest	4,404	N/A
Less: allowance for impairment losses (2)	(365)	(174)
Total	1,042,358	575,399

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December	
	2018	**2017**
Debt securities		
— Governments	52,716	50,117
— Policy banks	190,646	9,229
— Financial institutions	16,498	23,242
— Corporates	737	6,252
Subtotal	260,597	88,840
Less: allowance for impairment losses	–	–
Total	260,597	88,840

(2) As at 31 December 2018, the Group included the predominant majority of its placements with and loans to banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months (12-month ECL).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity-related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of instruments 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 market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.1 Derivative financial instruments

	As at 31 December 2018			As at 31 December 2017		
	Contractual/ Notional amount	Fair value		Contractual/ Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [1]	8,245,972	97,603	(73,652)	6,671,858	76,007	(96,630)
Currency options	220,694	2,210	(1,829)	321,625	4,248	(1,773)
Currency futures	1,718	4	(11)	2,376	5	(22)
Subtotal	8,468,384	99,817	(75,492)	6,995,859	80,260	(98,425)
Interest rate derivatives						
Interest rate swaps	2,443,952	19,637	(18,012)	2,803,583	10,382	(8,302)
Interest rate options	24,342	42	(44)	11,309	12	(8)
Interest rate futures	17,970	1	(39)	15,239	9	(1)
Subtotal	2,486,264	19,680	(18,095)	2,830,131	10,403	(8,311)
Equity derivatives	7,276	237	(208)	19,302	398	(498)
Commodity derivatives and other	247,867	4,392	(5,459)	267,139	3,851	(3,861)
Total [2]	11,209,791	124,126	(99,254)	10,112,431	94,912	(111,095)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting

The Group has chosen to adopt the new hedge accounting standard in IFRS 9 from 1 January 2018. The following table sets out the hedge accounting disclosure for the year ended 31 December 2018.

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and financial investments arising from changes in foreign currency exchange rates and interest rates. Foreign currency exchange rate risk and interest rate risk are usually the primary risks which affect the change in fair value.

(i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies:

	As at 31 December 2018			
	Contractual/ Notional amount	Fair value		Line item in the statement of financial position
		Assets	Liabilities	
Derivatives designated as hedging instruments in fair value hedges				
Interest rate risk				
Interest rate swaps	117,618	1,788	(624)	Derivative financial assets/liabilities
Foreign exchange and interest rate risk				
Cross-currency interest rate swaps	4,280	–	(660)	Derivative financial liabilities
Total	121,898	1,788	(1,284)	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) Fair value hedges (Continued)

(i) The following table contains details of the derivative hedging instruments used in the Group's fair value hedging strategies: (Continued)

The following table sets out the maturity and average exchange rate/interest rate information of the hedging instruments mentioned above:

	As at 31 December 2018					
	Less than 1 month	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Fair value hedges						
Interest rate risk						
Interest rate swaps						
Notional amount	206	2,127	11,529	71,852	31,904	117,618
Average fixed interest rate	2.95%	2.10%	3.34%	2.86%	3.23%	N/A
Foreign exchange and interest rate risk						
Cross-currency interest rate swaps						
Notional amount	–	–	–	3,939	341	4,280
Average fixed interest rate	–	–	–	5.09%	5.50%	N/A
Average exchange rate of USD/CNY	–	–	–	6.48	6.04	N/A
Average exchange rate of AUD/USD	–	–	–	0.93	–	N/A

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) Fair value hedges (Continued)

(ii) The following table sets out the details of the hedged items covered by the Group's fair value hedging strategies:

	As at 31 December 2018				
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		Line item in the statement of financial position
	Assets	Liabilities	Assets	Liabilities	
Fair value hedges					
Interest rate risk					
Foreign currency liabilities	–	(15,638)	–	174	Bonds issued
Financial investments	101,287	–	(1,956)	–	Financial investments
Foreign exchange and interest rate risk					
Foreign currency liabilities	–	(3,621)	–	660	Bonds issued
Total	101,287	(19,259)	(1,956)	834	

(iii) Net gains on fair value hedges are as follows:

	Year ended 31 December 2018
Net gains on	
— hedging instruments	192
— hedged items	115
Ineffectiveness recognised in net trading gains	307

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of the Group and functional currencies of its branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using foreign exchange forward contracts and due to customers in the same or exchange-rate related currencies as the functional currencies of the related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations. As at 31 December 2018, the carrying value of such due to customers amounted to RMB55,034 million, and the notional amount of foreign exchange forward contracts amounted to RMB2,157 million. There was no ineffectiveness in the year ended 31 December 2018.

Under the hedging relationships of designating due to customers and foreign exchange forward contracts as hedging instruments, the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract.

(i) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies:

	As at 31 December 2018			
	Contractual/ Notional amount	Fair value		Line item in the statement of financial position
		Assets	Liabilities	
Derivatives designated as net investment hedging instruments				
— Foreign exchange forward contracts	2,157	–	(68)	Derivative financial liabilities
Total	2,157	–	(68)	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) Net investment hedges (Continued)

(i) The following table contains details of the derivative hedging instruments used in the Group's net investment hedging strategies: (Continued)

The following table sets out the maturity and average exchange rate of the hedging instruments mentioned above:

	As at 31 December 2018					
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Net investment hedges						
Foreign exchange risk						
Foreign exchange forward contracts						
Notional amount	–	–	2,157	–	–	2,157
Average exchange rate of ZAR/USD	–	–	0.06	–	–	N/A
Average exchange rate of TRY/USD	–	–	0.17	–	–	N/A

(ii) Gains or losses from the hedging instruments recognised in "Other comprehensive income" on net investment hedges are as follows:

	Year ended 31 December 2018
Amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	(475)
Amounts of forward element amortised to profit or loss	16
Net amounts of fair value changes on hedging instruments recognised in "Other comprehensive income"	(459)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

The following table sets out the hedge accounting disclosure for the year ended 31 December 2017.

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as at 31 December 2017 as follows:

	As at 31 December 2017		
	Contractual/ Notional amount	Fair value	
		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges			
Cross-currency interest rate swaps	–	–	–
Interest rate swaps	120,407	1,955	(574)
Subtotal (1)	120,407	1,955	(574)
Derivatives designated as hedging instruments in cash flow hedges			
Cross-currency interest rate swaps	2,211	43	(48)
Interest rate swaps	5,227	110	–
Subtotal (2)	7,438	153	(48)
Total	127,845	2,108	(622)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued, debt securities available for sale and loans and borrowings arising from changes in foreign currency exchange rates and interest rates.

Net gains on fair value hedges are as follows:

	Year ended 31 December 2017
Net gains on	
— hedging instruments	33
— hedged items	328
Ineffectiveness recognised in net trading gains	361

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rate risk and interest rate risk of placement and loans and borrowings.

For the year ended 31 December 2017, a net loss from cash flow hedges of RMB5 million was recognised in "Other comprehensive income", and there was no ineffectiveness for the year ended 31 December 2017.

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2017 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of the Group and functional currencies of its branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations.

For the year ended 31 December 2017, a net gain from the hedging instrument of RMB860 million was recognised in "Other comprehensive income" on net investment hedges, and there was no ineffectiveness in the year ended 31 December 2017.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers

17.1 Analysis of loans and advances to customers by general condition

	As at 31 December 2018
Measured at amortised cost	
— Corporate loans and advances	7,117,954
— Personal loans	4,440,085
— Discounted bills	2,001
Measured at fair value through other comprehensive income [(1)]	
— Discounted bills	224,113
Subtotal	11,784,153
Measured at fair value through profit or loss [(2)]	
— Corporate loans and advances	3,530
Total	11,787,683
Accrued interest	31,589
Total loans and advances	11,819,272
Less: allowance for loans at amortised cost	(303,508)
Loans and advances to customers, net	11,515,764

(1) As at 31 December 2018, loans at fair value through other comprehensive income of the Group were discounted bills. The allowance for impairment losses amounted to RMB273 million and was credited to other comprehensive income.

(2) There was no significant change during the year ended 31 December 2018, or cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.1 Analysis of loans and advances to customers by general condition (Continued)

	As at 31 December 2017
Corporate loans and advances	
— Loans and advances	6,792,502
— Discounted bills	180,199
Subtotal	6,972,701
Personal loans	3,923,857
Total loans and advances	10,896,558
Less: allowance for impairment losses	
— Individually assessed	(79,316)
— Collectively assessed	(172,938)
Total impairment allowance for loans and advances	(252,254)
Loans and advances to customers, net	10,644,304

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.2 *Analysis of loans and advances to customers (accrued interest excluded) by geographical area, industry, collateral type and analysis of overdue loans and advances to customers is presented in Note VI.3.5.*

17.3 *Reconciliation of allowance for impairment losses on loans and advances to customers*

Reconciliation of allowance for impairment losses in the year of 2018:

(1) Allowance for loans at amortised cost:

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	87,094	76,050	117,419	280,563
Impairment losses for the year	44,537	36,901	45,952	127,390
Reversal	(39,519)	(20,181)	(13,102)	(72,802)
Transfers to Stage 1	10,301	(9,636)	(665)	–
Transfers to Stage 2	(1,481)	1,929	(448)	–
Transfers to Stage 3	(350)	(25,985)	26,335	–
Impairment losses/(reversal) due to stage transformation	(9,674)	17,487	41,136	48,949
Changes to contractual cash flows due to modifications not resulting in derecognition	(29)	2,018	(587)	1,402
Model/risk parameters adjustment	3,929	(199)	–	3,730
Write-off and transfer out	(192)	(1,969)	(89,497)	(91,658)
Recovery of loans and advances written off	–	–	5,413	5,413
Unwinding of discount on allowance	–	–	(1,652)	(1,652)
Acquisition of subsidiaries	359	29	296	684
Exchange differences and other	814	159	516	1,489
As at 31 December	95,789	76,603	131,116	303,508

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Allowance for loans at fair value through other comprehensive income:

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	829	204	–	1,033
Impairment losses for the year	255	39	–	294
Reversal	(854)	(204)	–	(1,058)
Exchange differences and other	4	–	–	4
As at 31 December	234	39	–	273

In the year of 2018, the changes of gross carrying amounts of loans and advances to customers that have a significant impact on the Group's impairment allowance are mainly derived from the credit business in Mainland China, including:

- The domestic branch adjusted the five tier loan classification and customer internal rating of loans and advances to customers, and the loans with gross carrying amount of RMB139,844 million was transferred from Stage 1 to Stage 2 and Stage 3, and the corresponding impairment allowance was increased by RMB32,041 million. The gross carrying amount of loans transferred from Stage 2 to Stage 3 was RMB65,455 million, with a corresponding increase in impairment allowance of RMB21,567 million. The gross carrying amount of the loans transferred from Stage 2 to Stage 1 was RMB47,963 million, and the corresponding impairment allowance was reduced by RMB8,803 million. The loans transferred from Stage 3 to Stage 1 and Stage 2 was not significant.

- The write-off and disposal of the non-performing loans by the domestic branches amounted to RMB92,527 million, resulting in a corresponding reduction of RMB79,258 million in impairment allowance for Stage 3 loans.

- The domestic branches transferred out RMB17,239 million of loans through debt-to-equity swap and other methods resulting in a decrease of RMB1,969 million impairment allowance in Stage 2 and a decrease of RMB4,927 million in impairment allowance for Stage 3 loans.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers (Continued)

17.3 Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

- The mortgages to retail customers securitisation business of the domestic branches transferred out RMB37,949 million of loans, resulting in a decrease of RMB192 million in the impairment allowance for Stage 1 loans.

- RMB1,387 million of loans were transferred from Stage 3 to Stage 2, of which contractual cash flows had been modified but not resulting in derecognition, and impairment allowance was still measured as equal to lifetime expected credit losses. The gross carrying amount of the loans transferred from Stage 3 or Stage 2 to Stage 1 due to the modification of the contractual cash flows in this year was not significant.

Reconciliation of allowance for impairment losses in the year of 2017:

	Year ended 31 December 2017
As at 1 January	237,716
Impairment losses for the year	126,683
Reversal	(42,658)
Write-off and transfer out	(70,344)
Transfer in	
— Recovery of loans and advances written off	3,546
— Unwinding of discount on allowance	(1,989)
— Exchange differences	(1,518)
Acquisition of subsidiaries	818
As at 31 December	252,254

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments

	As at 31 December	
	2018	**2017**
Financial assets at fair value through profit or loss		
Financial assets held for trading and other financial assets at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	10,495	3,604
— Public sectors and quasi-governments	647	229
— Policy banks	33,708	12,124
— Financial institutions	113,103	48,503
— Corporate	50,646	39,649
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	20,595	22,214
— Public sectors and quasi-governments	23	946
— Financial institutions	14,575	3,336
— Corporate	5,085	3,504
	248,877	134,109
Equity instruments	47,061	4,870
Fund investments and other	49,983	4,115
Total financial assets held for trading and other financial assets at fair value through profit or loss	345,921	143,094

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2018	**2017**
Financial assets at fair value through profit or loss (continued)		
Financial assets at fair value through profit or loss (designated)		
Debt securities [(1)]		
Issuers in Chinese mainland		
— Government	1,756	219
— Policy banks	1,083	824
— Financial institutions	3,472	2,314
— Corporate	966	6,385
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	2,916	2,311
— Public sectors and quasi-governments	1,494	–
— Financial institutions	7,977	16,463
— Corporate	4,906	5,774
	24,570	34,290
Loans	N/A	5,493
Equity instruments	N/A	3,159
Fund investments	N/A	7,575
Total financial assets at fair value through profit or loss (designated)	24,570	50,517
Total financial assets at fair value through profit or loss	370,491	193,611

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2018	**2017**
Financial assets at fair value through other comprehensive income		
Debt securities		
Issuers in Chinese mainland		
— Government	570,820	N/A
— Public sectors and quasi-governments	41,294	N/A
— Policy banks	262,597	N/A
— Financial institutions	348,300	N/A
— Corporate	120,344	N/A
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	265,923	N/A
— Public sectors and quasi-governments	37,737	N/A
— Financial institutions	120,185	N/A
— Corporate	95,032	N/A
	1,862,232	N/A
Equity instruments	16,298	N/A
Other debt instruments	1,229	N/A
Total financial assets at fair value through other comprehensive income (2)	1,879,759	N/A
Financial assets at amortised cost		
Debt securities		
Issuers in Chinese mainland		
— Government (3) (4)	2,079,661	N/A
— Public sectors and quasi-governments	43,610	N/A
— Policy banks	194,255	N/A
— Financial institutions	34,781	N/A
— Corporate	22,539	N/A
— China Orient (5)	153,627	N/A
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	78,075	N/A
— Public sectors and quasi-governments	69,650	N/A
— Financial institutions	33,991	N/A
— Corporate	49,299	N/A
	2,759,488	N/A
Investment trusts, asset management plans and other	14,757	N/A
Accrued interest	37,810	N/A
Less: allowance for impairment losses	(7,754)	N/A
Total financial assets at amortised cost	2,804,301	N/A

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2018	**2017**
Investment securities available for sale		
Debt securities		
Issuers in Chinese mainland		
— Government	N/A	590,988
— Public sectors and quasi-governments	N/A	27,457
— Policy banks	N/A	278,504
— Financial institutions	N/A	182,759
— Corporate	N/A	112,069
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	N/A	308,985
— Public sectors and quasi-governments	N/A	43,914
— Financial institutions	N/A	145,003
— Corporate	N/A	80,079
	N/A	1,769,758
Equity instruments	N/A	38,694
Fund investments and other	N/A	48,770
Total investment securities available for sale (6)	N/A	1,857,222
Debt securities held to maturity		
Issuers in Chinese mainland		
— Government	N/A	1,609,204
— Public sectors and quasi-governments	N/A	36,330
— Policy banks	N/A	226,293
— Financial institutions	N/A	58,033
— Corporate	N/A	25,226
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	N/A	43,034
— Public sectors and quasi-governments	N/A	40,766
— Financial institutions	N/A	26,517
— Corporate	N/A	24,500
	N/A	2,089,903
Less: allowance for impairment losses	N/A	(39)
Total debt securities held to maturity (6)	N/A	2,089,864

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2018	**2017**
Financial investments classified as loans and receivables		
Debt securities		
Issuers in Chinese mainland		
— Government [(3)] [(4)]	N/A	199,521
— Policy banks	N/A	1,500
— Financial institutions	N/A	31,218
— Corporate	N/A	5,538
— China Orient [(5)]	N/A	158,806
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	N/A	652
— Public sectors and quasi-governments	N/A	6,624
— Financial institutions	N/A	2
— Corporate	N/A	1,313
	N/A	405,174
Investment trusts, asset management plans and other	N/A	14,234
Less: allowance for impairment losses	N/A	(5,383)
Total financial investments classified as loans and receivables	N/A	414,025
Total financial investments [(7)] [(8)] [(9)]	5,054,551	4,554,722

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2018	**2017**
Analysed as follows:		
Financial assets at fair value through profit or loss		
— Listed in Hong Kong	35,821	27,306
— Listed outside Hong Kong (10)	209,996	117,608
— Unlisted	124,674	48,697
Financial assets at fair value through other comprehensive income		
Debt securities		
— Listed in Hong Kong	129,653	N/A
— Listed outside Hong Kong (10)	1,363,984	N/A
— Unlisted	368,595	N/A
Equity instruments and other		
— Listed in Hong Kong	6,233	N/A
— Listed outside Hong Kong (10)	2,018	N/A
— Unlisted	9,276	N/A
Financial assets at amortised cost		
— Listed in Hong Kong	38,550	N/A
— Listed outside Hong Kong (10)	2,304,434	N/A
— Unlisted	461,317	N/A
Investment securities available for sale		
Debt securities		
— Listed in Hong Kong	N/A	119,454
— Listed outside Hong Kong (10)	N/A	1,267,426
— Unlisted	N/A	382,878
Equity instruments, fund investments and other		
— Listed in Hong Kong	N/A	6,912
— Listed outside Hong Kong (10)	N/A	969
— Unlisted	N/A	79,583

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December	
	2018	**2017**
Debt securities held to maturity		
— Listed in Hong Kong	N/A	31,414
— Listed outside Hong Kong (10)	N/A	1,963,925
— Unlisted	N/A	94,525
Financial investments classified as loans and receivables		
— Unlisted	N/A	414,025
Total	5,054,551	4,554,722
Listed in Hong Kong	210,257	185,086
Listed outside Hong Kong (10)	3,880,432	3,349,928
Unlisted	963,862	1,019,708
Total	5,054,551	4,554,722

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December			
	2018		2017	
	Carrying value	Market value	Carrying value	Market value
Debt securities at amortised cost				
— Listed in Hong Kong	38,550	38,155	N/A	N/A
— Listed outside Hong Kong (10)	2,304,434	2,318,733	N/A	N/A
Debt securities held to maturity				
— Listed in Hong Kong	N/A	N/A	31,414	31,668
— Listed outside Hong Kong (10)	N/A	N/A	1,963,925	1,914,595

(1) In order to eliminate or significantly reduce accounting mismatches, certain debt securities were designated as financial assets at fair value through profit or loss.

(2) The Group exercised its option irrevocably on certain unlisted equity investments, which were classified as financial assets at fair value through other comprehensive income. For equity instruments, RMB265 million of dividend income was recognised during the year ended 31 December 2018.

The Group's accumulated impairment allowance for the debt securities at fair value through other comprehensive income as at 31 December 2018 amounted to RMB862 million.

(3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the Ministry of Finance ("MOF") with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(4) The Bank underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Bank as at 31 December 2018 amounted to RMB2,358 million (31 December 2017: RMB2,140 million).

(5) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 *Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank*. As at 31 December 2018, the Bank had received early repayments amounting to RMB6,373 million cumulatively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

(6) In 2018, the Group did not reclassify any debt securities.

In 2017, the Group reclassified certain debt securities with a total carrying value of RMB5,097 million from "Investment securities available for sale" to "Investment securities held to maturity". The Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification. In 2017, the Group reclassified certain debt securities with amortised cost of RMB364 million from "Investment securities held to maturity" to "Investment securities available for sale" due to management's change of investment intention.

(7) As at 31 December 2018, the Group held bonds issued by the MOF and bills issued by the PBOC included in financial investments. The carrying value (accrued interest excluded) and the related coupon rate range on such bonds and bills are as follows:

	As at 31 December	
	2018	**2017**
Carrying value (accrued interest excluded)	981,414	986,498
Coupon rate range	0.00%–5.31%	0.00%–5.41%

(8) Included in the Group's financial investments were certificates of deposit held amounting to RMB280,924 million as at 31 December 2018 (31 December 2017: RMB160,780 million).

(9) As at 31 December 2018, RMB1,123 million of impaired debt securities of the Group was classified into Stage 3, with the impairment allowance fully accrued; RMB1,755 million of debt securities was classified into Stage 2, with an impairment allowance of RMB4 million; and the remaining debt securities at fair value through other comprehensive income and debt securities at amortised cost were classified into Stage 1, with impairment allowance measured based on 12-month expected credit losses.

(10) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

Reconciliation of allowance for impairment losses on financial investments at amortised cost:

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	428	4	6,127	6,559
Impairment losses/ (reversal) during the year	(150)	(2)	1,284	1,132
Write off and transfer out	–	–	(41)	(41)
Foreign exchange adjustments and other	50	1	53	104
As at 31 December	328	3	7,423	7,754

Reconciliation of allowance for impairment losses on financial investments at fair value through other comprehensive income:

	Year ended 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	906	–	–	906
Impairment losses/ (reversal) during the year	(47)	1	–	(46)
Foreign exchange adjustments and other	2	–	–	2
As at 31 December	861	1	–	862

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December	
	2018	**2017**
As at 1 January	17,180	14,059
Additions	8,820	3,079
Disposals	(5,152)	(692)
Share of results, net of tax	2,110	1,162
Dividends received	(227)	(396)
Exchange differences and other	638	(32)
As at 31 December	23,369	17,180

The carrying amount of major investment in associates and joint ventures of the Group is as follows. Further details are disclosed in Note V.43.4.

	As at 31 December	
	2018	**2017**
BOC International (China) Co., Ltd.	4,553	4,318
Ying Kou Port Group CORP.	4,549	–
Zhongxinboda (Wuhu) Investment Limited Partnership	1,710	1,285
CGN Phase I Private Equity Fund Company Limited	1,504	1,349
Graceful Field Worldwide Limited	1,374	1,311
BOC & Cinda (Wuhu) Investment Limited Partnership	1,346	2,976
Sichuan Lutianhua Co., Ltd.	1,227	–
Wkland Investments II Limited	876	793
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	768	735
Other	5,462	4,413
Total	23,369	17,180

As at 31 December 2018, the ability of associates and joint ventures to transfer funds to the Group is not restricted.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

	Year ended 31 December 2018				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	113,913	72,096	22,522	100,551	309,082
Additions	321	5,715	19,850	11,662	37,548
Transfer from investment properties (Note V.21)	1,665	–	–	–	1,665
Construction in progress transfer in/(out)	1,928	807	(11,960)	9,225	–
Deductions	(834)	(4,712)	(816)	(11,181)	(17,543)
Exchange differences	955	413	637	4,896	6,901
As at 31 December	117,948	74,319	30,233	115,153	337,653
Accumulated depreciation					
As at 1 January	(34,732)	(56,683)	–	(10,954)	(102,369)
Additions	(3,626)	(6,185)	–	(3,592)	(13,403)
Deductions	567	4,409	–	2,763	7,739
Transfer to investment properties (Note V.21)	47	–	–	–	47
Exchange differences	(297)	(293)	–	(654)	(1,244)
As at 31 December	(38,041)	(58,752)	–	(12,437)	(109,230)
Allowance for impairment losses					
As at 1 January	(789)	–	(217)	(93)	(1,099)
Additions	–	–	–	–	–
Deductions	15	–	–	56	71
Exchange differences	4	–	–	(5)	(1)
As at 31 December	(770)	–	(217)	(42)	(1,029)
Net book value					
As at 1 January	78,392	15,413	22,305	89,504	205,614
As at 31 December	79,137	15,567	30,016	102,674	227,394

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

	Year ended 31 December 2017				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	111,323	69,621	26,160	82,876	289,980
Additions	365	6,172	12,029	21,419	39,985
Transfer from investment properties (Note V.21)	177	–	–	–	177
Construction in progress transfer in/(out)	3,890	638	(14,412)	9,884	–
Deductions	(688)	(3,835)	(365)	(8,851)	(13,739)
Exchange differences	(1,154)	(500)	(890)	(4,777)	(7,321)
As at 31 December	113,913	72,096	22,522	100,551	309,082
Accumulated depreciation					
As at 1 January	(31,771)	(53,889)	–	(8,358)	(94,018)
Additions	(3,636)	(6,873)	–	(4,550)	(15,059)
Deductions	369	3,711	–	1,381	5,461
Transfer to investment properties (Note V.21)	45	–	–	–	45
Exchange differences	261	368	–	573	1,202
As at 31 December	(34,732)	(56,683)	–	(10,954)	(102,369)
Allowance for impairment losses					
As at 1 January	(768)	–	(221)	(76)	(1,065)
Additions	(31)	–	–	(130)	(161)
Deductions	9	–	4	109	122
Exchange differences	1	–	–	4	5
As at 31 December	(789)	–	(217)	(93)	(1,099)
Net book value					
As at 1 January	78,784	15,732	25,939	74,442	194,897
As at 31 December	78,392	15,413	22,305	89,504	205,614

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

As at 31 December 2018, there were no aircraft owned by BOC Aviation Limited, a subsidiary of the Group, which was acquired under finance lease arrangements (31 December 2017: net book amount RMB608 million).

As at 31 December 2018, the net book amount of aircraft leased out by BOC Aviation Limited, a subsidiary of the Group, under operating leases was RMB102,657 million (31 December 2017: RMB89,300 million).

As at 31 December 2018, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, that has been pledged for loan facilities was RMB22,364 million (31 December 2017: RMB25,930 million) (Note V.31).

According to the relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2018, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2018	**2017**
Held in Hong Kong		
on long-term lease (over 50 years)	3,464	3,039
on medium-term lease (10-50 years)	8,525	7,301
Subtotal	11,989	10,340
Held outside Hong Kong		
on long-term lease (over 50 years)	4,198	4,199
on medium-term lease (10-50 years)	57,087	58,407
on short-term lease (less than 10 years)	5,863	5,446
Subtotal	67,148	68,052
Total	79,137	78,392

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties

	Year ended 31 December	
	2018	**2017**
As at 1 January	21,026	21,659
Additions	1,094	1,051
Transfer to property and equipment, net (Note V.20)	(1,712)	(222)
Deductions	(61)	(970)
Fair value changes (Note V.5)	919	771
Exchange differences	820	(1,263)
As at 31 December	22,086	21,026

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market.

Investment properties are mainly held by Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and Bank of China Group Investment Limited ("BOCG Investment"), subsidiaries of the Group. The carrying value of investment properties held by BOCHK (Holdings) and BOCG Investment as at 31 December 2018 amounted to RMB13,371 million and RMB6,668 million, respectively (31 December 2017: RMB12,859 million and RMB6,104 million). The valuation of these investment properties as at 31 December 2018 were principally performed by Knight Frank Petty Limited based on the open market price and other related information.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2018	2017
Held in Hong Kong		
on long-term lease (over 50 years)	2,966	2,994
on medium-term lease (10-50 years)	10,185	9,688
Subtotal	13,151	12,682
Held outside Hong Kong		
on long-term lease (over 50 years)	4,136	3,922
on medium-term lease (10-50 years)	4,467	3,690
on short-term lease (less than 10 years)	332	732
Subtotal	8,935	8,344
Total	22,086	21,026

22 Other assets

	As at 31 December	
	2018	2017
Accounts receivable and prepayments (1)	82,521	86,243
Intangible assets (2)	12,467	11,605
Land use rights (3)	6,985	7,230
Long-term deferred expense	3,306	3,105
Repossessed assets (4)	2,318	2,675
Goodwill (5)	2,620	2,481
Interest receivable (Note II.1.1.1.1)	1,422	96,919
Other	10,587	7,332
Total	122,226	217,590

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Accounts receivable and prepayments

	As at 31 December	
	2018	2017
Accounts receivable and prepayments	86,627	91,080
Impairment allowance	(4,106)	(4,837)
Net value	82,521	86,243

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the ageing of accounts receivable and prepayments is as follows:

	As at 31 December			
	2018		2017	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	78,494	(371)	81,458	(587)
From 1 year to 3 years	3,358	(1,029)	5,631	(1,569)
Over 3 years	4,775	(2,706)	3,991	(2,681)
Total	86,627	(4,106)	91,080	(4,837)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Intangible assets

	Year ended 31 December	
	2018	**2017**
Cost		
As at 1 January	19,995	13,861
Additions	2,992	6,358
Deductions	(97)	(160)
Exchange differences	56	(64)
As at 31 December	22,946	19,995
Accumulated amortisation		
As at 1 January	(8,390)	(6,998)
Additions	(2,078)	(1,498)
Deductions	34	55
Exchange differences	(45)	51
As at 31 December	(10,479)	(8,390)
Net book value		
As at 1 January	11,605	6,863
As at 31 December	12,467	11,605

(3) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2018	**2017**
Held outside Hong Kong		
on long-term lease (over 50 years)	94	112
on medium-term lease (10–50 years)	6,058	6,260
on short-term lease (less than 10 years)	833	858
Total	6,985	7,230

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(4) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 31 December	
	2018	**2017**
Commercial properties	2,391	2,123
Residential properties	606	643
Other	158	566
Subtotal	3,155	3,332
Less: allowance for impairment	(837)	(657)
Repossessed assets, net	2,318	2,675

The total book value of repossessed assets disposed of during the year ended 31 December 2018 amounted to RMB348 million (2017: RMB543 million). The Group plans to dispose of the repossessed assets held at 31 December 2018 by auction, bidding or transfer.

(5) Goodwill

	Year ended 31 December	
	2018	**2017**
As at 1 January	2,481	2,473
Addition through acquisition of subsidiaries	44	137
Exchange differences	95	(129)
As at 31 December	2,620	2,481

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,651 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance

			Decrease			
	As at 1 January 2018	Additions	Reversal	Write-off and transfer out	Exchange differences and other	As at 31 December 2018
Impairment allowance						
Loans and advances to customers						
— at amortised cost	280,563	247,249	(138,580)	(87,897)	2,173	303,508
— at fair value through other comprehensive income	1,033	294	(1,058)	–	4	273
Financial investments						
— at amortised cost	6,559	2,252	(1,120)	(41)	104	7,754
— at fair value through other comprehensive income	906	464	(510)	–	2	862
Credit commitments	31,182	11,588	(21,782)	–	366	21,354
Property and equipment	1,099	–	–	(71)	1	1,029
Repossessed assets	657	203	(58)	(32)	67	837
Land use rights	15	–	–	(5)	–	10
Other	6,629	1,989	(1,637)	(907)	(139)	5,935
Total	328,643	264,039	(164,745)	(88,953)	2,578	341,562

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

			Decrease			
	As at 1 January 2017	Additions	Reversal	Write-off and transfer out	Exchange differences and other	As at 31 December 2017
Impairment allowance						
Loans and advances to customers	237,716	126,683	(42,658)	(68,787)	(700)	252,254
Financial investments						
— available for sale	7,103	387	(61)	(288)	(473)	6,668
— held to maturity	44	–	–	(3)	(2)	39
— loans and receivables	2,473	2,961	(51)	–	–	5,383
Property and equipment	1,065	161	–	(122)	(5)	1,099
Repossessed assets	650	36	(6)	(17)	(6)	657
Land use rights	15	–	–	–	–	15
Other	6,063	2,079	(1,370)	(210)	(167)	6,395
Total	255,129	132,307	(44,146)	(69,427)	(1,353)	272,510

24 Due to banks and other financial institutions

	As at 31 December	
	2018	2017
Due to:		
Banks in Chinese mainland	434,504	318,660
Other financial institutions in Chinese mainland	1,016,374	895,225
Banks in Hong Kong, Macau, Taiwan and other countries and regions	193,535	157,582
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	79,036	53,795
Subtotal	1,723,449	1,425,262
Accrued interest	7,760	N/A
Total	1,731,209	1,425,262

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Due to central banks

	As at 31 December	
	2018	**2017**
Foreign exchange deposits	204,758	205,607
Other	692,494	830,190
Subtotal	897,252	1,035,797
Accrued interest	10,269	N/A
Total	907,521	1,035,797

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited ("BOCHK") and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macau Branch.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Placements from banks and other financial institutions

	As at 31 December	
	2018	**2017**
Placements from:		
Banks in Chinese mainland	268,435	289,541
Other financial institutions in Chinese mainland	29,495	26,463
Banks in Hong Kong, Macau, Taiwan and other countries and regions	307,531	180,554
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	4,999	3,534
Subtotal	610,460	500,092
Accrued interest	1,807	N/A
Total (1)(2)	612,267	500,092

(1) In order to eliminate or significantly reduce an accounting mismatch, certain placements from banks and other financial institutions were designated as financial liabilities at FVPL by the Group in 2018. The corresponding total carrying amount of the above-mentioned financial liabilities was RMB876 million as at 31 December 2018, of which the fair value was approximately the same as the amount that the Group would be contractually required to pay to the holders.

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December	
	2018	**2017**
Repurchase debt securities (i)	285,018	258,400

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.41.2.

28 Financial liabilities held for trading

As at 31 December 2018 and 2017, financial liabilities held for trading mainly include short position in debt securities.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Due to customers

	As at 31 December	
	2018	2017
Demand deposits		
— Corporate deposits	4,178,962	3,955,206
— Personal deposits	2,935,661	2,613,409
Subtotal	7,114,623	6,568,615
Time deposits		
— Corporate deposits	3,507,071	3,213,375
— Personal deposits	3,148,265	3,060,245
Subtotal	6,655,336	6,273,620
Structured deposits (1)		
— Corporate deposits	246,380	215,193
— Personal deposits	338,544	157,574
Subtotal	584,924	372,767
Certificates of deposit	287,808	377,460
Other deposits (2)	73,751	65,462
Subtotal due to customers	14,716,442	13,657,924
Accrued interest	167,154	N/A
Total due to customers (3)	14,883,596	13,657,924

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Due to customers (Continued)

(1) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some structured deposits as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2018, the carrying amount of the above-mentioned financial liabilities is RMB24,141 million. At the financial reporting date, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders. In the year of 2018, there is no significant change in the Group's own credit risk for the above structured deposits, so the amount of change in fair value due to the change in own credit risk is not significant.

(2) Included in other deposits is special purpose funding, which represents long-term funding provided in multiple currencies by foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. The special purpose funding is normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Group is obliged to repay the funding when it falls due.

As at 31 December 2018, the remaining maturity of special purpose funding ranges from 46 days to 35 years. The interest-bearing special purpose funding bears interest at floating and fixed rates ranging from 0.15% to 7.92% (31 December 2017: 0.15% to 7.92%). These terms are consistent with the related development loans granted to customers.

(3) Due to customers included margin deposits for security received by the Group as at 31 December 2018 of RMB304,388 million (31 December 2017: RMB311,202 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December 2018	As at 31 December 2017
Bonds issued at amortised cost					
Subordinated bonds issued					
2009 RMB Debt Securities First Tranche [1]	6 July 2009	8 July 2024	4.00%	24,000	24,000
2010 RMB Debt Securities [2]	9 March 2010	11 March 2025	4.68%	24,930	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	N/A	15,461
2011 RMB Debt Securities [3]	17 May 2011	19 May 2026	5.30%	32,000	32,000
2012 RMB Debt Securities Second Tranche [4]	27 November 2012	29 November 2027	4.99%	18,000	18,000
Subtotal [11]				98,930	114,391
Tier 2 capital bonds issued					
2014 RMB Debt Securities [5]	8 August 2014	11 August 2024	5.80%	29,972	29,972
2014 US Dollar Debt Securities [6]	13 November 2014	13 November 2024	5.00%	20,502	19,424
2017 RMB Debt Securities First Tranche [7]	26 September 2017	28 September 2027	4.45%	29,962	29,960
2017 RMB Debt Securities Second Tranche [8]	31 October 2017	2 November 2027	4.45%	29,964	29,962
2018 RMB Debt Securities First Tranche [9]	3 September 2018	5 September 2028	4.86%	39,982	–
2018 RMB Debt Securities Second Tranche [10]	9 October 2018	11 October 2028	4.84%	39,984	–
Subtotal [11]				190,366	109,318
Other bonds issued [12]					
US Dollar Debt Securities				216,750	173,517
RMB Debt Securities				22,454	22,869
Other				76,090	68,607
Subtotal				315,294	264,993

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

	Issue date	Maturity date	Annual interest rate	As at 31 December 2018	As at 31 December 2017
Negotiable certificates of deposit (13)				150,273	10,426
Subtotal bonds issued at amortised cost				754,863	499,128
Bonds issued at fair value (14)				20,517	N/A
Subtotal bonds issued				775,380	499,128
Accrued interest				6,747	N/A
Total bonds issued (15)				782,127	499,128

(1) The fixed rate portion of the first tranche of the subordinated bonds issued on 6 July 2009 has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank is entitled to early redeem all of the bonds at face value at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 9 March 2010, have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank is entitled to early redeem all of the bonds at face value at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(3) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to early redeem all the subordinated bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(4) The second subordinated bonds issued on 27 November 2012 have a maturity of 15 years, with a fixed coupon rate of 4.99%, paid annually. The Bank is entitled to early redeem all these bonds at the end of the tenth year. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(5) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 8 August 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.80%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(6) The Bank issued tier 2 capital bonds in an amount of USD3 billion on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.

(7) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 26 September 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bond at the end of the fifth year.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(8) The Bank issued tier 2 capital bonds in an amount of RMB30 billion on 31 October 2017. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.45%. The Bank is entitled to redeem the bond at the end of the fifth year.

(9) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 3 September 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.86%. The Bank is entitled to redeem the bond at the end of the fifth year.

(10) The Bank issued tier 2 capital bonds in an amount of RMB40 billion on 9 October 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.84%. The Bank is entitled to redeem the bond at the end of the fifth year.

(11) Subordinated bonds and tier 2 capital bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders.

(12) US Dollar Debt Securities, RMB Debt Securities and other Debt Securities were issued in Mainland China, Hong Kong, Macau, Taiwan and other countries and regions between 2013 and 2018 by the Group, with dates of maturity ranging from 2019 to 2030.

(13) The RMB negotiable certificates of deposit issued by the Bank in 2017 matured in 2018. The outstanding balance will mature in 2019.

(14) According to risk management policy, in order to match derivatives and reduce market risk, the Group designates some bonds issued as financial liabilities at fair value through profit or loss in the current period. As at 31 December 2018, the book value of the above-mentioned bonds issued by the Group is RMB20,517 million, and the difference between the fair value and the amount that the Group would be contractually required to pay to the holders is not significant. In the year of 2018, there is no significant change in the Group's credit risk as well as the fair value caused by credit risk of the above financial liabilities.

(15) During the years ended 31 December 2018 and 2017, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

31 Other borrowings

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Limited, a subsidiary of the Group. These other borrowings are secured by its aircraft (Note V.20).

As at 31 December 2018, these other borrowings had a maturity ranging from 32 days to 7 years and bore floating and fixed interest rates ranging from 2.65% to 4.26% (31 December 2017: 1.41% to 3.10%).

During the years ended 31 December 2018 and 2017, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Current tax liabilities

	As at 31 December	
	2018	**2017**
Corporate income tax	20,626	27,722
Value-added tax	5,966	5,453
City construction and maintenance tax	431	411
Education surcharges	282	285
Other	589	650
Total	27,894	34,521

33 Retirement benefit obligations

As at 31 December 2018, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early-retired were RMB2,213 million (31 December 2017: RMB2,205 million) and RMB612 million (31 December 2017: RMB822 million), respectively, using the projected unit credit method.

The movements of the net liabilities recognised are as follows:

	Year ended 31 December	
	2018	**2017**
As at 1 January	3,027	3,439
Interest cost	110	94
Net actuarial losses/(gains) recognised	78	(33)
Benefits paid	(390)	(473)
As at 31 December	2,825	3,027

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations (Continued)

Primary assumptions used:

	As at 31 December	
	2018	**2017**
Discount rate		
— Normal retiree	3.28%	3.92%
— Early retiree	2.90%	3.82%
Pension benefit inflation rate		
— Normal retiree	3.0%	3.0%
— Early retiree	5.0%–3.0%	6.0%–3.0%
Medical benefit inflation rate	8.0%	8.0%
Retiring age		
— Male	60	60
— Female	50/55	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2018 and 2017, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

34 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants, including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes

35.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and the related temporary differences.

	As at 31 December			
	2018		2017	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	144,757	38,204	179,004	46,487
Deferred income tax liabilities	(25,729)	(4,548)	(24,669)	(4,018)
Net	119,028	33,656	154,335	42,469

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 31 December			
	2018		2017	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	184,629	45,993	155,379	38,707
Pension, retirement benefits and salary payables	18,371	4,582	18,716	4,673
Financial instruments at fair value through profit or loss and derivative financial instruments	89,473	22,327	104,486	26,090
Available for sale investment securities	N/A	N/A	30,551	7,464
Financial assets at fair value through other comprehensive income	5,386	1,059	N/A	N/A
Other temporary differences	30,132	6,889	16,932	3,351
Subtotal	327,991	80,850	326,064	80,285
Deferred income tax liabilities				
Financial instruments at fair value through profit or loss and derivative financial instruments	(112,457)	(28,114)	(86,856)	(21,688)
Available for sale investment securities	N/A	N/A	(8,835)	(2,097)
Financial assets at fair value through other comprehensive income	(17,028)	(4,174)	N/A	N/A
Depreciation of property and equipment	(18,909)	(3,208)	(19,131)	(3,261)
Revaluation of property and investment properties	(8,775)	(1,675)	(6,968)	(1,335)
Other temporary differences	(51,794)	(10,023)	(49,939)	(9,435)
Subtotal	(208,963)	(47,194)	(171,729)	(37,816)
Net	119,028	33,656	154,335	42,469

As at 31 December 2018, deferred tax liabilities relating to temporary differences of RMB142,076 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2017: RMB111,841 million). Refer to Note II.20.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December	
	2018	**2017**
As at 31 December of prior year	42,469	29,840
Impact of adopting IFRS 9	11,096	N/A
(Charged)/credited to the income statement (Note V.10)	(14,784)	6,943
(Charged)/credited to other comprehensive income	(5,028)	5,542
Other	(97)	144
As at 31 December	33,656	42,469

35.4 The deferred income tax credit/charge in the income statement comprises the following temporary differences:

	Year ended 31 December	
	2018	**2017**
Asset impairment allowances	(219)	755
Financial instruments at fair value through profit or loss and derivative financial instruments	(10,337)	7,279
Pension, retirement benefits and salary payables	(91)	(198)
Other temporary differences	(4,137)	(893)
Total	(14,784)	6,943

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities

	As at 31 December	
	2018	**2017**
Insurance liabilities		
— Life insurance contracts	96,719	91,618
— Non-life insurance contracts	9,346	9,098
Items in the process of clearance and settlement	63,647	41,621
Salary and welfare payables (1)	30,997	28,883
Provision (2)	22,010	2,941
Deferred income	9,264	8,680
Interest payable (Note II.1.1.1.1)	–	190,226
Other	66,379	66,143
Total	298,362	439,210

(1) Salary and welfare payables

	As at 1 January 2018	Accrual	Payment	As at 31 December 2018
Salary, bonus and subsidy	22,697	58,242	(57,010)	23,929
Staff welfare	–	3,583	(3,583)	–
Social insurance				
— Medical	1,029	3,644	(3,537)	1,136
— Pension	171	6,835	(6,825)	181
— Annuity	23	2,372	(2,085)	310
— Unemployment	7	206	(206)	7
— Injury at work	2	87	(87)	2
— Maternity insurance	3	243	(243)	3
Housing funds	31	4,628	(4,603)	56
Labour union fee and staff education fee	4,368	1,941	(1,517)	4,792
Reimbursement for cancellation of labour contract	16	13	(12)	17
Other	536	3,512	(3,484)	564
Total (i)	28,883	85,306	(83,192)	30,997

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payables (Continued)

	As at 1 January 2017	Accrual	Payment	As at 31 December 2017
Salary, bonus and subsidy	22,322	56,477	(56,102)	22,697
Staff welfare	–	3,146	(3,146)	–
Social insurance				
— Medical	985	3,404	(3,360)	1,029
— Pension	170	6,657	(6,656)	171
— Annuity	23	2,060	(2,060)	23
— Unemployment	7	212	(212)	7
— Injury at work	2	90	(90)	2
— Maternity insurance	3	215	(215)	3
Housing funds	32	4,692	(4,693)	31
Labour union fee and staff education fee	3,885	1,925	(1,442)	4,368
Reimbursement for cancellation of labour contract	15	7	(6)	16
Other	373	3,174	(3,011)	536
Total [(i)]	27,817	82,059	(80,993)	28,883

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2018 and 2017.

(2) Provision

	As at 31 December	
	2018	2017
Allowance for credit commitments	21,354	1,946
Allowance for litigation losses (Note V. 41.1)	656	995
Total	22,010	2,941

The movement of the provision was as follows:

	Year ended 31 December	
	2018	2017
As at 31 December of prior year	2,941	6,065
Impact of adopting IFRS 9	29,236	N/A
Reversal for the year, net	(10,120)	(2,995)
Utilised during the year	(413)	(129)
Exchange differences and other	366	–
As at 31 December	22,010	2,941

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments

37.1 Share capital

The Bank's share capital is as follows:

Unit: Share

	As at 31 December	
	2018	**2017**
Domestic listed A shares, par value RMB1.00 per share	210,765,514,846	210,765,514,846
Overseas listed H shares, par value RMB1.00 per share	83,622,276,395	83,622,276,395
Total	294,387,791,241	294,387,791,241

All A and H shares rank pari passu with the same rights and benefits.

37.2 Capital reserve

	As at 31 December	
	2018	**2017**
Share premium	139,921	139,921
Other capital reserve	2,214	1,959
Total	142,135	141,880

37.3 Treasury shares

A wholly-owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2018 was approximately 22.80 million (31 December 2017: approximately 31.85 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments

For the year ended 31 December 2018, the movements of the Bank's other equity instruments were as follows:

	As at 1 January 2018		Increase/(Decrease)		As at 31 December 2018	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
Preference Shares						
2014 Offshore Preference Shares (1)	399.4	39,782	–	–	399.4	39,782
2014 Domestic Preference Shares (2)	320.0	31,963	–	–	320.0	31,963
2015 Domestic Preference Shares (3)	280.0	27,969	–	–	280.0	27,969
Total	999.4	99,714	–	–	999.4	99,714

(1) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares in the aggregate par value of RMB39.94 billion on 23 October 2014. Each Offshore Preference Share has a par value of RMB100 and 399.4 million Offshore Preference Shares were issued in total. The initial annual dividend rate is 6.75% and is subsequently subject to reset per agreement, but in no case shall exceed 18.07%. Dividends are calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

The Offshore Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, all or part of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 23 October 2019 or on any dividend payment date thereafter at the redemption price which is the sum of the par value of the Offshore Preference Shares and the dividends declared but not yet distributed, as calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

(2) Pursuant to the approvals by relevant authorities in China, the Bank issued 6.0% non-cumulative Domestic Preference Shares on 21 November 2014, in the aggregate par value of RMB32 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 320 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem all or part of the Domestic Preference Shares on 21 November 2019 or any dividend payment date thereafter of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

(3) Pursuant to the approvals by relevant authorities in China, the Bank issued 5.5% non-cumulative Domestic Preference Shares on 13 March 2015, in the aggregate par value of RMB28 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 280 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem all or part of the Domestic Preference Shares on 13 March 2020 or any dividend payment date thereafter of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not be deemed a default. However, the Bank shall not distribute profits to the holders of ordinary shares until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall report to the CBIRC for review and determination and the Bank will convert the preference shares into ordinary shares in whole or in part.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to non-distributable statutory surplus reserves. The appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 29 March 2019, the Bank appropriated 10% of the net profit for the year ended 31 December 2018 to the statutory surplus reserves, amounting to RMB15,946 million (2017: RMB15,147 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.2 General and regulatory reserves

Pursuant to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* (the "Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve as a distribution of profits, being part of the owner's rights and interests, should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 29 March 2019 and on the basis of the Bank's profit for the year ended 31 December 2018, the Board of Directors of the Bank approved the appropriation of RMB22,352 million (2017: RMB13,282 million) to the general reserve for the year ended 31 December 2018.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2018 and 2017, the reserve amounts set aside by BOCHK Group were RMB6,448 million and RMB6,433 million, respectively.

38.3 Dividends

Dividends for Ordinary Shares

An ordinary share dividend of RMB51,812 million in respect of the profit for the year ended 31 December 2017 was approved by the equity holders of the Bank at the Annual General Meeting held on 28 June 2018 and was distributed during the year.

An ordinary share dividend of RMB0.184 per share in respect of the profit for the year ended 31 December 2018 (2017: RMB0.176 per share), amounting to a total dividend of RMB54,167 million, based on the number of shares issued as at 31 December 2018 will be proposed for approval at the Annual General Meeting to be held on 17 May 2019. The dividend payable is not reflected in liabilities of the financial statements.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.3 Dividends (Continued)

Dividends for Preference Shares

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million was approved by the Board of Directors of the Bank at the Board Meeting held on 19 January 2018 and the dividend was distributed on 13 March 2018.

The dividend distribution of Offshore Preference Shares and Domestic Preference Shares (First Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 28 August 2018. The dividend of Offshore Preference Shares amounting to USD487 million before tax was distributed on 23 October 2018. The dividend of Domestic Preference Shares (First Tranche) amounting to RMB1,920 million was distributed on 21 November 2018.

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2018	**2017**
BOC Hong Kong (Group) Limited	87,689	60,084
Bank of China Group Investment Limited	9,440	8,265
Tai Fung Bank Limited	9,034	8,173
Other	6,254	4,141
Total	112,417	80,663

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Changes in the consolidation

On 25 December 2018, the Bank purchased the shares of 26 village banks from China Construction Bank and four other companies. The total consideration was RMB1,439 million, and the shares acquired for each bank are between 45.90% and 67.05% of the total shares.

The details of the identifiable assets and liabilities acquired are as follows:

	Acquisition Date	
	Fair value	**Carrying amount**
Cash and due from banks and other financial institutions	4,974	4,974
Balances with central banks	1,215	1,215
Loans and advances to customers, net	7,007	7,007
Property and equipment	49	51
Intangible assets	1	1
Deferred income tax assets	75	74
Other assets	102	102
Due to banks and other financial institutions	(74)	(74)
Due to central banks	(91)	(91)
Due to customers	(9,762)	(9,762)
Deferred income tax liabilities	(5)	(5)
Other liabilities	(360)	(360)
Total	3,131	3,132
Non-controlling interests	(1,649)	(1,649)
Identifiable net assets	1,482	
Goodwill arising on acquisition	44	
Other operating income	(87)	
Total consideration	1,439	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Changes in the consolidation (Continued)

The financial performance and cash flows of the 26 village banks from the date of acquisition until 31 December 2018 are as follows:

	Period from acquisition date to 31 December 2018
Operating income	9
Profit for the period	8
Net cash flows for the period	(377)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the village banks is as follows:

	Year ended 31 December 2018
Cash and cash equivalents held by the village banks as at the acquisition date	3,798
Cash consideration paid on acquisition of the village banks	(1,439)
Net cash inflow on acquisition of the village banks	2,359

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments

41.1 Legal proceedings and arbitrations

As at 31 December 2018, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 31 December 2018, provisions of RMB656 million (31 December 2017: RMB995 million) were made based on court judgements or the advice of counsel (Note V.36). After consulting legal professionals, the senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

41.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December	
	2018	**2017**
Debt securities	990,743	1,119,921
Bills	1,603	751
Total	992,346	1,120,672

41.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 31 December 2018, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB27,218 million (31 December 2017: RMB32,052 million). As at 31 December 2018, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB2,631 million (31 December 2017: RMB3,067 million). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.4 Capital commitments

	As at 31 December	
	2018	**2017**
Property and equipment		
— Contracted but not provided for	64,650	52,839
— Authorised but not contracted for	1,597	1,804
Intangible assets		
— Contracted but not provided for	934	709
— Authorised but not contracted for	25	47
Investment properties		
— Contracted but not provided for	7	9
Total	67,213	55,408

41.5 Operating leases

(1) Operating lease commitments — As lessee

Under irrevocable operating lease contracts, the future minimum lease payments that should be paid by the Group are summarised as follows:

	As at 31 December	
	2018	**2017**
Within 1 year	6,698	6,570
Between 1 and 2 years	5,071	4,952
Between 2 and 3 years	3,724	3,597
Over 3 years	12,600	6,667
Total	28,093	21,786

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.5 Operating leases (Continued)

(2) Operating lease commitments — As lessor

The Group acts as a lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Limited. Under irrevocable operating lease contracts, as at 31 December 2018, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB11,753 million not later than one year (31 December 2017: RMB10,319 million), RMB47,494 million later than one year and not later than five years (31 December 2017: RMB42,237 million) and RMB50,248 million later than five years (31 December 2017: RMB47,490 million).

41.6 Treasury bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2018, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB52,635 million (31 December 2017: RMB49,855 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption through the Bank prior to the maturity dates of these bonds will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.7 Credit commitments

	As at 31 December	
	2018	**2017**
Loan commitments (1)		
— with an original maturity of less than 1 year	186,425	188,198
— with an original maturity of 1 year or over	1,127,891	1,147,484
Undrawn credit card limits	954,394	840,078
Letters of guarantee issued (2)	1,070,825	1,079,178
Bank bill acceptance	256,360	295,991
Letters of credit issued	130,625	139,298
Accepted bills of exchange under letters of credit	98,849	90,175
Other	167,642	90,230
Total (3)	3,993,011	3,870,632

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 31 December 2018, the unconditionally revocable loan commitments of the Group amounted to RMB254,033 million (31 December 2017: RMB240,303 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors.

	As at 31 December	
	2018	**2017**
Credit commitments	1,102,554	1,067,636

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.8 Underwriting obligations

As at 31 December 2018, there was no firm commitment in underwriting securities of the Group (31 December 2017: RMB570 million).

42 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 31 December	
	2018	**2017**
Cash and due from banks and other financial institutions	264,526	279,651
Balances with central banks	728,940	438,711
Placements with and loans to banks and other financial institutions	638,472	177,129
Financial investments	56,662	63,261
Total	1,688,600	958,752

43 Related party transactions

43.1 CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business on commercial terms.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	DING Xuedong
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council
Unified social credit code	911000007109329615

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business on commercial terms.

Due to Huijin

Transaction balances

	Year ended 31 December	
	2018	**2017**
As at 1 January	12,046	13,349
Received during the year	80,833	33,436
Repaid during the year	(83,625)	(34,739)
As at 31 December	9,254	12,046

Transaction amount

	Year ended 31 December	
	2018	**2017**
Interest expense	(259)	(341)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(2) Transactions with Huijin (Continued)

Bonds issued by Huijin

As at 31 December 2018, the Bank held government backed bonds issued by Huijin with the carrying value of RMB18,511 million (31 December 2017: RMB8,560 million). These bonds have maturity of not more than 30 years and bear interest at fixed interest rates, payable annually. The interest income arising from the bonds was RMB701 million in 2018 (2017: RMB259 million). Purchasing of these bonds was in the ordinary course of business of the Group, complying with the requirements of the related regulations and corporate governance.

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business on commercial terms which include mainly the purchase and sale of debt securities, money market transactions and derivative transactions.

In the ordinary course of the business, main transactions that the Group entered into with the affiliates of parent company are as follows:

Transaction balances

	As at 31 December	
	2018	**2017**
Due from banks and other financial institutions	19,184	31,663
Placements with and loans to banks and other financial institutions	98,754	76,983
Financial investments	375,075	326,238
Derivative financial assets	10,874	4,795
Loans and advances to customers	32,275	10,825
Due to customers, banks and other financial institutions	(164,636)	(143,803)
Placements from banks and other financial institutions	(124,456)	(117,432)
Derivative financial liabilities	(6,434)	(8,620)
Credit commitments	12,159	8,683

Transaction amount

	Year ended 31 December	
	2018	**2017**
Interest income	12,709	14,368
Interest expense	(6,499)	(4,409)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin (Continued)

Interest rate ranges

	As at 31 December	
	2018	**2017**
Due from banks and other financial institutions	0.00%–8.20%	0.00%–5.50%
Placements with and loans to banks and other financial institutions	-0.10%–8.00%	-0.25%–8.50%
Financial investments	0.00%–6.20%	0.00%–6.20%
Loans and advances to customers	1.45%–6.18%	1.04%–5.51%
Due to customers, banks and other financial institutions	0.00%–6.10%	0.00%–6.10%
Placements from banks and other financial institutions	-0.10%–9.50%	0.00%–9.50%

43.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business on commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business on commercial terms. These include loans and advances, deposit taking and other normal banking businesses. In the ordinary course of the business, the main transactions that the Group entered into with associates and joint ventures are as follows:

Transaction balances

	As at 31 December	
	2018	**2017**
Loans and advances to customers	763	2,823
Due to customers, banks and other financial institutions	(4,709)	(9,326)
Credit commitments	43	957

Transaction amount

	Year ended 31 December	
	2018	**2017**
Interest income	22	15
Interest expense	(204)	(193)

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(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	Unified Social Credit Code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
BOC International (China) Co., Ltd.	PRC	91310000736650364G	37.14	37.14	RMB2,500	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products; management of publicly raised securities investment funds
Ying Kou Port Group CORP.	PRC	91210800121119657C	8.86	8.86	RMB20,000	Terminals and other port facilities services, cargo handling, warehousing services, ship and port services, leasing and maintenance services of port facilities and equipment and port machinery, etc.
Zhongxinboda (Wuhu) Investment Limited Partnership	PRC	91340202MA2N9TTA6R	25.50	25.50	NA	Asset management; Investment consulting
CGN Phase I Private Equity Fund Company Limited	PRC	91110000717827478Q	20.00	20.00	RMB100	Investment in nuclear power projects and related industries; Asset management; Investment consulting
Graceful Field Worldwide Limited	BVI	NA	80.00	Note (1)	USD0.0025	Investment
BOC & Cinda (Wuhu) Investment Limited Partnership	PRC	91340202MA2MU5438W	49.00	49.00	NA	Asset management; Investment consulting
Sichuan Lutianhua Co., Ltd.	PRC	91510500711880825C	16.44	16.44	RMB1,568	Chemical industry, mainly produces and sells all kinds of fertilizers and chemical products
Wkland Investments II Limited	BVI	NA	50.00	50.00	USD0.00002	Investment holding
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	91440000564568961E	40.00	40.00	RMB1,578	Investment

(1) In accordance with the respective articles of association, the Group has significant influence or joint control over these companies.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to the Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2018 and 2017.

43.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2018 and 2017, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2018 and 2017 comprises:

	Year ended 31 December	
	2018	**2017**
Compensation for short-term employment benefits (1)	9	13
Compensation for post-employment benefits	1	1
Total	10	14

(1) The total compensation package for these key management personnel for the year ended 31 December 2018 has not yet been finalised in accordance with the regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a significant impact on the Group's 2018 financial statements. The final compensation will be disclosed in a separate announcement when determined.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Transactions with Connected Natural Persons

As at 31 December 2018, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* of CBIRC and the *Administrative Measures for the Disclosure of Information of Listed Companies* of CSRC totalled approximately RMB168 million (31 December 2017: RMB138 million) and RMB21 million (31 December 2017: RMB5 million) respectively.

43.8 Transactions with subsidiaries

The main transactions with subsidiaries are as follows:

Transaction balances

	As at 31 December	
	2018	**2017**
Due from banks and other financial institutions	44,911	30,932
Placements with and loans to banks and other financial institutions	127,644	90,913
Due to banks and other financial institutions	(87,797)	(112,859)
Placements from banks and other financial institutions	(76,215)	(86,316)

Transaction amount

	Year ended 31 December	
	2018	**2017**
Interest income	1,465	954
Interest expense	(2,825)	(2,119)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.8 Transactions with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held [(1)]						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited [(3)]	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB4,535	100.00	100.00	Insurance services
BOC Financial Asset Investment Company Limited	Beijing	16 November 2017	RMB10,000	100.00	100.00	Debt-to-equity swaps and other supporting businesses, etc.
Indirectly held						
BOC Hong Kong (Holdings) Limited [(2)]	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited [(3)]	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited [(3)]	Hong Kong	1 December 1997	HKD200	77.60	100.00	Provision of trustee services
BOC Aviation Limited [(2)]	Singapore	25 November 1993	USD1,158	70.00	70.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.8 Transactions with subsidiaries (Continued)

(1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.

(2) BOCHK (Holdings) and BOC Aviation Limited are listed on the Stock Exchange of Hong Kong Limited.

(3) BOCHK and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06% and 100% of their equity interests, respectively, hold 66% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

44 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macau and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

The measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect the current situation.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment Reporting (Continued)

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions, including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign exchange, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

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FOR THE YEAR ENDED 31 DECEMBER 2018

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V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2018

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOCHK Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	587,134	50,368	38,798	89,166	48,106	(36,506)	687,900
Interest expense	(283,189)	(18,318)	(32,017)	(50,335)	(31,176)	36,506	(328,194)
Net interest income	303,945	32,050	6,781	38,831	16,930	–	359,706
Fee and commission income	77,836	12,612	6,691	19,303	6,169	(3,311)	99,997
Fee and commission expense	(7,642)	(3,559)	(1,661)	(5,220)	(1,802)	1,875	(12,789)
Net fee and commission income	70,194	9,053	5,030	14,083	4,367	(1,436)	87,208
Net trading (losses)/gains	(83)	2,322	2,444	4,766	2,036	–	6,719
Net gains/(losses) on financial investments	2,859	17	(69)	(52)	10	–	2,817
Other operating income [(1)]	16,129	14,600	17,746	32,346	234	(1,353)	47,356
Operating income	393,044	58,042	31,932	89,974	23,577	(2,789)	503,806
Operating expenses [(1)]	(131,958)	(23,322)	(16,634)	(39,956)	(6,967)	1,902	(176,979)
Impairment losses on assets	(98,872)	(1,048)	(66)	(1,114)	692	–	(99,294)
Operating profit	162,214	33,672	15,232	48,904	17,302	(887)	227,533
Share of results of associates and joint ventures	10	(12)	2,112	2,100	–	–	2,110
Profit before income tax	162,224	33,660	17,344	51,004	17,302	(887)	229,643
Income tax expense							(37,208)
Profit for the year							192,435
Segment assets	16,925,075	2,553,366	1,627,527	4,180,893	2,009,680	(1,871,742)	21,243,906
Investment in associates and joint ventures	7,231	164	15,974	16,138	–	–	23,369
Total assets	16,932,306	2,553,530	1,643,501	4,197,031	2,009,680	(1,871,742)	21,267,275
Include: non-current assets [(2)]	100,098	27,719	143,779	171,498	5,837	(161)	277,272
Segment liabilities	15,625,811	2,332,126	1,512,393	3,844,519	1,943,129	(1,871,581)	19,541,878
Other segment items:							
Intersegment net interest (expense)/income	(10,009)	2,066	13,534	15,600	(5,591)	–	–
Intersegment net fee and commission income/(expense)	48	69	1,555	1,624	(236)	(1,436)	–
Capital expenditure	10,511	1,042	29,798	30,840	513	–	41,864
Depreciation and amortisation	11,175	1,036	4,449	5,485	383	–	17,043
Credit commitments	3,519,912	278,653	102,467	381,120	462,753	(370,774)	3,993,011

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2017

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOCHK Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	540,129	43,236	30,242	73,478	37,780	(28,771)	622,616
Interest expense	(255,199)	(12,791)	(22,942)	(35,733)	(22,066)	28,771	(284,227)
Net interest income	284,930	30,445	7,300	37,745	15,714	–	338,389
Fee and commission income	77,928	12,994	6,967	19,961	6,161	(3,250)	100,800
Fee and commission expense	(7,200)	(3,356)	(1,532)	(4,888)	(1,825)	1,804	(12,109)
Net fee and commission income	70,728	9,638	5,435	15,073	4,336	(1,446)	88,691
Net trading (losses)/gains	(4,820)	2,419	1,704	4,123	2,383	–	1,686
Net gains on financial investments	821	980	597	1,577	8	–	2,406
Other operating income [(1)]	19,045	17,820	18,808	36,628	129	(3,213)	52,589
Operating income	370,704	61,302	33,844	95,146	22,570	(4,659)	483,761
Operating expenses [(1)]	(126,351)	(26,649)	(16,523)	(43,172)	(6,265)	1,929	(173,859)
Impairment losses on assets	(85,286)	(926)	(796)	(1,722)	(1,153)	–	(88,161)
Operating profit	159,067	33,727	16,525	50,252	15,152	(2,730)	221,741
Share of results of associates and joint ventures	–	14	1,148	1,162	–	–	1,162
Profit before income tax	159,067	33,741	17,673	51,414	15,152	(2,730)	222,903
Income tax expense							(37,917)
Profit for the year							184,986
Segment assets	15,503,377	2,181,757	1,335,266	3,517,023	1,911,087	(1,481,243)	19,450,244
Investments in associates and joint ventures	159	168	16,853	17,021	–	–	17,180
Total assets	15,503,536	2,181,925	1,352,119	3,534,044	1,911,087	(1,481,243)	19,467,424
Include: non-current assets [(2)]	100,449	25,340	121,829	147,169	5,590	(161)	253,047
Segment liabilities	14,285,717	2,001,454	1,234,264	3,235,718	1,850,392	(1,481,082)	17,890,745
Other segment items:							
Intersegment net interest (expense)/income	(9,245)	1,657	11,820	13,477	(4,232)	–	–
Intersegment net fee and commission income/(expense)	261	34	1,529	1,563	(378)	(1,446)	–
Capital expenditure	14,084	1,281	30,090	31,371	467	–	45,922
Depreciation and amortisation	11,467	1,059	3,907	4,966	336	–	16,769
Credit commitments	3,412,867	293,376	124,563	417,939	461,310	(421,484)	3,870,632

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2018

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	344,483	215,904	203,012	1,700	2,731	3,147	(83,077)	687,900
Interest expense	(166,474)	(93,535)	(145,573)	(520)	(39)	(5,130)	83,077	(328,194)
Net interest income/(expense)	178,009	122,369	57,439	1,180	2,692	(1,983)	–	359,706
Fee and commission income	30,556	48,729	16,691	4,419	2	1,901	(2,301)	99,997
Fee and commission expense	(1,238)	(6,923)	(1,886)	(1,224)	(3,369)	(125)	1,976	(12,789)
Net fee and commission income/(expense)	29,318	41,806	14,805	3,195	(3,367)	1,776	(325)	87,208
Net trading gains/(losses)	2,498	901	2,746	304	(1,586)	1,798	58	6,719
Net gains/(losses) on financial investments	923	142	1,705	–	48	(1)	–	2,817
Other operating income	617	8,313	764	235	22,823	17,250	(2,646)	47,356
Operating income	211,365	173,531	77,459	4,914	20,610	18,840	(2,913)	503,806
Operating expenses	(58,987)	(71,483)	(17,456)	(2,949)	(19,448)	(9,569)	2,913	(176,979)
Impairment losses on assets	(88,871)	(8,751)	(1,348)	1	(20)	(305)	–	(99,294)
Operating profit	63,507	93,297	58,655	1,966	1,142	8,966	–	227,533
Share of results of associates and joint ventures	–	63	3	375	(157)	1,896	(70)	2,110
Profit before income tax	63,507	93,360	58,658	2,341	985	10,862	(70)	229,643
Income tax expense								(37,208)
Profit for the year								192,435
Segment assets	7,628,839	4,438,581	8,629,971	65,239	149,592	423,944	(92,260)	21,243,906
Investments in associates and joint ventures	–	143	–	4,690	–	18,622	(86)	23,369
Total assets	7,628,839	4,438,724	8,629,971	69,929	149,592	442,566	(92,346)	21,267,275
Segment liabilities	9,435,725	6,218,896	3,574,230	50,915	134,988	219,223	(92,099)	19,541,878
Other segment items:								
Intersegment net interest income/(expense)	36,820	43,889	(79,778)	161	54	(1,146)	–	–
Intersegment net fee and commission income/(expense)	506	1,362	95	(403)	(1,493)	258	(325)	–
Capital expenditure	3,263	3,618	178	130	81	34,594	–	41,864
Depreciation and amortisation	4,765	6,023	1,622	121	91	4,421	–	17,043
Credit commitments	2,859,851	1,133,160	–	–	–	–	–	3,993,011

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2017

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	308,532	200,836	190,248	1,216	3,064	818	(82,098)	622,616
Interest expense	(143,490)	(90,434)	(128,679)	(328)	(64)	(3,330)	82,098	(284,227)
Net interest income/(expense)	165,042	110,402	61,569	888	3,000	(2,512)	–	338,389
Fee and commission income	38,737	44,549	13,865	4,495	–	1,210	(2,056)	100,800
Fee and commission expense	(2,790)	(5,262)	(1,760)	(1,095)	(2,863)	(66)	1,727	(12,109)
Net fee and commission income/(expense)	35,947	39,287	12,105	3,400	(2,863)	1,144	(329)	88,691
Net trading gains/(losses)	1,563	946	(3,487)	373	1,872	346	73	1,686
Net gains on financial investments	18	3	1,235	122	671	357	–	2,406
Other operating income	1,939	8,559	1,123	235	23,924	19,483	(2,674)	52,589
Operating income	204,509	159,197	72,545	5,018	26,604	18,818	(2,930)	483,761
Operating expenses	(55,405)	(69,065)	(16,605)	(2,374)	(24,900)	(8,440)	2,930	(173,859)
Impairment losses on assets	(75,093)	(9,147)	(3,064)	(4)	(7)	(846)	–	(88,161)
Operating profit	74,011	80,985	52,876	2,640	1,697	9,532	–	221,741
Share of results of associates and joint ventures	–	–	–	465	(34)	784	(53)	1,162
Profit before income tax	74,011	80,985	52,876	3,105	1,663	10,316	(53)	222,903
Income tax expense								(37,917)
Profit for the year								184,986
Segment assets	7,139,973	3,954,150	7,908,168	66,050	139,945	325,825	(83,867)	19,450,244
Investments in associates and joint ventures	–	–	–	4,449	–	12,799	(68)	17,180
Total assets	7,139,973	3,954,150	7,908,168	70,499	139,945	338,624	(83,935)	19,467,424
Segment liabilities	8,846,697	5,826,209	2,960,947	53,067	125,765	161,766	(83,706)	17,890,745
Other segment items:								
Intersegment net interest income/(expense)	27,889	53,019	(80,159)	–	54	(803)	–	–
Intersegment net fee and commission income/(expense)	203	810	105	(385)	(1,274)	870	(329)	–
Capital expenditure	4,266	4,719	226	129	141	36,441	–	45,922
Depreciation and amortisation	4,894	6,225	1,525	94	113	3,918	–	16,769
Credit commitments	2,869,323	1,001,309	–	–	–	–	–	3,870,632

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities upon maturity of the contract. If the value of securities increases or decreases, the Group may in certain circumstances, require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	108,146	104,434	59,494	58,333

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Transfers of financial assets (Continued)

Credit assets transfers

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level, and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB1,273 million as at 31 December 2018 (31 December 2017: RMB1,717 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB43,080 million for this year (2017: RMB35,769 million) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB9,639 million as at 31 December 2018 (31 December 2017: RMB5,768 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in the structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

46.1 Interests in the unconsolidated structured entities

The interests held by the Group in the unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

In conducting the asset management business in Chinese mainland, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives, including non-guaranteed wealth management products, publicly offered funds and asset management plans, and earned management fee, commission and custodian fees in return.

As at 31 December 2018, the balance of the above unconsolidated bank wealth management products sponsored by the Group amounted to RMB1,157,201 million (31 December 2017: RMB1,157,736 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB762,725 million (31 December 2017: RMB802,405 million).

For the year ended 31 December 2018, the above-mentioned management fee, commission and custodian fee amounted to RMB9,041 million (2017: RMB11,247 million).

As at 31 December 2018, the balance of interest and commission receivable held by the Group in above-mentioned structured entities are not material. For the purpose of asset-liability management, wealth management products may require short-term financing from the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the year ended 31 December 2018, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB122,322 million (2017: RMB31,049 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 31 December 2018, the balance of the above transactions was RMB107,000 million (31 December 2017: RMB31,049 million). The maximum exposure to loss of those placements approximated to their carrying amount.

In addition, the total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB163 million for the year ended 31 December 2018 (2017: RMB15,874 million). For description of the portion of asset-backed securities issued by above structured entities and held by the Group, refer to Note V.45.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in the structured entities (Continued)

46.1 Interests in the unconsolidated structured entities (Continued)

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

Structured entity type	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
As at 31 December 2018					
Fund investments	39,237	–	–	39,237	39,237
Investment trusts and asset management plans	2,420	–	8,561	10,981	10,981
Asset-backed securitisations	759	49,195	48,613	98,567	98,567

Structured entity type	Financial assets at fair value through profit or loss	Investment securities available for sale	Debt securities held to maturity	Financial investments classified as loans and receivables	Total	Maximum exposure to loss
As at 31 December 2017						
Fund investments	8,408	26,439	–	–	34,847	34,847
Wealth management plans	–	15,000	–	–	15,000	15,000
Investment trusts and asset management plans	316	–	–	7,134	7,450	7,450
Asset-backed securitisations	2,014	35,525	33,469	1,307	72,315	72,315

46.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for assets-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. Except for providing financial guarantees for the companies established solely for financing purpose, the Group does not provide financial or other support to the other consolidated structured entities.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		Net amount
				Financial instruments*	Cash collateral received	
As at 31 December 2018						
Derivatives	42,257	–	42,257	(25,990)	(2,891)	13,376
Reverse repo agreements	4,350	–	4,350	(4,350)	–	–
Other assets	11,727	(8,072)	3,655	–	–	3,655
Total	58,334	(8,072)	50,262	(30,340)	(2,891)	17,031
As at 31 December 2017						
Derivatives	35,854	–	35,854	(24,687)	(3,726)	7,441
Reverse repo agreements	9,616	–	9,616	(9,616)	–	–
Other assets	14,572	(8,814)	5,758	–	–	5,758
Total	60,042	(8,814)	51,228	(34,303)	(3,726)	13,199

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities (Continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		Net amount
				Financial instruments*	Cash collateral pledged	
As at 31 December 2018						
Derivatives	40,691	–	40,691	(25,976)	(2,029)	12,686
Repurchase agreements	22,446	–	22,446	(22,446)	–	–
Other liabilities	8,681	(8,072)	609	–	–	609
Total	71,818	(8,072)	63,746	(48,422)	(2,029)	13,295
As at 31 December 2017						
Derivatives	32,508	–	32,508	(24,439)	(619)	7,450
Repurchase agreements	12,086	–	12,086	(12,086)	–	–
Other liabilities	9,416	(8,814)	602	–	–	602
Total	54,010	(8,814)	45,196	(36,525)	(619)	8,052

* Including non-cash collateral

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously (“the offset criteria”).

Derivatives and reverse repo/repurchase agreements included in the amounts are not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of setting off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

- cash and non-cash collateral have been received/pledged in respect of the transactions described above.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity

48.1 The Bank's statement of financial position

	As at 31 December	
	2018	**2017**
ASSETS		
Cash and due from banks and other financial institutions	413,600	513,836
Balances with central banks	1,958,832	2,129,262
Placements with and loans to banks and other financial institutions	1,099,001	585,638
Government certificates of indebtedness for bank notes issued	8,060	7,141
Precious metals	175,333	166,687
Derivative financial assets	96,497	72,055
Loans and advances to customers, net	10,157,694	9,443,898
Financial investments	4,221,661	3,733,316
— financial assets at fair value through profit or loss	225,230	109,022
— financial assets at fair value through other comprehensive income	1,316,998	N/A
— financial assets at amortised cost	2,679,433	N/A
— available for sale	N/A	1,193,010
— held to maturity	N/A	2,028,333
— loans and receivables	N/A	402,951
Investments in subsidiaries	111,884	106,404
Investments in associates and joint ventures	7,317	226
Consolidated structured entities	127,192	140,000
Property and equipment	82,440	83,439
Investment properties	2,002	2,025
Deferred income tax assets	38,208	47,933
Other assets	43,312	134,019
Total assets	18,543,033	17,165,879

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.1 The Bank's statement of financial position (Continued)

	As at 31 December	
	2018	**2017**
LIABILITIES		
Due to banks and other financial institutions	1,721,071	1,476,244
Due to central banks	847,493	973,120
Bank notes in circulation	8,237	7,462
Placements from banks and other financial institutions	586,749	537,448
Financial liabilities held for trading	2,642	6,231
Derivative financial liabilities	74,855	89,647
Due to customers	12,999,376	11,981,597
Bonds issued	704,886	423,485
Current tax liabilities	23,826	28,413
Retirement benefit obligations	2,825	3,027
Deferred income tax liabilities	121	113
Other liabilities	126,520	281,662
Total liabilities	17,098,601	15,808,449
EQUITY		
Share capital	294,388	294,388
Other equity instruments	99,714	99,714
Capital reserve	138,832	138,832
Other comprehensive income	8,596	(21,282)
Statutory reserves	154,313	138,275
General and regulatory reserves	222,462	200,022
Undistributed profits	526,127	507,481
Total equity	1,444,432	1,357,430
Total equity and liabilities	18,543,033	17,165,879

Approved and authorised for issue by the Board of Directors on 29 March 2019.

CHEN Siqing	**LIU Liange**
Director	*Director*

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.2 The Bank's statement of changes in equity

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 31 December 2017	294,388	99,714	138,832	(21,282)	138,275	200,022	507,481	1,357,430
Changes in accounting policies — impact of adopting IFRS 9	–	–	–	11,380	–	–	(43,672)	(32,292)
As at 1 January 2018	294,388	99,714	138,832	(9,902)	138,275	200,022	463,809	1,325,138
Total comprehensive income	–	–	–	18,437	–	–	159,460	177,897
Appropriation to statutory reserves	–	–	–	–	16,038	–	(16,038)	–
Appropriation to general and regulatory reserves	–	–	–	–	–	22,440	(22,440)	–
Dividends	–	–	–	–	–	–	(58,603)	(58,603)
Other comprehensive income transferred to retained earnings	–	–	–	61	–	–	(61)	–
As at 31 December 2018	294,388	99,714	138,832	8,596	154,313	222,462	526,127	1,444,432

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.2 The Bank's statement of changes in equity (Continued)

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2017	294,388	99,714	138,832	(4,441)	122,975	186,640	440,902	1,279,010
Total comprehensive income	–	–	–	(16,841)	–	–	151,472	134,631
Appropriation to statutory reserves	–	–	–	–	15,300	–	(15,300)	–
Appropriation to general and regulatory reserves	–	–	–	–	–	13,382	(13,382)	–
Dividends	–	–	–	–	–	–	(56,211)	(56,211)
As at 31 December 2017	294,388	99,714	138,832	(21,282)	138,275	200,022	507,481	1,357,430

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Events after the financial reporting date

Strategic restructuring plan in the ASEAN region

As part of the Group's strategic restructuring plan in the ASEAN region, on 4 December 2018, the Bank (as seller) and BOCHK (as buyer) entered into a sale and purchase agreement in relation to the sale and purchase of the Bank's ownership of Bank of China Limited, Vientiane Branch. The equity transfer was completed on 21 January 2019.

Dividend distribution plan of Domestic Preference Shares (Second Tranche)

The dividend distribution of Domestic Preference Shares (Second Tranche) was approved by the Board of Directors of the Bank at the Board meeting held on 25 January 2019. The dividend of RMB1,540 million was paid at a rate of 5.5% on 13 March 2019. The dividend payable was not reflected in liabilities of the financial statements.

Issuance of undated capital bonds

On 25 January 2019, the Bank issued write-down undated capital bonds (the "Bonds") in an aggregate amount of RMB40 billion in the domestic interbank bond market with a coupon rate of 4.50%. The issuance of the Bonds was completed on 29 January 2019. The funds raised from the issuance of the Bonds will be used to replenish the Bank's additional tier-1 capital.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has the overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

3.1 Credit risk measurement

(1) Loans and advances to customers and off-balance sheet commitments

The Credit Management Department is responsible for centrally monitoring and evaluating the credit risk of granting loans and advances to customers and off-balance sheet credit commitments, and reporting to senior management and the Board of Directors on a regular basis.

The Group mainly measures the credit risk of corporate loans and advances based on the PD and financial status of customers' agreed obligations, and considering the current credit exposure and possible future development trends. For individual customers, the Group uses a standard credit approval process to assess the credit risk of individual loans, and uses a scorecard model based on historical LGD to measure the credit risk of credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

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

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the "Guideline"), which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay the principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts back-testing of the model according to the customer's actual default each year, so that the model calculation results are closer to the objective fact.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

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

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by the Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on the notional amount and term. 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 for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at the Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

Credit to corporate customers in the Chinese mainland is originated by the Corporate Banking Department at the Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by the authorised credit application approvers at the Head Office and tier 1 branch level in the Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branch level in the Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and the securities, and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Management Department. The principal collateral types for corporate loans and advances are:

Collateral	**Maximum loan-to-value ratio**
Deposit receipt	95%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Construction land use rights	70%
Real estate	70%
Automobiles	50%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised depending on the nature of the loan.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(i) Collateral and guarantees (Continued)

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

(ii) 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 the offsetting 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 customer 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 it is affected by each transaction subject to the arrangement.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment measurement for losses on assets

Refer to Note II 4.6 for relevant policies.

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

	As at 31 December	
	2018	**2017**
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Due from banks and other financial institutions	363,176	485,057
Balances with central banks	2,331,053	2,227,614
Placements with and loans to banks and other financial institutions	1,042,358	575,399
Government certificates of indebtedness for bank notes issued	145,010	129,350
Derivative financial assets	124,126	94,912
Loans and advances to customers, net	11,515,764	10,644,304
Financial investments		
— financial assets at fair value through profit or loss	279,472	173,892
— financial assets at fair value through other comprehensive income	1,862,232	N/A
— financial assets at amortised cost	2,804,301	N/A
— available for sale	N/A	1,788,517
— held to maturity	N/A	2,089,864
— loans and receivables	N/A	414,025
Other assets	88,012	189,328
Subtotal	20,555,504	18,812,262
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	1,070,825	1,079,178
Loan commitments and other credit commitments	2,922,186	2,791,454
Subtotal	3,993,011	3,870,632
Total	24,548,515	22,682,894

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The table above represents a worst case scenario of credit risk exposure of the Group as at 31 December 2018 and 2017, without taking into account any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As at 31 December 2018, 46.91% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2017: 46.93%) and 20.09% represents investments in debt securities (31 December 2017: 19.58%).

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances

Analysis of loans and advances to customers (accrued interest excluded) by geographical area, industry, collateral type and analysis of overdue loans and advances to customers is presented below:

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group	As at 31 December			
	2018		2017	
	Amount	% of total	Amount	% of total
Chinese mainland	9,273,549	78.67%	8,583,185	78.77%
Hong Kong, Macau and Taiwan	1,515,844	12.86%	1,339,149	12.29%
Other countries and regions	998,290	8.47%	974,224	8.94%
Total	11,787,683	100.00%	10,896,558	100.00%

Chinese mainland	As at 31 December			
	2018		2017	
	Amount	% of total	Amount	% of total
Northern China	1,456,249	15.70%	1,364,869	15.90%
Northeastern China	501,420	5.41%	517,581	6.03%
Eastern China	3,622,159	39.06%	3,362,753	39.18%
Central and Southern China	2,499,434	26.95%	2,242,985	26.13%
Western China	1,194,287	12.88%	1,094,997	12.76%
Total	9,273,549	100.00%	8,583,185	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
As at 31 December 2018				
Corporate loans and advances				
— Trade bills	778,907	95,793	128,916	1,003,616
— Other	4,559,625	964,102	820,255	6,343,982
Personal loans	3,935,017	455,949	49,119	4,440,085
Total	9,273,549	1,515,844	998,290	11,787,683
As at 31 December 2017				
Corporate loans and advances				
— Trade bills	652,115	107,817	104,817	864,749
— Other	4,448,138	828,592	831,222	6,107,952
Personal loans	3,482,932	402,740	38,185	3,923,857
Total	8,583,185	1,339,149	974,224	10,896,558

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group	As at 31 December			
	2018		2017	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,674,340	14.21%	1,685,179	15.46%
Commerce and services	1,516,354	12.86%	1,557,095	14.29%
Transportation, storage and postal services	1,182,411	10.03%	1,056,755	9.70%
Real estate	915,793	7.77%	820,922	7.53%
Production and supply of electricity, heating, gas and water	648,849	5.50%	599,896	5.51%
Financial services	398,478	3.38%	285,598	2.62%
Mining	320,369	2.72%	338,316	3.10%
Construction	239,397	2.03%	207,201	1.90%
Water, environment and public utility management	167,811	1.42%	160,941	1.48%
Public utilities	125,917	1.07%	117,419	1.08%
Other	157,879	1.34%	143,379	1.32%
Subtotal	7,347,598	62.33%	6,972,701	63.99%
Personal loans				
Mortgages	3,503,563	29.72%	3,061,553	28.10%
Credit cards	426,338	3.62%	374,297	3.43%
Other	510,184	4.33%	488,007	4.48%
Subtotal	4,440,085	37.67%	3,923,857	36.01%
Total	11,787,683	100.00%	10,896,558	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland	**As at 31 December**			
	2018		**2017**	
	Amount	**% of total**	**Amount**	**% of total**
Corporate loans and advances				
Manufacturing	1,296,509	13.98%	1,371,246	15.98%
Commerce and services	1,130,498	12.19%	1,140,012	13.28%
Transportation, storage and postal services	1,009,087	10.88%	918,214	10.70%
Real estate	469,358	5.06%	402,693	4.69%
Production and supply of electricity, heating, gas and water	504,348	5.44%	487,941	5.68%
Financial services	253,212	2.73%	145,652	1.70%
Mining	178,471	1.92%	172,973	2.01%
Construction	200,982	2.17%	173,373	2.02%
Water, environment and public utility management	157,594	1.70%	149,964	1.75%
Public utilities	107,201	1.16%	105,675	1.23%
Other	31,272	0.34%	32,510	0.38%
Subtotal	5,338,532	57.57%	5,100,253	59.42%
Personal loans				
Mortgages	3,154,164	34.01%	2,750,946	32.05%
Credit cards	411,145	4.43%	360,699	4.20%
Other	369,708	3.99%	371,287	4.33%
Subtotal	3,935,017	42.43%	3,482,932	40.58%
Total	9,273,549	100.00%	8,583,185	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group	**As at 31 December**			
	2018		**2017**	
	Amount	**% of total**	**Amount**	**% of total**
Unsecured loans	3,636,400	30.84%	3,447,319	31.64%
Guaranteed loans	1,837,442	15.59%	1,971,535	18.09%
Collateralised and other secured loans				
— Loans secured by property and other immovable assets	5,082,489	43.12%	4,410,349	40.47%
— Other pledged loans	1,231,352	10.45%	1,067,355	9.80%
Total	11,787,683	100.00%	10,896,558	100.00%

Chinese mainland	**As at 31 December**			
	2018		**2017**	
	Amount	**% of total**	**Amount**	**% of total**
Unsecured loans	2,585,343	27.88%	2,418,477	28.18%
Guaranteed loans	1,417,321	15.28%	1,619,202	18.86%
Collateralised and other secured loans				
— Loans secured by property and other immovable assets	4,388,094	47.32%	3,755,618	43.76%
— Other pledged loans	882,791	9.52%	789,888	9.20%
Total	9,273,549	100.00%	8,583,185	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December			
	Group		Chinese mainland	
	2018	**2017**	**2018**	**2017**
Corporate loans and advances				
— Neither past due nor impaired	7,164,061	6,811,112	5,170,326	4,945,580
— Past due but not impaired	44,429	31,630	32,785	28,085
— Impaired	139,108	129,959	135,421	126,588
Subtotal	7,347,598	6,972,701	5,338,532	5,100,253
Personal loans				
— Neither past due nor impaired	4,384,415	3,870,737	3,884,678	3,433,749
— Past due but not impaired	27,826	25,197	22,982	21,563
— Impaired	27,844	27,923	27,357	27,620
Subtotal	4,440,085	3,923,857	3,935,017	3,482,932
Total	11,787,683	10,896,558	9,273,549	8,583,185

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on the Guideline and other relevant regulatory principles, as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group	**As at 31 December**					
	2018			**2017**		
	Pass	**Special-mention**	**Total**	**Pass**	**Special-mention**	**Total**
Corporate loans and advances	6,889,911	274,150	7,164,061	6,549,415	261,697	6,811,112
Personal loans	4,383,286	1,129	4,384,415	3,868,720	2,017	3,870,737
Total	11,273,197	275,279	11,548,476	10,418,135	263,714	10,681,849

Chinese mainland	**As at 31 December**					
	2018			**2017**		
	Pass	**Special-mention**	**Total**	**Pass**	**Special-mention**	**Total**
Corporate loans and advances	4,934,008	236,318	5,170,326	4,705,978	239,602	4,945,580
Personal loans	3,884,412	266	3,884,678	3,433,452	297	3,433,749
Total	8,818,420	236,584	9,055,004	8,139,430	239,899	8,379,329

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired

The total amount of loans and advances that were past due but not impaired is as follows:

Group

	Within 1 month	1–3 months	More than 3 months	Total
As at 31 December 2018				
Corporate loans and advances	35,031	9,398	–	44,429
Personal loans	16,350	11,476	–	27,826
Total	51,381	20,874	–	72,255
As at 31 December 2017				
Corporate loans and advances	21,934	9,572	124	31,630
Personal loans	14,727	10,457	13	25,197
Total	36,661	20,029	137	56,827

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired (Continued)

Chinese mainland

	Within 1 month	1–3 months	More than 3 months	Total
As at 31 December 2018				
Corporate loans and advances	27,577	5,208	–	32,785
Personal loans	12,089	10,893	–	22,982
Total	39,666	16,101	–	55,767
As at 31 December 2017				
Corporate loans and advances	18,715	9,370	–	28,085
Personal loans	11,941	9,622	–	21,563
Total	30,656	18,992	–	49,648

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipment and cash deposits.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Impaired loans and advances

(a) Impaired loans and advances by geographical area

Group	As at 31 December					
	2018			2017		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	162,778	97.50%	1.76%	154,208	97.67%	1.80%
Hong Kong, Macau and Taiwan	2,720	1.63%	0.18%	1,813	1.15%	0.14%
Other countries and regions	1,454	0.87%	0.15%	1,861	1.18%	0.19%
Total	166,952	100.00%	1.42%	157,882	100.00%	1.45%

Chinese mainland	As at 31 December					
	2018			2017		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	23,053	14.16%	1.58%	28,244	18.31%	2.07%
Northeastern China	40,580	24.93%	8.09%	32,565	21.12%	6.29%
Eastern China	56,423	34.66%	1.56%	55,365	35.90%	1.65%
Central and Southern China	28,114	17.28%	1.12%	24,948	16.18%	1.11%
Western China	14,608	8.97%	1.22%	13,086	8.49%	1.20%
Total	162,778	100.00%	1.76%	154,208	100.00%	1.80%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group	As at 31 December					
	2018			2017		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	139,108	83.32%	1.89%	129,959	82.31%	1.86%
Personal loans	27,844	16.68%	0.63%	27,923	17.69%	0.71%
Total	166,952	100.00%	1.42%	157,882	100.00%	1.45%

Chinese mainland	As at 31 December					
	2018			2017		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	135,421	83.19%	2.54%	126,588	82.09%	2.48%
Personal loans	27,357	16.81%	0.70%	27,620	17.91%	0.79%
Total	162,778	100.00%	1.76%	154,208	100.00%	1.80%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Impaired loans and advances (Continued)

(c) Impaired loans and advances by geographical area and industry

	As at 31 December					
	2018			2017		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	70,092	41.98%	5.41%	66,281	41.98%	4.83%
Commerce and services	38,579	23.11%	3.41%	30,957	19.61%	2.72%
Transportation, storage and postal services	7,453	4.46%	0.74%	8,518	5.40%	0.93%
Real estate	4,370	2.62%	0.93%	5,624	3.56%	1.40%
Production and supply of electricity, heating, gas and water	1,952	1.17%	0.39%	1,833	1.16%	0.38%
Financial services	127	0.08%	0.05%	196	0.12%	0.13%
Mining	5,494	3.29%	3.08%	6,065	3.84%	3.51%
Construction	2,423	1.45%	1.21%	2,872	1.82%	1.66%
Water, environment and public utility management	1,223	0.73%	0.78%	329	0.21%	0.22%
Public utilities	159	0.10%	0.15%	242	0.15%	0.23%
Other	3,549	2.13%	11.35%	3,671	2.33%	11.29%
Subtotal	135,421	81.12%	2.54%	126,588	80.18%	2.48%
Personal loans						
Mortgages	10,225	6.12%	0.32%	9,700	6.14%	0.35%
Credit cards	9,636	5.77%	2.34%	9,154	5.80%	2.54%
Other	7,496	4.49%	2.03%	8,766	5.55%	2.36%
Subtotal	27,357	16.38%	0.70%	27,620	17.49%	0.79%
Total for Chinese mainland	162,778	97.50%	1.76%	154,208	97.67%	1.80%
Hong Kong, Macau, Taiwan and other countries and regions	4,174	2.50%	0.17%	3,674	2.33%	0.16%
Total	166,952	100.00%	1.42%	157,882	100.00%	1.45%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	Impaired loans	Allowance for impairment losses	Net
As at 31 December 2018			
Chinese mainland	162,778	(128,714)	34,064
Hong Kong, Macau and Taiwan	2,720	(1,407)	1,313
Other countries and regions	1,454	(995)	459
Total	166,952	(131,116)	35,836
As at 31 December 2017			
Chinese mainland	154,208	(105,682)	48,526
Hong Kong, Macau and Taiwan	1,813	(991)	822
Other countries and regions	1,861	(1,209)	652
Total	157,882	(107,882)	50,000

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Impaired loans and advances (Continued)

(e) Within the impaired corporate loans and advances, the portions covered and not covered by collateral held are as follows:

	Group		Chinese mainland	
	As at 31 December 2018	**As at 31 December 2017**	**As at 31 December 2018**	**As at 31 December 2017**
Portion covered	88,150	78,987	86,343	77,719
Portion not covered	50,958	50,972	49,078	48,869
Total	139,108	129,959	135,421	126,588
Fair value of collateral held	48,353	37,501	45,404	35,975

Collateral of corporate loans and advances includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are generally subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "Special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "Doubtful" or below. All rescheduled loans within the surveillance period were determined to be impaired as at 31 December 2018 and 2017.

As at 31 December 2018 and 2017, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
As at 31 December 2018					
Unsecured loans	11,682	16,415	7,353	2,016	37,466
Guaranteed loans	18,927	30,269	25,358	5,098	79,652
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	32,036	21,596	17,810	4,101	75,543
— Other pledged loans	22,109	2,209	1,882	1,090	27,290
Total	84,754	70,489	52,403	12,305	219,951
As at 31 December 2017					
Unsecured loans	11,986	11,716	6,678	2,087	32,467
Guaranteed loans	28,988	26,042	31,416	4,674	91,120
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	28,583	19,443	19,300	6,986	74,312
— Other pledged loans	1,799	956	1,549	639	4,943
Total	71,356	58,157	58,943	14,386	202,842

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland

	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
As at 31 December 2018					
Unsecured loans	8,867	15,652	6,875	1,994	33,388
Guaranteed loans	15,425	30,202	25,072	5,062	75,761
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	25,972	21,476	17,203	4,088	68,739
— Other pledged loans	17,865	2,063	1,795	1,028	22,751
Total	68,129	69,393	50,945	12,172	200,639
As at 31 December 2017					
Unsecured loans	9,277	11,220	6,570	2,083	29,150
Guaranteed loans	28,540	25,985	30,836	4,656	90,017
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	24,922	19,153	19,140	6,978	70,193
— Other pledged loans	1,150	748	1,231	589	3,718
Total	63,889	57,106	57,777	14,306	193,078

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2018	**2017**
Chinese mainland	200,639	193,078
Hong Kong, Macau and Taiwan	7,972	5,773
Other countries and regions	11,340	3,991
Subtotal	219,951	202,842
Percentage	1.87%	1.86%
Less: total loans and advances to customers which have been overdue for less than 3 months	(84,754)	(71,356)
Total loans and advances to customers which have been overdue for more than 3 months	135,197	131,486

(5) Loans and advances three-staging exposure

Loans and advances to customers by five-tier loan classification and three-staging analysed as follows:

	As at 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
Pass	11,183,826	91,017	6	11,274,849
Special-mention	–	342,358	5	342,363
Substandard	–	–	49,788	49,788
Doubtful	–	–	49,341	49,341
Loss	–	–	67,812	67,812
Total	11,183,826	433,375	166,952	11,784,153

The above table does not include loans and advances to customers measured at fair value through profit or loss.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in the Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2018, the majority of the balances of due from and placements with and loans to banks and other financial institutions were banks and other financial institutions in the Chinese mainland (Note V.13 and Note V.15), the majority of the internal credit ratings of these banks and other financial institutions were above A.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The Group adopts a credit rating approach to manage the credit risk of the debt securities by referring to both internal and external credit rating. The carrying amounts (accrued interest excluded) of the debt investments analysed by external credit rating at the financial reporting date are as follows:

	Unrated	A to AAA	Lower than A	Total
As at 31 December 2018				
Issuers in Chinese mainland				
— Government	3,965	2,650,164	–	2,654,129
— Public sectors and quasi-governments	84,364	–	–	84,364
— Policy banks	–	484,992	–	484,992
— Financial institutions	88,468	179,041	229,166	496,675
— Corporate	64,555	102,771	24,364	191,690
— China Orient	153,627	–	–	153,627
Subtotal	394,979	3,416,968	253,530	4,065,477
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	59	355,291	11,252	366,602
— Public sectors and quasi-governments	51,915	56,824	–	108,739
— Financial institutions	3,022	129,934	41,763	174,719
— Corporate	10,824	117,569	24,663	153,056
Subtotal	65,820	659,618	77,678	803,116
Total	460,799	4,076,586	331,208	4,868,593
As at 31 December 2017				
Issuers in Chinese mainland				
— Government	–	2,403,536	–	2,403,536
— Public sectors and quasi-governments	64,016	–	–	64,016
— Policy banks	–	519,245	–	519,245
— Financial institutions	86,721	142,150	93,956	322,827
— Corporate	62,149	106,092	20,570	188,811
— China Orient	158,806	–	–	158,806
Subtotal	371,692	3,171,023	114,526	3,657,241
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	–	370,423	6,773	377,196
— Public sectors and quasi-governments	39,951	52,064	196	92,211
— Financial institutions	3,910	147,742	39,669	191,321
— Corporate	10,661	84,541	19,962	115,164
Subtotal	54,522	654,770	66,600	775,892
Total	426,214	3,825,793	181,126	4,433,133

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

The carrying amounts (accrued interest excluded) of the debt investments analysed by external credit rating and expected credit loss are as follows:

	As at 31 December 2018			
	12-month ECL	Lifetime ECL		Total
	Stage 1	Stage 2	Stage 3	
Unrated	420,982	414	–	421,396
A to AAA	3,905,218	158	–	3,905,376
Lower than A	269,793	1,180	–	270,973
Total	4,595,993	1,752	–	4,597,745

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.8 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs").

The risk-weighted assets for the CCR of derivatives are as follows:

	As at 31 December	
	2018	**2017**
Risk-weighted assets for default risk		
Currency derivatives	54,280	70,498
Interest rate derivatives	2,888	4,228
Equity derivatives	233	314
Commodity derivatives and other	3,334	3,343
	60,735	78,383
Risk-weighted assets for CVA	51,107	92,338
Risk-weighted assets for CCPs	10,220	1,573
Total	122,062	172,294

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk

4.1 Overview

The Group is exposed to market risks from on-balance and off-balance businesses, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for the monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore, statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The accuracy and reliability of the VaR model is verified by daily back-testing of the VaR results in the trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2018 and 2017:

Unit: USD million

	Year ended 31 December					
	2018			2017		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	17.26	23.85	12.24	14.54	17.58	9.61
Foreign exchange risk	10.19	17.66	4.99	10.67	17.70	6.12
Volatility risk	0.38	0.71	0.11	0.35	1.21	0.11
Commodity risk	1.14	5.55	0.13	1.25	3.92	0.14
Total of the Bank's trading VaR	19.87	26.28	13.92	17.44	23.89	12.43

The Bank's VaR for the years ended 31 December 2018 and 2017 were calculated based on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI.

The reporting of risk in relation to bullion is included in foreign exchange risk above.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Year ended 31 December					
	2018			2017		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	3.37	5.50	1.65	5.70	10.61	2.47
Foreign exchange risk	2.30	3.45	1.37	4.00	6.97	1.60
Equity risk	0.20	0.90	0.03	0.33	0.75	0.09
Commodity risk	0.40	1.24	0.11	0.16	0.26	0.07
Total BOCHK (Holdings)'s trading VaR	4.21	5.84	3.07	6.39	10.43	3.47
BOCI's trading VaR (i)						
Equity derivatives unit	0.64	2.04	0.16	0.94	1.48	0.50
Fixed income unit	1.25	1.86	0.65	1.17	2.40	0.63
Global commodity unit	0.29	0.52	0.17	0.32	0.65	0.08
Total BOCI's trading VaR	2.18	3.85	1.24	2.43	3.58	1.53

(i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs was not added up to the total VaR as there was a diversification effect due to correlation amongst the risk factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group takes on exposure to interest rate risk and fluctuations in market interest rates that will impact the Group's financial position.

The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes impact of the off-balance sheet business into consideration when calculating the indications of sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take into consideration changes in customer behaviour, basis risk, etc.. The Group makes timely adjustment to the structure of assets and liabilities based on changes in the market situation, and controls the fluctuation of net interest income within an acceptable level.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in net interest income	
	As at 31 December	
	2018	2017
+ 25 basis points parallel move in all yield curves	(4,136)	(4,193)
– 25 basis points parallel move in all yield curves	4,136	4,193

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB13,733 million (2017: RMB12,279 million) for every 25 basis point upward or downward parallel shift, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

The tables below summarise the Group's exposure to interest rate risk. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 31 December 2018						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	211,195	29,873	115,397	3,356	–	80,110	439,931
Balances with central banks	2,113,231	2,085	619	–	–	215,118	2,331,053
Placements with and loans to banks and other financial institutions	668,153	98,129	225,933	45,694	–	4,449	1,042,358
Derivative financial assets	–	–	–	–	–	124,126	124,126
Loans and advances to customers, net	3,146,270	2,145,073	5,613,781	119,794	53,241	437,605	11,515,764
Financial investments							
— financial assets at fair value through profit or loss	19,425	37,327	75,423	44,898	96,195	97,223	370,491
— financial assets at fair value through other comprehensive income	112,091	172,122	406,442	789,385	360,876	38,843	1,879,759
— financial assets at amortised cost	14,863	83,459	283,575	1,605,967	777,123	39,314	2,804,301
Other	5,188	–	–	–	3,661	750,643	759,492
Total assets	6,290,416	2,568,068	6,721,170	2,609,094	1,291,096	1,787,431	21,267,275
Liabilities							
Due to banks and other financial institutions	1,011,125	313,145	181,766	49,045	–	176,128	1,731,209
Due to central banks	275,905	156,600	456,671	8,071	–	10,274	907,521
Placements from banks and other financial institutions	428,797	122,663	57,583	1,417	–	1,807	612,267
Derivative financial liabilities	–	–	–	–	–	99,254	99,254
Due to customers	8,515,651	1,354,989	2,668,074	1,960,185	105	384,592	14,883,596
Bonds issued	91,311	157,934	179,233	311,777	35,125	6,747	782,127
Other	17,849	24,535	1,560	2,515	5,246	474,199	525,904
Total liabilities	10,340,638	2,129,866	3,544,887	2,333,010	40,476	1,153,001	19,541,878
Total interest repricing gap	(4,050,222)	438,202	3,176,283	276,084	1,250,620	634,430	1,725,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

	As at 31 December 2017						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	259,468	74,565	147,376	1,880	–	77,174	560,463
Balances with central banks	2,047,762	457	1,586	–	–	177,809	2,227,614
Placements with and loans to banks and other financial institutions	196,566	95,641	207,146	76,046	–	–	575,399
Derivative financial assets	–	–	–	–	–	94,912	94,912
Loans and advances to customers, net	2,869,571	2,142,963	5,139,321	84,639	48,280	359,530	10,644,304
Financial investments							
— financial assets at fair value through profit or loss	19,498	44,177	57,501	19,681	33,035	19,719	193,611
— available for sale	111,201	174,862	306,200	774,190	418,807	71,962	1,857,222
— held to maturity	28,562	57,433	196,795	1,234,167	572,907	–	2,089,864
— loans and receivables	4,708	3,827	12,448	253,350	137,293	2,399	414,025
Other	4,108	1,444	123	–	1,145	803,190	810,010
Total assets	5,541,444	2,595,369	6,068,496	2,443,953	1,211,467	1,606,695	19,467,424
Liabilities							
Due to banks and other financial institutions	839,840	205,871	149,615	68,320	–	161,616	1,425,262
Due to central banks	385,348	131,064	510,280	9,087	–	18	1,035,797
Placements from banks and other financial institutions	375,004	74,776	49,871	441	–	–	500,092
Derivative financial liabilities	–	–	–	–	–	111,095	111,095
Due to customers	7,947,067	1,332,278	2,443,803	1,711,282	37,795	185,699	13,657,924
Bonds issued	67,225	72,688	40,302	284,818	34,095	–	499,128
Other	21,734	19,221	8,002	5,163	1,807	605,520	661,447
Total liabilities	9,636,218	1,835,898	3,201,873	2,079,111	73,697	1,063,948	17,890,745
Total interest repricing gap	(4,094,774)	759,471	2,866,623	364,842	1,137,770	542,747	1,576,679

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Group manages its exposure to currency exchange risk through the management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

		Effect on profit before tax		Effect on equity*	
Currency	**Change in currency rate**	**As at 31 December 2018**	**As at 31 December 2017**	**As at 31 December 2018**	**As at 31 December 2017**
USD	+1%	521	536	527	351
HKD	+1%	(338)	(410)	2,199	2,067

* Effect on other comprehensive income (irrespective of income tax effect).

While the table above indicates the effect on profit before tax and equity of the 1% appreciation of USD and HKD, there will be an opposite effect with the same amounts if the currencies depreciate by the same percentage.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2018 and 2017. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

	As at 31 December 2018							
	RMB	**USD**	**HKD**	**EURO**	**JPY**	**GBP**	**Other**	**Total**
Assets								
Cash and due from banks and other financial institutions	308,697	79,058	17,818	6,442	5,694	1,575	20,647	439,931
Balances with central banks	1,855,438	280,029	40,625	39,770	36,838	47,950	30,403	2,331,053
Placements with and loans to banks and other financial institutions	878,861	93,903	30,994	7,636	3,094	283	27,587	1,042,358
Derivative financial assets	67,601	17,913	29,945	621	37	5,237	2,772	124,126
Loans and advances to customers, net	8,830,692	1,146,207	923,070	201,731	12,637	65,563	335,864	11,515,764
Financial investments								
— financial assets at fair value through profit or loss	238,495	56,988	72,981	2,011	–	16	–	370,491
— financial assets at fair value through other comprehensive income	1,191,739	453,918	116,376	30,629	8,573	3,023	75,501	1,879,759
— financial assets at amortised cost	2,548,402	229,300	3,496	3,450	746	1,456	17,451	2,804,301
Other	213,438	148,481	185,113	568	1,244	2,097	208,551	759,492
Total assets	16,133,363	2,505,797	1,420,418	292,858	68,863	127,200	718,776	21,267,275
Liabilities								
Due to banks and other financial institutions	1,060,308	404,757	34,551	40,090	14,270	7,049	170,184	1,731,209
Due to central banks	628,327	246,540	26,758	5,461	–	434	1	907,521
Placements from banks and other financial institutions	266,692	271,303	39,642	12,669	11,242	5,411	5,308	612,267
Derivative financial liabilities	50,554	14,104	26,366	678	46	5,059	2,447	99,254
Due to customers	11,256,454	1,716,821	1,202,357	194,439	58,478	46,334	408,713	14,883,596
Bonds issued	447,679	252,059	6,682	48,465	1,852	9,793	15,597	782,127
Other	191,501	84,330	230,918	2,327	480	1,323	15,025	525,904
Total liabilities	13,901,515	2,989,914	1,567,274	304,129	86,368	75,403	617,275	19,541,878
Net on-balance sheet position	2,231,848	(484,117)	(146,856)	(11,271)	(17,505)	51,797	101,501	1,725,397
Net off-balance sheet position	(795,575)	520,806	355,983	21,144	19,415	(49,526)	(40,626)	31,621
Credit commitments	2,715,693	794,823	223,494	111,092	10,425	44,054	93,430	3,993,011

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(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

	As at 31 December 2017							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	368,772	142,024	13,599	7,326	5,961	6,074	16,707	560,463
Balances with central banks	1,810,377	248,995	4,357	31,240	49,485	50,286	32,874	2,227,614
Placements with and loans to banks and other financial institutions	388,211	114,812	23,750	9,034	2,462	90	37,040	575,399
Derivative financial assets	44,950	8,065	31,285	749	40	4,895	4,928	94,912
Loans and advances to customers, net	8,101,830	1,157,714	794,625	217,660	7,962	50,856	313,657	10,644,304
Financial investments								
— financial assets at fair value through profit or loss	109,406	55,073	26,513	1,133	1,043	429	14	193,611
— available for sale	1,080,354	449,628	154,809	33,545	63,946	5,944	68,996	1,857,222
— held to maturity	1,935,833	138,678	3,627	1,693	696	1,196	8,141	2,089,864
— loans and receivables	405,080	1,960	419	–	–	–	6,566	414,025
Other	298,863	135,600	175,535	1,354	1,102	1,546	196,010	810,010
Total assets	14,543,676	2,452,549	1,228,519	303,734	132,697	121,316	684,933	19,467,424
Liabilities								
Due to banks and other financial institutions	855,661	329,466	30,276	35,616	12,779	7,301	154,163	1,425,262
Due to central banks	779,483	231,585	16,865	4,514	–	571	2,779	1,035,797
Placements from banks and other financial institutions	290,531	150,748	6,974	10,720	17,110	16,789	7,220	500,092
Derivative financial liabilities	70,458	1,690	30,131	800	35	4,932	3,049	111,095
Due to customers	10,236,329	1,614,422	1,079,702	192,313	64,989	55,956	414,213	13,657,924
Bonds issued	222,119	208,402	786	38,006	–	20,318	9,497	499,128
Other	347,577	82,908	213,516	1,497	445	1,261	14,243	661,447
Total liabilities	12,802,158	2,619,221	1,378,250	283,466	95,358	107,128	605,164	17,890,745
Net on-balance sheet position	1,741,518	(166,672)	(149,731)	20,268	37,339	14,188	79,769	1,576,679
Net off-balance sheet position	(420,313)	195,069	319,073	(11,672)	(36,371)	(12,165)	(40,135)	(6,514)
Credit commitments	2,556,398	811,938	245,575	107,154	10,050	44,472	95,045	3,870,632

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

The liquidity risk means the risk that a commercial bank fails to acquire adequate funds in a timely manner and at a reasonable cost to deal with repayment of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

5.1 Liquidity risk management policy and process

The Bank continued to develop and improve its liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowings and improves the diversity and stability of financing sources.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include “Cash and due from banks and other financial institutions”, “Balances with central banks”, “Placements with and loans to banks and other financial institutions”, “Loans and advances to customers, net”, etc. In the normal course of business, a proportion of short-term loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase transactions, and by selling securities and accessing additional funding sources.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 *Maturity analysis*

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by instalments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

	As at 31 December 2018							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	178,645	110,908	30,365	116,636	3,356	–	439,931
Balances with central banks	1,588,770	511,244	216,281	2,087	12,329	342	–	2,331,053
Placements with and loans to banks and other financial institutions	44	–	659,399	92,855	231,633	58,427	–	1,042,358
Derivative financial assets	–	10,055	22,259	30,528	38,686	18,634	3,964	124,126
Loans and advances to customers, net	69,539	154,707	397,574	1,086,838	2,478,055	3,036,778	4,292,273	11,515,764
Financial investments								
— financial assets at fair value through profit or loss	93,524	–	16,772	32,788	71,133	52,863	103,411	370,491
— financial assets at fair value through other comprehensive income	16,456	–	71,630	120,021	428,041	870,105	373,506	1,879,759
— financial assets at amortised cost	2,001	–	15,328	78,810	306,782	1,623,516	777,864	2,804,301
Other	301,633	338,223	22,683	7,554	18,968	50,792	19,639	759,492
Total assets	2,071,988	1,192,874	1,532,834	1,481,846	3,702,263	5,714,813	5,570,657	21,267,275
Liabilities								
Due to banks and other financial institutions	–	1,038,168	143,392	314,126	186,252	49,271	–	1,731,209
Due to central banks	–	172,280	104,114	157,466	465,590	8,071	–	907,521
Placements from banks and other financial institutions	–	–	429,492	123,223	58,135	1,417	–	612,267
Derivative financial liabilities	–	7,314	19,861	18,267	33,305	17,434	3,073	99,254
Due to customers	–	7,368,721	1,405,144	1,349,078	2,740,128	2,010,860	9,665	14,883,596
Bonds issued	–	–	45,983	99,061	196,535	323,057	117,491	782,127
Other	–	276,288	36,307	12,145	76,623	66,329	58,212	525,904
Total liabilities	-	8,862,771	2,184,293	2,073,366	3,756,568	2,476,439	188,441	19,541,878
Net liquidity gap	2,071,988	(7,669,897)	(651,459)	(591,520)	(54,305)	3,238,374	5,382,216	1,725,397

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 *Maturity analysis (Continued)*

	As at 31 December 2017							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	167,943	168,678	74,565	147,376	1,880	–	560,463
Balances with central banks	1,754,965	429,424	15,003	6,735	21,487	–	–	2,227,614
Placements with and loans to banks and other financial institutions	–	–	186,151	90,770	213,567	84,854	57	575,399
Derivative financial assets	–	8,791	16,222	19,854	36,575	10,449	3,021	94,912
Loans and advances to customers, net	75,194	109,153	356,974	1,042,606	2,569,551	2,797,082	3,693,744	10,644,304
Financial investments								
— financial assets at fair value through profit or loss	19,853	–	18,738	42,528	54,336	25,002	33,154	193,611
— available for sale	85,346	–	74,857	117,797	314,233	839,773	425,216	1,857,222
— held to maturity	–	–	26,361	43,894	189,622	1,242,694	587,293	2,089,864
— loans and receivables	2,399	–	4,659	2,981	10,749	252,602	140,635	414,025
Other	276,194	301,560	46,920	42,772	65,593	58,666	18,305	810,010
Total assets	2,213,972	1,016,871	914,563	1,484,502	3,623,089	5,313,002	4,901,425	19,467,424
Liabilities								
Due to banks and other financial institutions	–	804,976	188,365	204,621	156,040	71,260	–	1,425,262
Due to central banks	–	180,088	205,278	131,064	510,280	9,087	–	1,035,797
Placements from banks and other financial institutions	–	–	375,004	74,776	49,871	441	–	500,092
Derivative financial liabilities	–	5,574	19,442	25,130	49,274	9,323	2,352	111,095
Due to customers	–	6,664,703	1,413,948	1,287,316	2,493,635	1,758,935	39,387	13,657,924
Bonds issued	–	–	45,773	41,671	42,755	333,211	35,718	499,128
Other	–	241,472	95,985	32,134	157,326	79,793	54,737	661,447
Total liabilities	–	7,896,813	2,343,795	1,796,712	3,459,181	2,262,050	132,194	17,890,745
Net liquidity gap	2,213,972	(6,879,942)	(1,429,232)	(312,210)	163,908	3,050,952	4,769,231	1,576,679

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by the remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

	As at 31 December 2018							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	178,651	111,218	30,532	118,297	3,696	–	442,415
Balances with central banks	1,588,770	511,244	216,643	2,099	12,329	342	–	2,331,427
Placements with and loans to banks and other financial institutions	48	–	660,424	95,839	238,102	60,246	–	1,054,659
Loans and advances to customers, net	71,503	154,728	420,408	1,162,609	2,787,330	4,105,071	6,109,473	14,811,122
Financial investments								
— financial assets at fair value through profit or loss	93,562	–	16,818	33,180	76,304	75,588	139,717	435,169
— financial assets at fair value through other comprehensive income	16,496	–	72,228	121,707	459,033	986,895	433,630	2,089,989
— financial assets at amortised cost	2,032	–	15,587	82,033	356,737	1,853,204	897,790	3,207,383
Other financial assets	763	148,184	13,867	926	3,930	210	4,740	172,620
Total financial assets	1,773,195	992,807	1,527,193	1,528,925	4,052,062	7,085,252	7,585,350	24,544,784
Due to banks and other financial institutions	–	1,038,230	143,665	315,386	187,753	52,826	–	1,737,860
Due to central banks	–	172,289	104,338	158,161	470,743	8,716	–	914,247
Placements from banks and other financial institutions	–	–	429,704	124,123	59,521	1,509	–	614,857
Due to customers	–	7,368,831	1,407,351	1,354,994	2,770,079	2,159,790	9,959	15,071,004
Bonds issued	–	–	46,457	99,898	210,560	362,609	139,539	859,063
Other financial liabilities	–	222,147	23,038	7,037	7,936	30,083	9,715	299,956
Total financial liabilities	–	8,801,497	2,154,553	2,059,599	3,706,592	2,615,533	159,213	19,496,987
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	2,659	2,135	7,101	5,020	(120)	516	17,311
Derivative financial instruments settled on a gross basis								
Total inflow	–	79,242	2,831,895	1,618,108	3,116,519	368,456	7,805	8,022,025
Total outflow	–	(79,178)	(2,830,917)	(1,612,726)	(3,112,216)	(367,680)	(7,784)	(8,010,501)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

	As at 31 December 2017							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	168,986	171,430	76,774	151,510	2,066	–	570,787
Balances with central banks	1,754,965	429,447	15,013	6,737	21,487	–	–	2,227,649
Placements with and loans to banks and other financial institutions	–	–	186,941	95,728	219,492	89,453	57	591,671
Loans and advances to customers, net	76,835	109,160	386,278	1,128,147	2,843,559	3,683,179	5,188,628	13,415,786
Financial investments								
— financial assets at fair value through profit or loss	19,853	–	19,669	44,803	58,605	31,468	43,157	217,555
— available for sale	85,441	–	76,924	124,877	358,881	974,366	496,165	2,116,654
— held to maturity	–	–	30,419	52,093	252,884	1,427,553	681,592	2,444,541
— loans and receivables	2,515	20	5,650	4,778	21,524	286,238	157,883	478,608
Other financial assets	3,189	132,283	16,818	2,432	4,004	480	2,254	161,460
Total financial assets	1,942,819	839,896	909,142	1,536,369	3,931,946	6,494,803	6,569,736	22,224,711
Due to banks and other financial institutions	–	805,036	194,129	206,113	158,269	76,111	–	1,439,658
Due to central banks	–	180,336	205,979	132,329	523,492	9,733	–	1,051,869
Placements from banks and other financial institutions	–	–	375,607	75,416	50,727	479	–	502,229
Due to customers	–	6,665,373	1,468,636	1,315,115	2,580,018	1,910,944	41,272	13,981,358
Bonds issued	–	–	46,187	43,512	55,235	369,592	38,245	552,771
Other financial liabilities	–	188,633	23,186	3,057	10,635	28,951	9,466	263,928
Total financial liabilities	–	7,839,378	2,313,724	1,775,542	3,378,376	2,395,810	88,983	17,791,813
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,172	(2,690)	(5,403)	(18,442)	907	501	(21,955)
Derivative financial instruments settled on a gross basis								
Total inflow	–	78,712	2,022,405	1,432,624	2,712,400	319,113	9,986	6,575,240
Total outflow	–	(77,976)	(2,022,972)	(1,430,796)	(2,705,044)	(318,204)	(9,990)	(6,564,982)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group is the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.41.5, are summarised in the table below.

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2018				
Loan commitments [(1)]	1,603,299	527,815	137,596	2,268,710
Guarantees, acceptances and other financial facilities	1,125,754	283,767	314,780	1,724,301
Subtotal	2,729,053	811,582	452,376	3,993,011
Operating lease commitments	6,698	12,931	8,464	28,093
Capital commitments	26,828	40,385	–	67,213
Total	2,762,579	864,898	460,840	4,088,317
As at 31 December 2017				
Loan commitments [(1)]	1,588,385	462,722	124,653	2,175,760
Guarantees, acceptances and other financial facilities	1,107,630	363,227	224,015	1,694,872
Subtotal	2,696,015	825,949	348,668	3,870,632
Operating lease commitments	6,570	12,496	2,720	21,786
Capital commitments	15,127	40,279	2	55,408
Total	2,717,712	878,724	351,390	3,947,826

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits, refer to Note V.41.7.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value

6.1 Assets and liabilities measured at fair value

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchanges or debt instruments issued by certain governments and certain exchange-traded derivative contracts.

- Level 2: Valuation techniques using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter ("OTC") derivative contracts, debt securities for which quotations are available from pricing services providers, discounted bills, etc.

- Level 3: Valuation techniques using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), OTC structured derivatives transactions and unlisted funds held by the Group, management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including the discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have a significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as Level 3. Management determines whether to make necessary adjustments to the fair value for the Group's Level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

	As at 31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities	3,448	261,582	8,417	273,447
— Equity instruments	3,868	104	43,089	47,061
— Fund investments and other	10,730	4,741	34,512	49,983
Derivative financial assets	11,655	112,465	6	124,126
Loans and advances to customers	–	227,643	–	227,643
Financial assets at fair value through other comprehensive income				
— Debt securities	121,859	1,738,951	1,422	1,862,232
— Equity instruments and other	6,592	5,571	5,364	17,527
Investment properties	–	2,248	19,838	22,086
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(876)	–	(876)
Due to customers at fair value	–	(24,141)	–	(24,141)
Bonds issued at fair value	–	(20,517)	–	(20,517)
Short position in debt securities	(2,642)	(11,685)	–	(14,327)
Derivative financial liabilities	(8,928)	(90,326)	–	(99,254)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

	As at 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities	4,263	161,542	2,594	168,399
— Loans	–	5,493	–	5,493
— Equity instruments	8,029	–	–	8,029
— Fund investments and other	9,203	2,058	429	11,690
Derivative financial assets	9,808	85,104	–	94,912
Investment securities available for sale				
— Debt securities	173,783	1,595,125	850	1,769,758
— Equity instruments	7,202	3,592	27,900	38,694
— Fund investments and other	4,246	17,054	27,470	48,770
Investment properties	–	2,429	18,597	21,026
Financial liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	–	(1,246)	–	(1,246)
Due to customers at fair value	–	(372,767)	–	(372,767)
Bonds issued at fair value	–	(1,907)	–	(1,907)
Short position in debt securities	(3,028)	(14,191)	–	(17,219)
Derivative financial liabilities	(6,754)	(104,341)	–	(111,095)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Reconciliation of Level 3 items

	Derivative financial assets	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income			Investment properties
		Debt Securities	Equity instruments	Fund investments and other	Debt securities	Equity instruments and other	
As at 1 January 2018	–	3,034	23,205	27,899	1,405	4,695	18,597
Total gains and losses							
— profit/(loss)	6	(273)	98	2,678	–	–	556
— other comprehensive income	–	–	–	–	(50)	(911)	–
Sales	–	(5)	(538)	(1,767)	(1)	(3)	(61)
Purchases	–	5,582	20,324	5,681	–	1,588	711
Settlements	–	(1)	–	–	–	–	–
Transfers out of Level 3, net	–	–	–	–	–	–	–
Other changes	–	80	–	21	68	(5)	35
As at 31 December 2018	6	8,417	43,089	34,512	1,422	5,364	19,838
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2018	6	(273)	98	2,677	–	–	535

	Financial assets at fair value through profit or loss		Investment securities available for sale			Investment properties
	Debt securities	Fund investments	Debt securities	Equity instruments	Fund investments and other	
As at 1 January 2017	2,709	–	1,656	23,362	19,153	19,067
Total gains and losses						
— profit/(loss)	196	36	14	(359)	194	592
— other comprehensive income	–	–	28	(951)	(2,037)	–
Sales	(307)	–	(357)	(439)	(3,395)	(968)
Purchases	–	393	–	5,535	13,555	668
Settlements	–	–	–	–	–	–
Transfers out of Level 3, net	(4)	–	(198)	–	–	(3)
Other changes	–	–	(293)	752	–	(759)
As at 31 December 2017	2,594	429	850	27,900	27,470	18,597
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2017	196	36	–	(371)	–	592

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2018 and 2017 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 31 December 2018 and 2017 are presented in "Net trading gains", "Net gains on financial investments" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

Gains or losses on Level 3 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December 2018			Year ended 31 December 2017		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains for the year	22	3,043	3,065	220	453	673

There were no significant transfers for the financial instruments measured at fair value between Level 1 and Level 2 during the year ended 31 December 2018.

6.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities not presented at fair value in the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Due to central banks", "Due to banks and other financial institutions", "Loans and advances to customers measured at amortised cost", "Financial investments measured at amortised cost", "Placements from banks and other financial institutions at amortised cost", "Due to customers at amortised cost", and "Bonds issued at amortised cost".

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

The tables below summarise the carrying amounts and fair values of "Debt securities at amortised cost" and "Bonds issued" not presented at fair value as at 31 December 2018, and the carrying amounts and fair values of debt securities held to maturity, debt securities classified as loans and receivables, and "Bonds issued" not presented at fair value as at 31 December 2017.

	As at 31 December 2018		As at 31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities at amortised cost [1]	2,795,740	2,806,772	N/A	N/A
Debt securities held to maturity	N/A	N/A	2,089,864	2,039,533
Debt securities classified as loans and receivables	N/A	N/A	405,112	397,269
Financial liabilities				
Bonds issued [2]	761,610	766,005	499,128	499,039

(1) Debt securities at amortised cost

The China Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on the stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

The tables below summarise the fair values of three levels of "Debt securities at amortised cost" (excluding the China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value as at 31 December 2018, and the fair values of three levels of "Debt securities" classified as held to maturity, loans and receivables (excluding the China Orient Asset Management Corporation Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value as at 31 December 2017.

	As at 31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities at amortised cost	73,055	2,534,891	2,237	2,610,183
Financial liabilities				
Bonds issued	–	758,805	7,200	766,005

	As at 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities				
— Held to maturity	38,194	2,001,046	293	2,039,533
— Loans and receivables	–	193,250	2,713	195,963
Financial liabilities				
Bonds issued	–	499,039	–	499,039

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value in the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.

- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, to steadily improve the efficiency and return of capital, achieving the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations. With the approval of the CBIRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBIRC by the end of 2018, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;

- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;

- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio[(1)] calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

	As at 31 December 2018	As at 31 December 2017
Common equity tier 1 capital adequacy ratio	11.41%	11.15%
Tier 1 capital adequacy ratio	12.27%	12.02%
Capital adequacy ratio	14.97%	14.19%
Composition of the Group's capital base		
Common equity tier 1 capital	1,488,010	1,377,408
Common shares	294,388	294,388
Capital reserve	140,422	140,176
Surplus reserve	156,711	140,692
General reserve	231,416	207,693
Undistributed profits	637,609	606,765
Eligible portion of minority interests	28,229	26,280
Other[(2)]	(765)	(38,586)
Regulatory deductions	(22,241)	(21,320)
Goodwill	(182)	(138)
Other intangible assets (except land use rights)	(12,078)	(11,259)
Direct or indirect investments in own shares	(68)	(102)
Reserve relating to cash-flow hedge items not measured at fair value	–	4
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	(9,913)	(9,825)
Net common equity tier 1 capital	1,465,769	1,356,088
Additional tier 1 capital	109,524	105,002
Preference shares and related premium	99,714	99,714
Eligible portion of minority interests	9,810	5,288
Net tier 1 capital	1,575,293	1,461,090
Tier 2 capital	347,473	264,652
Tier 2 capital instruments issued and related premium	256,189	191,596
Excess loan loss provisions	82,093	63,672
Eligible portion of minority interests	9,191	9,384
Regulatory deductions	(416)	(412)
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	(416)	(412)
Net capital	1,922,350	1,725,330
Risk-weighted assets	12,841,526	12,157,771

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) When calculating the capital adequacy ratios, BOCG Investment, Bank of China Insurance Company Limited ("BOC Insurance"), Bank of China Group Insurance Company Limited ("BOCG Insurance") and Bank of China Group Life Assurance Company Limited ("BOCG Life") were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(2) This mainly represented exchange differences from the translation of foreign operations and gains/(losses) on financial assets at fair value through other comprehensive income.

8 Insurance risk

Insurance contracts are mainly sold in the Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

(Amount in millions of Renminbi, unless otherwise stated)

I DIFFERENCES BETWEEN IFRS AND CAS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2018 and 2017 or total equity as at 31 December 2018 and 2017 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

II UNAUDITED SUPPLEMENTARY INFORMATION

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio

	As at 31 December	
	2018	**2017**
RMB current assets to RMB current liabilities	58.71%	47.09%
Foreign currency current assets to foreign currency current liabilities	54.78%	56.93%

The liquidity ratios are calculated in accordance with the relevant provisions of the CBIRC.

Liquidity coverage ratio

According to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks,* the Group disclosed the information of liquidity coverage ratio ("LCR")(1) as follows.

Regulatory requirements of liquidity coverage ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks* issued by CBIRC, the commercial banks' LCR should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

The Group's liquidity coverage ratio

Since 2017, the Group measured the LCR on a day-to-day consolidated basis(2). In the fourth quarter of 2018, the Group measured 92-day LCR on this basis, with average ratio standing at 139.66%(3), representing an increase of 5.93 percentage points over the previous quarter, which was primarily due to the increase in the high-quality liquid assets ("HQLA").

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's liquidity coverage ratio (Continued)

The Group's HQLA is comprised of cash, central bank reserves which are able to be drawn down under stress scenarios, and debt securities that meet the qualifying criteria for Level 1 or Level 2 assets pursuant to the *Rules on Liquidity Risk Management of Commercial Banks* by the CBIRC.

	2018			
	Quarter ended 31 December	**Quarter ended 30 September**	**Quarter ended 30 June**	**Quarter ended 31 March**
Average value of LCR	139.66%	133.73%	126.55%	117.81%

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's liquidity coverage ratio (Continued)

The Group's average values of LCR individual line items in the fourth quarter of 2018 are as follows:

No.		Total un-weighted value	Total weighted value
	High-quality liquid assets		
1	Total high-quality liquid assets (HQLA)		3,976,211
	Cash outflows		
2	Retail deposits and deposits from small business customers, of which:	6,604,613	484,171
3	Stable deposits	3,400,040	163,714
4	Less stable deposits	3,204,573	320,457
5	Unsecured wholesale funding, of which:	8,309,190	3,234,793
6	Operational deposits (excluding those generated from correspondent banking activities)	4,491,419	1,108,290
7	Non-operational deposits (all counterparties)	3,784,094	2,092,826
8	Unsecured debt	33,677	33,677
9	Secured funding		5,516
10	Additional requirements, of which:	3,000,558	1,892,802
11	Outflows related to derivative exposures and other collateral requirements	1,790,120	1,790,120
12	Outflows related to loss of funding on debt products	2,838	2,838
13	Credit and liquidity facilities	1,207,600	99,844
14	Other contractual funding obligations	54,521	54,521
15	Other contingent funding obligations	2,340,343	53,666
16	**Total cash outflows**		5,725,469
	Cash inflows		
17	Secured lending (including reverse repos and securities borrowing)	120,789	109,553
18	Inflows from fully performing exposures	1,326,395	871,426
19	Other cash inflows	1,981,892	1,892,741
20	**Total cash inflows**	3,429,076	2,873,720

		Total adjusted value
21	**Total HQLA**	3,976,211
22	**Total net cash outflows**	2,851,749
23	**Liquidity coverage ratio (%)**	139.66%

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

1 Liquidity ratios, liquidity coverage ratio and net stable funding ratio (Continued)

The Group's liquidity coverage ratio (Continued)

(1) The LCR aims to ensure that commercial banks have sufficient HQLA that can be converted into cash to meet the liquidity requirements for at least thirty days under stress scenarios determined by the CBIRC.

(2) When calculating the consolidated LCR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

(3) The average of LCR and the averages of all related individual items are the day-end simple arithmetic averages of figures.

Net stable funding ratio

The net stable funding ratio ("NSFR") is introduced to ensure commercial banks have sufficient stable funding to meet the requirements of assets and off-balance sheet exposures. According to the *Rules on Liquidity Risk Management of Commercial Banks,* NSFR should be no less than 100% from 1 July 2018.

The formula for calculating the NSFR is:

Net stable funding ratio = available stable funding/required stable funding × 100%

Available stable funding refers to sum of products of carrying value of an institution's capital and liabilities with associated available stable funding factors. Required stable funding refers to sum of products of carrying value of an institution's assets and off-balance sheet exposures with associated required stable funding factors.

As at 31 December 2018, the Group's [1] NSFR was 125.60%, which met the regulatory requirement.

Indicators	Value
Available stable funding	13,771,501
Required stable funding	10,964,878
Net stable funding ratio	125.60%

(1) When calculating the consolidated NSFR, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the requirements of the CBIRC.

SUPPLEMENTARY INFORMATION

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

2 Currency concentrations

The following information is computed in accordance with the provisions of the CBIRC.

	Equivalent in millions of RMB			
	USD	**HKD**	**Other**	**Total**
As at 31 December 2018				
Spot assets	3,679,148	1,488,089	1,445,560	6,612,797
Spot liabilities	(4,207,568)	(1,863,120)	(1,406,375)	(7,477,063)
Forward purchases	6,113,388	750,992	1,195,354	8,059,734
Forward sales	(5,492,047)	(409,454)	(1,245,872)	(7,147,373)
Net options position*	(40,858)	(258)	(1,885)	(43,001)
Net long/(short) position	52,063	(33,751)	(13,218)	5,094
Structural position	52,685	219,887	70,141	342,713
As at 31 December 2017				
Spot assets	1,158,457	20,384	450,791	1,629,632
Spot liabilities	(1,354,531)	(378,404)	(378,637)	(2,111,572)
Forward purchases	4,826,149	655,260	1,174,088	6,655,497
Forward sales	(4,524,308)	(338,715)	(1,250,349)	(6,113,372)
Net options position*	(52,215)	463	(12,922)	(64,674)
Net long/(short) position	53,552	(41,012)	(17,029)	(4,489)
Structural position	35,084	206,661	67,696	309,441

* The net option position is calculated in accordance with the relevant provision of the CBIRC.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

3 International claims

The Group discloses international claims according to *Banking (Disclosure) Rules* (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include "Balances with central banks", "Due from and placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Financial assets at fair value through profit or loss", "Loans and advances to customers" and "Financial investments".

International claims have been disclosed by major countries or geographical areas. 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.

	Banks	Official sector	Non-bank private sector	Total
As at 31 December 2018				
Asia Pacific				
Chinese mainland	608,194	418,266	701,782	1,728,242
Hong Kong	18,193	1	469,543	487,737
Other Asia Pacific locations	80,097	33,887	371,850	485,834
Subtotal	706,484	452,154	1,543,175	2,701,813
North and South America	59,618	224,329	145,386	429,333
Other	54,341	77,159	234,936	366,436
Total	820,443	753,642	1,923,497	3,497,582

SUPPLEMENTARY INFORMATION
(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

3 International claims (Continued)

	Banks	Official sector	Non-bank private sector	Total
As at 31 December 2017				
Asia Pacific				
Chinese mainland	695,126	188,160	775,963	1,659,249
Hong Kong	14,442	–	461,546	475,988
Other Asia Pacific locations	80,331	84,812	307,773	472,916
Subtotal	789,899	272,972	1,545,282	2,608,153
North and South America	46,815	172,661	167,913	387,389
Other	70,518	51,318	183,639	305,475
Total	907,232	496,951	1,896,834	3,301,017

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

4 Overdue assets

For the purpose of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

4.1 Total amount of overdue loans and advances to customers

	As at 31 December	
	2018	**2017**
Total loans and advances to customers which have been overdue		
within 3 months	84,754	71,356
between 3 and 6 months	24,673	20,202
between 6 and 12 months	45,816	37,955
over 12 months	64,708	73,329
Total	219,951	202,842
Percentage		
within 3 months	0.72%	0.65%
between 3 and 6 months	0.21%	0.19%
between 6 and 12 months	0.39%	0.35%
over 12 months	0.55%	0.67%
Total	1.87%	1.86%

4.2 Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2018 and 2017 is not considered material.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

5 Leverage ratio

The leverage ratios of the Group calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* are as follows[1]:

	2018			
	As at 31 December	**As at 30 September**	**As at 30 June**	**As at 31 March**
Net tier 1 capital	1,575,293	1,542,039	1,486,972	1,470,837
Adjusted on- and off-balance sheet assets	22,700,133	22,556,634	21,764,394	21,671,433
Leverage ratio	6.94%	6.84%	6.83%	6.79%

No.	**Items**	**As at 31 December 2018**
1	Total consolidated assets	21,267,275
2	Adjustments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(9,913)
3	Adjustments for fiduciary assets	–
4	Adjustments for derivative financial instruments	116,621
5	Adjustments for securities financing transactions	93,418
6	Adjustments for off-balance sheet exposures	1,571,429
7	Other adjustments	(338,697)
8	Adjusted on- and off-balance sheet assets	22,700,133

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

5 Leverage ratio (Continued)

No.	Items	As at 31 December 2018
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	20,556,183
2	Less: Tier 1 capital deductions	(22,241)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	20,533,942
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	123,986
5	Add-on amounts for potential future exposure associated with all derivative transactions	116,761
6	Gross-up for derivative collateral provided where deducted from the balance sheet assets	–
7	Less: Deductions of receivable assets for cash variation margin provided in derivative transactions	–
8	Less: Exempted CCP leg of client-cleared trade exposures	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Less: Deductible amounts for written credit derivatives	–
11	**Total derivative exposures**	240,747
12	Accounting balance for securities financing transaction assets	260,207
13	Less: Deducted amounts for securities financing transaction assets	–
14	Counterparty credit risk exposure for securities financing transaction assets	93,808
15	Agent transaction exposures	–
16	**Balance of assets in securities financing transactions**	354,015
17	Off-balance sheet items	4,243,221
18	Less: Adjustments for conversion to credit equivalent amounts	(2,671,792)
19	**Adjusted off-balance sheet exposures**	1,571,429
20	Net tier 1 capital	1,575,293
21	Adjusted on- and off-balance sheet exposures	22,700,133
22	**Leverage ratio**	6.94%

(1) When calculating the consolidated leverage ratio, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

(Amount in millions of Renminbi, unless otherwise stated)

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

6 Global systemically importance assessment indicators of commercial banks

The following global systemically importance assessment indicators of commercial banks are disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks* (Yin Jian Fa, [2014] No. 1).

No.	Indicators(1)	2018 value
1	Adjusted on-balance and off-balance sheet assets	22,700,133
2	Intra-financial system assets	1,984,614
3	Intra-financial system liabilities	1,931,660
4	Securities and other financing instruments	3,289,094
5	Payments settled via payment systems or correspondent banks	584,485,591
6	Assets under custody	9,663,845
7	Underwritten transactions in debt and equity markets	1,857,785
8	Notional amount of over-the-counter derivatives	11,233,344
9	Trading and available for sale securities	937,778
10	Level 3 assets	28,866
11	Cross-jurisdictional claims	3,440,512
12	Cross-jurisdictional liabilities	4,470,366

(1) The above indicators are calculated and disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks,* which are unaudited and inconsistent with the disclosures in the financial report.

Reference for Shareholders

Financial Calendar for 2019

2018 Annual Results	To be announced on 29 March 2019
2018 Annual Report	To be printed and dispatched to H-Share Holders in late April 2019
2018 Annual General Meeting	To be held on 17 May 2019
2019 Interim Results	To be announced no later than 30 August 2019

Annual General Meeting

The Bank's 2018 Annual General Meeting is scheduled to be held in Beijing and Hong Kong, China at 9:30 a.m. on Friday, 17 May 2019.

Dividends on Ordinary Shares

The Board of Directors recommended a final dividend on ordinary shares of RMB0.184 per share (before tax), subject to the approval of shareholders at the 2018 Annual General Meeting.

Securities Information

Listing and Trading

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively.

The Bank's Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 24 October 2014. The Domestic Preference Shares (First Tranche) were traded on the Comprehensive Business Platform of SSE on 8 December 2014. The Domestic Preference Shares (Second Tranche) were traded on the Comprehensive Business Platform of SSE on 31 March 2015.

Ordinary Shares

Issued shares:	294,387,791,241	shares (as at 31 December 2018)
Including:		
A Share:	210,765,514,846	shares
H Share:	83,622,276,395	shares

Preference Shares

Issued shares:	999,400,000	shares (as at 31 December 2018)
Including:		
Domestic Preference Share:	600,000,000	shares
Offshore Preference Share:	399,400,000	shares

Market Capitalisation

As at the last trading day of 2018 (28 December for A Shares and 31 December for H Shares), the Bank's market capitalisation was RMB1,008.516 billion (based on the closing price of A Shares on 28 December 2018 and H Shares on 31 December 2018, and the exchange rate of HKD100 = RMB87.62 as published by the SAFE on 28 December 2018).

Securities Price

	Closing price on 28 December 2018	Highest trading price in the year	Lowest trading price in the year
A Share	RMB3.61	RMB4.87	RMB3.42
	Closing price on 31 December 2018	Highest trading price in the year	Lowest trading price in the year
H Share	HKD3.38	HKD4.96	HKD3.20

Securities Code

A Share		**H Share**	
Stock Name	中國銀行	Stock Name	Bank of China
Shanghai Stock Exchange	601988	Hong Kong Stock Exchange	3988
Reuters	601988.SS	Reuters	3988.HK
Bloomberg	601988 CH	Bloomberg	3988 HK

Domestic Preference Share (First Tranche)		**Domestic Preference Share (Second Tranche)**	
Stock Name	中行優1	Stock Name	中行優2
Shanghai Stock Exchange	360002	Shanghai Stock Exchange	360010
Bloomberg	EK6323670	Bloomberg	EK8196546

Offshore Preference Share	
Stock Name	BOC 2014 PREF
Hong Kong Stock Exchange	4601
Reuters	4601.HK
Bloomberg	EK5371647

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the following address:

A Share
Shanghai Branch of China Securities Depository and Clearing Corporation Limited
3/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

H Share
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

Domestic Preference Share
Shanghai Branch of China Securities Depository and Clearing Corporation Limited
3/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

Credit Rating (Long Term, Foreign Currency)

Standard & Poor's Ratings Services:	A
Moody's Investors Service:	A1
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong Global Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

Hang Seng Index	Dow Jones Index Series
Hang Seng China H-Financial Index	S&P Index Series
Hang Seng China Enterprises Index	Bloomberg Index Series
Hang Seng Composite Index (HSCI) Series	FTSE Index Series
Hang Seng Corporate Sustainability Index Series	Shanghai Stock Exchange Index Series
MSCI Index Series	CSI Index Series

Investor Enquiry

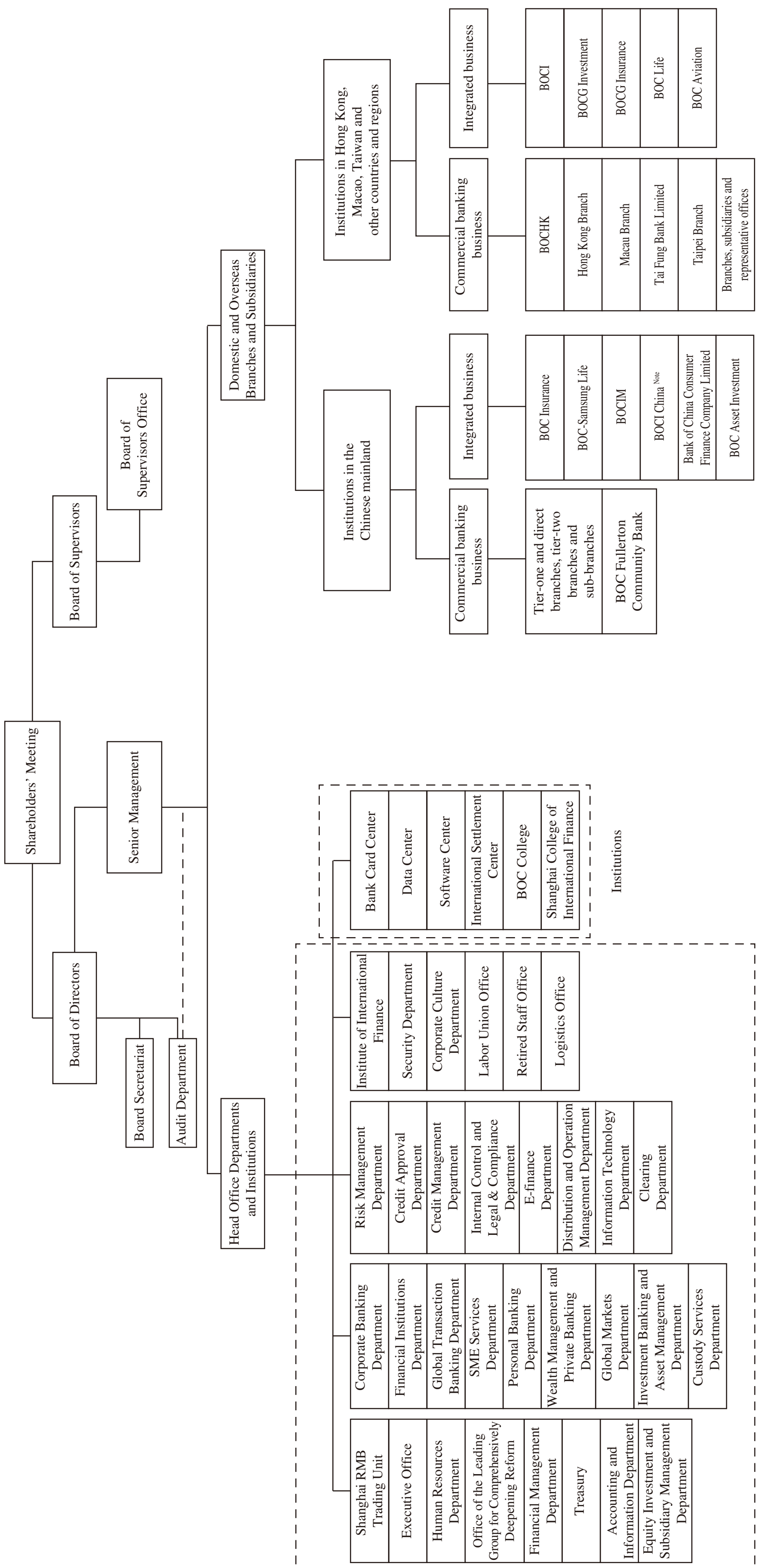
Investor Relations Team, Board Secretariat, Bank of China Limited
8/F, Bank of China Building, No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

Other Information

You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or visit the Bank's office address for copies prepared under CAS. The Chinese and/or English versions of the annual report are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please call the Bank's H-Share Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

Organisational Chart



Note: The Bank holds 37.14% of the equity interest of BOCI China through its wholly-owned subsidiary BOCI.

List of Major Branches and Subsidiaries

MAJOR BRANCHES AND SUBSIDIARIES IN THE CHINESE MAINLAND

HEAD OFFICE

1 FUXINGMEN NEI DAJIE,
BEIJING,
CHINA
SWIFT: BKCHCNBJ
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
WEBSITE: www.boc.cn

BEIJING BRANCH

A,C,E KAIHENG CENTER,
2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
SWIFT: BKCHCNBJ110
TEL: (86) 010-85121491
FAX: (86) 010-85121739
POST CODE: 100010

TIANJIN BRANCH

8 YOUYI NORTH ROAD,
HEXI DISTRICT,
TIANJIN,
CHINA
SWIFT: BKCHCNBJ200
TEL: (86) 022-27108002
FAX: (86) 022-23312805
POST CODE: 300204

HEBEI BRANCH

28 ZIQIANG ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
SWIFT: BKCHCNBJ220
TEL: (86) 0311-69696681
FAX: (86) 0311-69696692
POST CODE: 050000

SHANXI BRANCH

186 PINGYANG ROAD,
XIAODIAN DISTRICT,
TAIYUAN,
SHANXI PROV.,
CHINA
SWIFT: BKCHCNBJ680
TEL: (86) 0351-8266016
FAX: (86) 0351-8266021
POST CODE: 030006

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XIN CHENG DISTRICT,
HUHHOT,
INNER MONGOLIA
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ880
TEL: (86) 0471-4690052
FAX: (86) 0471-4690001
POST CODE: 010010

LIAONING BRANCH

253 SHIFU ROAD,
SHENHE DISTRICT,
SHENYANG,
LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ810
TEL: (86) 024-22810827
FAX: (86) 024-22857333
POST CODE: 110013

JILIN BRANCH

699 XI AN DA LU,
CHANGCHUN,
JILIN PROV.,
CHINA
SWIFT: BKCHCNBJ840
TEL: (86) 0431-88408888
FAX: (86) 0431-88408901
POST CODE: 130061

HEILONGJIANG BRANCH

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ860
TEL: (86) 0451- 53636890
FAX: (86) 0451- 53624147
POST CODE: 150001

SHANGHAI BRANCH

200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
SWIFT: BKCHCNBJ300
TEL: (86) 021-50375566
FAX: (86) 021-50372911
POST CODE: 200120

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ940
TLX: 34116BOCJSCN
TEL: (86) 025-84207888
FAX: (86) 025-84200407
POST CODE: 210005

ZHEJIANG BRANCH

321 FENG QI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ910
TEL: (86) 0571-85011888
FAX: (86) 0571-87074837
POST CODE: 310003

ANHUI BRANCH

NO. 1688, YUNGU ROAD,
BINHU NEW DISTRICT,
HEFEI,
ANHUI PROV.,
CHINA
SWIFT: BKCHCNBJ780
TEL: (86) 0551-62926995
FAX: (86) 0551-62926993
POST CODE: 230091

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
SWIFT: BKCHCNBJ720
TEL: (86) 0591-87090999
FAX: (86) 0591-87090111
POST CODE: 350003

JIANGXI BRANCH

10, LVYIN ROAD,
HONGGUTAN NEW DISTRICT,
NANCHANG,
JIANGXI PROV.,
CHINA
SWIFT: BKCHCNBJ550
TEL: (86) 0791-86471503
FAX: (86) 0791-86471505
POST CODE: 330038

SHANDONG BRANCH

22 LUOYUAN STREET,
JINAN,
SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ500
TEL: (86) 0531-58522001
FAX: (86) 0531-58522000
POST CODE: 250000

HENAN BRANCH

3-1 BUSINESS OUTER RING ROAD,
ZHENGDONG NEW DISTRICT,
ZHENGZHOU,
HENAN PROV.,
CHINA
SWIFT: BKCHCNBJ530
TEL: (86) 0371-87008888
FAX: (86) 0371-87007888
POST CODE: 450018

HUBEI BRANCH

677 JIANSHE ROAD,
WUHAN,
HUBEI PROV.,
CHINA
SWIFT: BKCHCNBJ600
TEL: (86) 027-85569726
FAX: (86) 027-85562955
POST CODE: 430022

HUNAN BRANCH

593 MID. FURONG ROAD
(1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
SWIFT: BKCHCNBJ970
TEL: (86) 0731-82580703
FAX: (86) 0731-82580707
POST CODE: 410005

GUANGDONG BRANCH

1-19TH FLOOR NO. 197 &
1-11TH FLOOR, 14-19TH FLOOR
NO. 199 DONGFENG XI ROAD
YUEXIU DISTRICT,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ400
TEL: (86) 020-83338080
FAX: (86) 020-83347666
POST CODE: 510180

GUANGXI BRANCH

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ480
TEL: (86) 0771-2879602
FAX: (86) 0771-2813844
POST CODE: 530022

HAINAN BRANCH

29, 31 DATONG ROAD,
LONGHUA DISTRICT,
HAIKOU,
HAINAN PROV.,
CHINA
SWIFT: BKCHCNBJ740
TEL: (86) 0898-66778001
FAX: (86) 0898-66562040
POST CODE: 570102

SICHUAN BRANCH

35 MID. RENMIN ROAD
(2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
SWIFT: BKCHCNBJ570
TEL: (86) 028-86741950
FAX: (86) 028-86403346
POST CODE: 610031

GUIZHOU BRANCH

BOC BLDG., 347 RUIJIN
SOUTH ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
SWIFT: BKCHCNBJ240
TEL: (86) 0851-85822419
FAX: (86) 0851-85863981
POST CODE: 550002

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
SWIFT: BKCHCNBJ640
TEL: (86) 0871-63191216
FAX: (86) 0871-63175573
POST CODE: 650051

TIBET BRANCH

113 JINZHU XI LU,
LHASA,
TIBET AUTONOMOUS
REGION,
CHINA
SWIFT: BKCHCNBJ900
TEL: (86) 0891-6835311
FAX: (86) 0891-6835311
POST CODE: 850000

SHAANXI BRANCH

18 TANGYAN ROAD BEIDUAN,
LIANHU DISTRICT,
XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCHCNBJ620
TEL: (86) 029-89593900
FAX: (86) 029-89592999
POST CODE: 710077

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
CHENGGUAN DISTRICT
LANZHOU,
GANSU PROV.,
CHINA
SWIFT: BKCHCNBJ660
TEL: (86) 0931-7825004
FAX: (86) 0931-7825004
POST CODE: 730000

QINGHAI BRANCH

218 DONGGUAN STREET,
CHENG DONG DISTRICT,
XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCHCNBJ280
TEL: (86) 0971-8178888
FAX: (86) 0971-8174971
POST CODE: 810000

NINGXIA BRANCH

39 XINCHANG EAST ROAD,
JINFENG DISTRICT,
YINCHUAN,
NINGXIA HUI
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ260
TEL: (86) 0951-5681708
FAX: (86) 0951-5681509
POST CODE: 750002

XINJIANG BRANCH

1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ760
TEL: (86) 0991-2328888
FAX: (86) 0991-2825095
POST CODE: 830002

CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT,
CHONGQING,
CHINA
SWIFT: BKCHCNBJ59A
TEL: (86) 023-63889234
FAX: (86) 023-63889217
POST CODE: 400013

SHENZHEN BRANCH

INTERNATIONAL FINANCE
BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT,
SHENZHEN,
GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ45A
TEL: (86) 0755-22331155
FAX: (86) 0755-82259209
POST CODE: 518001

SUZHOU BRANCH

128 WANGDUN ROAD,
SUZHOU INDUSTRIAL PARK,
SUZHOU,
JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ95B
TEL: (86) 0512-65113558
FAX: (86) 0512-65114906
POST CODE: 215028

NINGBO BRANCH

139 YAOHANG STREET,
NINGBO,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ92A
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

QINGDAO BRANCH

59 HONGKONG
MIDDLE ROAD,
QINGDAO,
SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ50A
TEL: (86) 0532-85979700
FAX: (86) 0532-67755601
POST CODE: 266071

DALIAN BRANCH

9 ZHONGSHAN SQUARE,
ZHONGSHAN DISTRICT,
DALIAN,
LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ81A
TEL: (86) 0411-82586666
FAX: (86) 0411-82637098
POST CODE: 116001

XIAMEN BRANCH

INTERNATIONAL FINANCE BUILDING
NORTH HUBIN ROAD,
XIAMEN,
CHINA
SWIFT: BKCHCNBJ73A
TEL: (86) 0592-5317519
FAX: (86) 0592-5095130
POST CODE: 361012

HEBEI XIONGAN BRANCH

149 LUOSA STREET,
RONGCHENG,
HEBEI PROV.,
CHINA
SWIFT: BKCHCNBJ220
TEL: (86) 0312-5988023
FAX: (86) 0312-5988023
POST CODE: 071700

BANK OF CHINA INSURANCE COMPANY LIMITED

9/10/11F
NO.110 XIDAN NORTH STREET,
XICHENG DISTRICT,
BEIJING,
CHINA
TEL: (86) 010-83260001
FAX: (86) 010-83260006
POST CODE: 100032
WEBSITE: www.bocins.com

BANK OF CHINA INVESTMENT MANAGEMENT CO., LTD.

45/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-38834999
FAX: (86) 021-68873488
POST CODE: 200120
WEBSITE: www.bocim.com

BANK OF CHINA CONSUMER FINANCE COMPANY LIMITED

1409#, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-63291680
FAX: (86) 021-63291789
POST CODE: 200120
EMAIL: boccfcadmin@boccfc.cn
WEBSITE: www.boccfc.cn

BOC INTERNATIONAL (CHINA) CO., LTD.

39/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-20328000
FAX: (86) 021-58883554
POST CODE: 200120
EMAIL:
admindiv.china@bocichina.com
WEBSITE:
www.bocichina.com

PREPARATION TEAM OF BOC FULLERTON COMMUNITY BANKS

9/F, NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT, BEIJING,
CHINA
TEL: (86) 010-57765000
FAX: (86) 010-57765550
POST CODE: 100032
WEBSITE: www.bocfullertonbank.com

BOC-SAMSUNG LIFE INS. CO., LTD.

9/F, NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT,
BEIJING,
CHINA
TEL: (86) 010-8326 2688
FAX: (86) 010-8326 2777
POST CODE: 100032
WEBSITE: www.boc-samsunglife.cn

BOC FINANCIAL ASSET INVESTMENT CO., LTD.

8/F, NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT,
BEIJING,
CHINA
TEL: (86) 010-83262479
FAX: (86) 010-83262478
POST CODE: 100032
EMAIL: bocfi@bocfi.com

MAJOR BRANCHES AND SUBSIDIARIES IN HONG KONG, MACAO AND TAIWAN

BOC HONG KONG (HOLDINGS) LIMITED

24/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 28462700
FAX: (852) 28105830
WEBSITE: www.bochk.com

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 39886000
FAX: (852) 21479065
EMAIL: info@bocigroup.com
WEBSITE: www.bocigroup.com

HONG KONG BRANCH

7/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 28101203
FAX: (852) 25377609

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD CENTRAL,
HONG KONG, CHINA
TEL: (852) 28670888
FAX: (852) 25221705
EMAIL: info_ins@bocgroup.com
WEBSITE: www.bocgins.com

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 22007500
FAX: (852) 28772629
EMAIL: bocginv_bgi@bocgroup.com
WEBSITE: www.bocgi.com

BOC GROUP LIFE ASSURANCE CO., LTD.

13/F, CITYPLAZA ONE,
1111 KING'S ROAD,
TAIKOO SHING,
HONG KONG, CHINA
TEL: (852) 21608800
FAX: (852) 28660938
EMAIL: enquiry@boclife.com.hk
WEBSITE: www.boclife.com.hk

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO SOARES,
MACAO, CHINA
SWIFT: BKCHMOMX
TEL: (853) 88895566
FAX: (853) 28781833
EMAIL: bocmo@bocmacau.com
WEBSITE: www.bankofchina.com/mo

TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS, d'ASSUMPCAO,
MACAO, CHINA
TEL: (853) 28322323
FAX: (853) 28570737
EMAIL: tfbsecr@taifungbank.com
WEBSITE: www.taifungbank.com

TAIPEI BRANCH

1-5/F, NO. 105, SONGREN ROAD,
XINYI DIST., TAIPEI CITY,
TAIWAN, CHINA
SWIFT: BKCHTWTP
TEL: (886) 227585600
FAX: (886) 227581598
EMAIL: service.tw@bankofchina.com
WEBSITE: www.bankofchina.com/tw

MAJOR BRANCHES AND SUBSIDIARIES IN OTHER COUNTRIES

ASIA-PACIFIC AREA

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE
SWIFT: BKCHSGSGXXX
TEL: (65) 67795566
FAX: (65) 65343401
EMAIL:
service.sg@bankofchina.com
WEBSITE:
www.bankofchina.com/sg

TOKYO BRANCH

BOC BLDG. 3-4-1 AKASAKA
MINATO-KU,
TOKYO 107-0052
JAPAN
SWIFT: BKCHJPJT
TEL: (81) 335058818
FAX: (81) 335058868
EMAIL:
service.jp@boctokyo.co.jp
WEBSITE:
www.bankofchina.com/jp

SEOUL BRANCH

1/2/3F YOUNG POONG BLDG.
41, CHEONG GYE CHEON-RO,
JONGNO-GU,
SEOUL 03188
KOREA
SWIFT: BKCHKRSEXXX
TEL: (82) 16705566
FAX: (82) 23996265
WEBSITE: www.bankofchina.com/kr

BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE, &
1ST FLOOR PLAZA OSK,
25 JALAN AMPANG
50450 KUALA LUMPUR,
MALAYSIA
SWIFT: BKCHMYKL
TEL: (60) 323878888
FAX: (60) 321615150
EMAIL: service.my@bankofchina.com
WEBSITE: www.bankofchina.com/my

BANK OF CHINA (THAI) PUBLIC COMPANY LIMITED

179/4 BANGKOK CITY TOWER,
SOUTH SATHORN ROAD,
TUNGMAHAMEK
SATHORN DISTRICT,
BANGKOK 10120,
THAILAND
SWIFT: BKCHTHBK
TEL: (66) 22861010
FAX: (66) 22861020
CUSTOMER SERVICE CENTRE:
(66) 26795566
EMAIL: service.th@bankofchina.com
WEBSITE: www.bankofchina.com/th

BANK OF CHINA (HONGKONG) LIMITED JAKARTA BRANCH

TAMARA CENTER
11TH FLOOR,
JALAN JEND.
SUDIRMAN KAV. 24
JAKARTA 12920,
INDONESIA
SWIFT: BKCHIDJA
TEL: (62) 215205502
FAX: (62) 215201113/215207552
EMAIL: service.id@bankofchina.com
WEBSITE: www.bankofchina.co.id

BANK OF CHINA (HONGKONG) LIMITED PHNOM PENH BRANCH

CANADIA TOWER,
1ST & 2ND FLOOR,
#315 ANG DOUNG ST.
P.O. BOX 110, PHNOM PENH,
CAMBODIA
SWIFT: BKCHKHPP
TEL: (855) 23988886
FAX: (855) 23988880
EMAIL:
phnombd@mail.notes.bank-of-china.com
WEBSITE: www.bankofchina.com/kh

BANK OF CHINA (HONGKONG) LIMITED HOCHIMINH CITY BRANCH

GROUND & 11TH FL, TIMES
SQUARE BUILDING,
22-36 NGUYEN HUE STREET,
DISTRICT 1,
HOCHIMINH CITY,
VIETNAM
SWIFT: BKCHVNVX
TEL: (84) 2838219949
FAX: (84) 2838219948
EMAIL: service.vn@bankofchina.com

MANILA BRANCH

28/F. THE FINANCE CENTER
26TH STR. COR. 9TH AVE.,BGC
TAGUIG CITY, METRO
MANILA PHILIPPINES
SWIFT: BKCHPHMM
TEL: (63) 22977888
FAX: (63) 28850532
EMAIL: customerservice_
ph@mail.notes.bank-of-china.com

BANK OF CHINA (HONGKONG) LIMITED BRUNEI BRANCH

KIARONG JAYA KOMPLEK,
LOT NO. 56244,
SIMPANG 22, JALAN DATO RATNA,
KAMPONG KIARONG,
BANDAR SERI BEGAWAN BE1318,
BRUNEI DARUSSALAM
SWIFT: BKCHBNBB
TEL: (673) 2459888
FAX: (673) 2459878

SYDNEY BRANCH

39-41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2SXXX
TEL: (61) 282355888
FAX: (61) 292621794
EMAIL: service.au@bankofchina.com
WEBSITE: www.bankofchina.com/au

BANK OF CHINA (AUSTRALIA) LIMITED

39-41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2AXXX
TEL: (61) 282355888
FAX: (61) 292621794
EMAIL: service.au@bankofchina.com
WEBSITE: www.bankofchina.com/au

BANK OF CHINA (NEW ZEALAND) LIMITED

LEVEL 17, TOWER 1, 205 QUEEN STREET,
AUCKLAND, 1010,
NEW ZEALAND
SWIFT: BKCHNZ22
TEL: (64) 99809000
FAX: (64) 99809088
EMAIL: service.nz@bankofchina.com
WEBSITE: www.bankofchina.com/nz

BANK OF CHINA LIMITED AUCKLAND BRANCH

LEVEL 17, TOWER 1, 205 QUEEN STREET,
AUCKLAND, 1010,
NEW ZEALAND
SWIFT: BKCHNZ2A
TEL: (64) 99809000
FAX: (64) 99809088
EMAIL: service.nz@bankofchina.com

JSC AB (BANK OF CHINA KAZAKHSTAN)

71B, MICRODISTRICT ZHETYSU-2,
AUEZOV DISTRICT, 050063,
ALMATY,
REPUBLIC OF KAZAKHSTAN
SWIFT: BKCHKZKA
TEL: (7727) 2585510
FAX: (7727) 2585514
EMAIL: boc@bankofchina.kz

VIENTIANE BRANCH

NO. A1003-A2003,
VIENTIANE CENTER,
KHOUVIENG ROAD,
NONGCHAN VILLAGE,
SISATTANAK DISTRICT,
VIENTIANE CAPITAL,
LAO P.D.R.
SWIFT: BKCHLALAXXX
TEL: (856) 21228888
FAX: (856) 21228880
EMAIL: service.la@bankofchina.com
WEBSITE: www.bankofchina.com/la

KARACHI BRANCH

5TH FLOOR, CORPORATE OFFICE BLOCK,
DOLMEN CITY, HC-3, BLOCK 4,
SCHEME 5, CLIFTON,
KARACHI,
PAKISTAN
SWIFT: BKCHPKKA
TEL: (92) 2133110688
FAX: (92) 2133110600
EMAIL: services.pk@bankofchina.com
WEBSITE: www.bankofchina.com/pk

COLOMBO BRANCH

NO. 40, YORK STREET
COLOMBO 001
SRI LANKA
SWIFT: BKCHLKLX
TEL: (94) 0112195566
FAX: (94) 0112118800
EMAIL: service.lk@bankofchina.com

BANK OF CHINA LIMITED MUMBAI BRANCH

41-B,4TH FLOOR,
4 NORTH AVENUE,
MAKER MAXITY,
BANDRA KURLA COMPLEX,
BANDRA EAST,
MUMBAI,
INDIA
SWIFT: BKCHINBB
TEL: (0091) 2268246666
FAX: (0091) 2268246667
EMAIL: bocmumbai@bankofchina.com

ULAANBAATAR REPRESENTATIVE OFFICE

11TH FLOOR CENTRAL TOWER,
SUKHBAATAR SQUARE-2,
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