交通银行
BANK OF COMMUNICATIONS

SINCE 1908 YOUR WEALTH MANAGEMENT BANK

Bank of Communications Co., Ltd.

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

2018 ANNUAL REPORT

Stock Code: 03328

COMPANY PROFILE

Building the Best Wealth Management Bank

135 Network Outlets Were Awarded

Top 1,000 Outlets with Civilized and Standardized Services in the Banking Industry

Ranking **First** in the Industry in Terms of the Number

In 2018, Bank of Communications highlighted the strategy of

"taking the road of internationalization and integration, building the best wealth management bank"

from "BoCom Strategy" and proposed

"186"Strategic Landscape

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The Strategic Goal

Building the Best Wealth Management Bank

The Core Essence

Creating Shared Value and Providing Best Services

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The Strategic Measures

Customer First
Strive for strong customer base and excellent customer experience

Road of Internationalization and Integration
Strive for strong non-banking businesses and excellent international businesses

Development of Two Engines
Strive for strong branches and excellent divisions

Synergies of Two-line Services
Strive for strong online businesses and excellent offline businesses

Technology Empowerment
Strive for strong technical foundation and excellent business application

Talents Engine
Strive for strong competencies and excellent incentive mechanism

Risk Controls
Strive for strong comprehensive risk management and excellent risk management strategy

"Happy Home" Construction
Strive for strong co-constructing and co-sharing system and excellent employee experience

6

The Operating Strategies

Increasing Active Customers

Increasing Core Liabilities

Increasing Transformation Income

Reducing Cost of Risk

Reducing Cost of Capital

Reducing Operating Costs

History of Development

The "Century-Old Bank" With 110-Year History

The Successor of Century-Old National Financial Brand

The Forerunner of China's Financial System Reform

Founded in 1908

BoCom is one of the note-issuing banks with the longest history in modern China.

1 April 1987

BoCom reopened after reorganization and became the first nationwide state-owned joint-stock commercial bank in China, with Head Office located in Shanghai.

June 2005

BoCom was listed on the Hong Kong Stock Exchange.

May 2007

BoCom was listed on the Shanghai Stock Exchange

The year of 2015

The State Council approved *BoCom's Plan to Deepened Reformation*. The deepened reformation concentrates on three key areas including refining corporate governance mechanism as a large commercial bank, reinforcing operational improvements and promoting transformation and innovating operating model. Bank of Communications steadily implemented reform programs. In recent years, BoCom focused on three key reformation including organizing personnel, the new intelligence transformation project for the Group's information system ("New 531" project) and the credit risk management. The positive effect of reforms, stimulation of transformation forces and the enhancement of core development indicator are anticipated.

The year of 2018

- It was the 110th anniversary of the establishment of Bank of Communications. At a new starting point. Bank of Communications proposed the "186" strategic landscape.
- Bank of Communications was honored "Top 500 Global Companies" for the ten consecutive years and was ranked No. 168 in terms of revenue by *FORTUNE*. It was ranked No. 11 among the global top 1,000 banks in terms of Tier-1 Capital rated by *The Banker*.

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IMPORTANT REMINDERS

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

II. Mr. Peng Chun, Chairman of the Bank, Mr. Wu Wei, Principal in charge of accounting and Ms. Lin Zhihong, Head of Accounting Department represent that they are responsible for the authenticity, accuracy and completeness of the financial statements in Annual Report.

III. The Group's financial statements that were prepared in accordance with China Accounting Standards was audited by PricewaterhouseCoopers Zhong Tian LLP. Those prepared in accordance with International Financial Reporting Standards was audited by PricewaterhouseCoopers, both with unqualified auditor's reports issued.

IV. Pursuant to the *Administrative Measures for Securities Issuance and Underwriting*, in the situation that the proposals of profit distribution and capital contribution from reserve have not been submitted for the approval from shareholders' general meeting or approved but not yet executed, listed companies shall issue securities after the execution of aforementioned proposals. The Bank is in the progress of the public issuance of A share convertible corporate bonds and has not formulated the profit distribution proposal for the year of 2018, which the Bank will formulate and submit for the approval from the Board of Directors and shareholders' general meeting of the year of 2018 at earliest.

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

VI. The Group's operation is mainly exposed to risks including credit risk, market risk, operational risk and compliance risk. The Group took and will continue to take various steps to effectively manage risks. For more details, please refer to section of "Management Discussion and Analysis – Risk Management".

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

DEFINITIONS

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

"Articles of Associations"	The Articles of Association of Bank of Communications Co., Ltd. as approved by the CBIRC
"Bank", "BoCom"	Bank of Communications Co., Ltd.
"Basis point"	One in ten thousand
"BoCom Aviation and Shipping"	Bank of Communications Aviation and Shipping Financial Leasing Company Limited
"BoCom Asset Management"	Bank of Communications Asset Management Co., Ltd. (under establishment)
"BoCommLife Insurance"	BoCommLife Insurance Company Limited
"BoCom Insurance"	China BoCom Insurance Co., Ltd.
"BoCom International"	BoCom International Holdings Company Limited
"BoCom International Trust"	Bank of Communications International Trust Co., Ltd.
"BoCom Investment"	BoCom Financial Asset Investment Co., Ltd.
"BoCom Leasing"	Bank of Communications Financial Leasing Co., Ltd.
"BoCom Schroder Fund"	Bank of Communications Schroder Fund Management Co., Ltd.
"CBIRC"	China Banking and Insurance Regulatory Commission
"Central and Southern China"	Including Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"Company Law"	The Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"Eastern China"	Includes Shanghai (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Group"	The Bank and its subsidiaries
"Head Office"	The Group's Head Office
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HSBC"	The Hong Kong and Shanghai Banking Corporation Limited
"HSBC Group"	The HSBC and its subsidiaries and contacts
"Ministry of Finance"	Ministry of Finance of the People's Republic of China
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Hong Kong Listing Rules
"North Eastern China"	Including Liaoning Province, Jilin Province and Heilongjiang Province
"Northern China"	Including Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Overseas"	Including Hong Kong Branch/Bank of Communications (Hong Kong) Co., Limited, New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, London Branch/Bank of Communications (UK) Ltd., Bank of Communications (Luxembourg) S.A./Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd., Toronto representative office, Melbourne Branch and other overseas subsidiaries
"Reporting Period"	The period from 1 January 2018 to 31 December 2018
"Securities Law"	Securities Law of the People's Republic of China
"SSE"	The Shanghai Stock Exchange
"SSF"	The National Council for Social Security Fund
"Western China"	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region

CORPORATE INFORMATION

CORPORATE INFORMATION

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

CONTACT PERSON AND CONTACT INFORMATION

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

Contact address: 188 Yin Cheng Zhong Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China
Tel: 86-21-58766688
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ADDRESS AND OFFICIAL WEBSITE

Registered address: 188 Yin Cheng Zhong Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China
Official website: www.bankcomm.com
Head Office address: 188 Yin Cheng Zhong Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, P.R. China
Principal place of business in Hong Kong: 20 Pedder Street, Central, Hong Kong

INFORMATION DISCLOSURE CHANNELS AND PLACES WHERE ANNUAL REPORT IS AVAILABLE

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

INFORMATION OF ORDINARY AND PREFERENCE SHARES

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

AUDITORS

Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP
11th Floor PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC
Name of auditor signed: Hu Liang, Zhou Zhang
International auditor: PricewaterhouseCoopers
22/F Prince's Building, Central, Hong Kong
Name of auditor signed: Jimmy Leung Kwok Wai

AUTHORIZED REPRESENTATIVES

Hou Weidong, Gu Sheng

LEGAL ADVISORS

PRC legal advisor: Grandall Law Firm
Hong Kong legal advisor: DLA Piper Hong Kong

SHARE REGISTER AND TRANSFER OFFICE

A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
3/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New District, Shanghai, P.R. China
H Share: Computershare Hong Kong Investor Services Limited
Flat1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong

OTHER INFORMATION

Unified social credit identification code: 9131000010000595XD

FINANCIAL HIGHLIGHTS

Net interest income (in millions of RMB) 130,908

2014	131,547
2015	139,451
2016	131,315
2017	124,873
2018	**130,908**

Profit before tax (in millions of RMB) 86,067

2014	84,927
2015	86,012
2016	86,110
2017	83,265
2018	**86,067**

Net profit (attributable to shareholders of the Bank) (in millions of RMB) 73,630

2014	65,850
2015	66,528
2016	67,210
2017	70,223
2018	**73,630**

Total assets (in millions of RMB) 9,531,171

2014	6,268,299
2015	7,155,362
2016	8,403,166
2017	9,038,254
2018	**9,531,171**

Return on average assets (%) 0.80

2014	1.08
2015	1.00
2016	0.87
2017	0.81
2018	**0.80**

Return on average shareholders' equity (%) 11.36

2014	14.79
2015	13.43
2016	12.18
2017	11.44
2018	**11.36**

Impaired loan ratio (%) 1.49

2014	1.23
2015	1.48
2016	1.50
2017	1.50
2018	**1.49**

Cost-to-income ratio (%) 31.50

2014	30.29
2015	30.01
2016	30.90
2017	31.85
2018	**31.50**

Provision coverage of impaired loans (%) 173.13

2014	180.95
2015	158.19
2016	153.61
2017	154.73
2018	**173.13**

KEY FINANCIAL DATA AND FINANCIAL INDICATORS

The Group adopted new accounting standards of financial instruments from 1 January 2018. According to new standards of the transitional provisions, the Group elected not to restate comparative figures of prior period. Any adjustments to the carrying amounts at the date of transition were recognised in the opening retained earnings and other reserves. For the related impact, please refer to "2.1.1 Changes in Accounting Policies" of "2 Summary of Significant Accounting Policies" in "Notes to the Consolidated Financial Statements" of the annual report.

As at the end of the Reporting Period, key financial data and financial indicators prepared by the Group under IFRSs are as follows:

Item	**2018**	2017	2016	2015	2014
Full year results					*(in millions of RMB)*
Net interest income	**130,908**	124,873	131,315	139,451	131,547
Profit before tax	**86,067**	83,265	86,110	86,012	84,927
Net Profit (attributable to shareholders of the Bank)	**73,630**	70,223	67,210	66,528	65,850
As at the end of the year					*(in millions of RMB)*
Total assets	**9,531,171**	9,038,254	8,403,166	7,155,362	6,268,299
Including: Loans and advances to customers[1,2]	**4,854,228**	4,579,256	4,220,635	3,835,784	3,532,545
Total liabilities	**8,825,863**	8,361,983	7,770,759	6,617,270	5,794,694
Including: Due to customers[1,2]	**5,724,489**	5,545,366	5,284,059	4,830,915	4,327,741
Shareholders' equity (attributable to shareholders of the Bank)	**698,405**	671,143	629,142	534,885	471,055
Per share					*(in RMB)*
Earnings per share (attributable to shareholders of the Bank)[3]	**0.96**	0.91	0.89	0.90	0.89
Net assets per share (attributable to shareholders of the Bank)[4]	**8.60**	8.23	7.67	7.00	6.34
Key financial ratios					*(%)*
Return on average assets	**0.80**	0.81	0.87	1.00	1.08
Return on average shareholders' equity[3]	**11.36**	11.44	12.18	13.43	14.79
Cost-to-income ratio[5]	**31.50**	31.85	30.90	30.01	30.29
Impaired loan ratio[1]	**1.49**	1.50	1.50	1.48	1.23
Provision coverage of impaired loans[1]	**173.13**	154.73	153.61	158.19	180.95
Capital adequacy Indicators					*(in millions of RMB unless otherwise stated)*
Net capital[6]	**817,549**	790,381	723,961	627,862	584,502
Including: Net core Tier-1 capital[6]	**634,807**	609,454	568,131	518,487	470,456
Other Tier-1 capital[6]	**60,025**	59,975	59,920	14,943	10
Tier-2 capital[6]	**122,717**	120,952	95,910	94,432	114,036
Risk weighted assets[6]	**5,690,542**	5,646,313	5,163,250	4,653,723	4,164,477
Capital adequacy ratio (%)[6]	**14.37**	14.00	14.02	13.49	14.04
Tier-1 capital adequacy ratio (%)[6]	**12.21**	11.86	12.16	11.46	11.30
Core Tier-1 capital adequacy ratio (%)[6]	**11.16**	10.79	11.00	11.14	11.30

Notes:

1. Due to changes in the presentation basis on the items in financial statements, the comparative figures of prior period were restated to the current presentation basis. Same applies hereinafter.
2. According to *Notice on Revising and Issuing the Format of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36) issued by Ministry of Finance, the interest of financial instruments calculated on the basis of the effective interest rate method should be included in the carrying amounts of corresponding financial instruments and reflected in the related items in the balance sheet. The items of "interest receivables" and "interest payables" should not be presented separately. In the consideration of analysis, "loans and advances to customers" here does not include interest receivable on related loans and advances and "due to customers" does not include interest payable on related deposits.
3. Excluding the impact of preference shares.
4. Refers to Shareholders' equity attributable to shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares at the end of the Reporting Period.
5. Calculated in accordance with China Accounting Standards for business and management fees divided by net operating income after the deduction of other operating costs, consistent with the financial report in accordance with China Accounting Standards.
6. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC.

STATEMENT FROM CHAIRMAN OF THE BOARD OF DIRECTORS

Reflecting on 2018, it seems that history will recount it as a year of many important milestones. Notably, our accomplishments reflected the effects of the spirit underpinning the the 19th National Congress of the Party. Year of 2018 was the 40th anniversary of China's reform and opening-up and the 110th anniversary of the founding of BoCom. Faced with an increasingly complex operating environment and myriad evolving challenges, we maintained an intense focus on serving the real economy, proudly continued our stewardship of a 110 year tradition of excellence and retained our strategic orientation. This enabled us to continue to operate in a prudent manner and achieve better than expected business performance throughout the year, further reinforcing our foundation of "stability". Levels of both assets and of profits increased steadily, in this regard, with asset quality maintained. The momentum of "improvement" accelerated, allowing us to further optimize our asset and liability structure. Our customer base continued to improve and the drivers of "progression" were further strengthened. We reinvigorated our efforts of reform to ensure the acceleration of transformation and innovation. These positive factors enabled us to confidently develop in a stable manner, creating greater value to our customers and shareholders.

Peng Chun
Chairman

Cultivating fertile soil for the real economy

The real economy is the most fundamental basis of finance. The high-quality development of banks is dependent on similar development of the real economy. We firmly believe that committed cultivation of the real economy and consistent pursuit of excellent levels of service will promote greater and longer term creation of value. During 2018, we continued to focus on both serving the real economy and addressing evolving challenges. We effectively managed through the ebbs and flows characterizing the current economic cycle, while steadfastly undertaking initiatives to continue to support supply-side structural reforms. We also capitalized on unexpected opportunities arising through China's economic transformation. During the year, due to customers increased by 6.00%, or RMB274.972 billion. We contributed to the real economy by refinancing existing debt of RMB633.7 billion and investing RMB138.7 billion in local government bonds. We created a foundation for the optimization of our business structure and the improvement of interest margin by increasing credit to borrowers in the areas of manufacturing, energy conservation, emission reduction and environmental protection. Supplementing this, we also increased personal lending, further supporting the real economy. We followed the lead of the Party Central Committee and the State Council, proactively addressing challenges in the financing chain of private economy, including small- and micro-enterprises, innovated our financial service offerings, maintained strong growth of inclusive loans and met the regulatory requirements of "two increases and two controls". We valued our customer experience, as well as the related feedback. This focus enabled us to continue building the best service brand in the industry and maintain the leading position in the assessment of "Tier-1", "Top 100" and "Top 1000" outlets by the CBIRC for five consecutive years. Our increasing ability to more effectively serve the real economy not only fulfilled the mission and responsibility of the Bank as a state-owned financial enterprise, but also ensured the safe and stable operation of the Bank during a period of economic challenge.

Ten years of dedication to the "BoCom Strategy"

Ten years ago, we launched the "BoCom Strategy", drawing the blueprint for BoCom's development. Over the past decade, we intensely focused on the continuous implementation of the strategy. As a result of these determined efforts, Bocom developed into a large international commercial bank with operations across borders, industries and markets. In 2018, we contributed to the proactive development of "internationalization and integration" by focusing on further expansion and coordination. Notably, our Prague Branch was approved, our Melbourne Branch officially opened, BoCom Investment was established. The establishment of wealth management subsidiaries were approved. The net profits of our subsidiaries and overseas branches increased by 10.02%. Their contribution to the Group's profits increased by 0.65 percentage point. These increases sustained our momentum to expand our transformation and development. We also implemented initiatives to increase consumption growth in the economy. We further differentiated and refined our competitive capabilities given the abundance and diversity of our customers and businesses. Similarly, we continued to diversify our business structure to extend our "long-tail customer base". We also promoted an "online based and mobile first" approach. These efforts, in particular, strengthened our business in the areas of bank cards, custody services, private banking and transaction banking. During the year, the level of our public funding exceeded RMB1 trillion. The transaction-based revenue increased by 123%. The size of key retail customers, and the volume and amount of mobile transactions increased soundly and rapidly. Credit card consumption ranked second in the market. One-stop, intelligent financial service also reflected improved results and our wealth management banking developed its own brand. These accomplishments reflected our commitment to strategic transformation. In the future, we will continue this commitment and decisively proceed to transform and expand the diversification of our increasingly profitable pattern.

With "armor and sword", innovation and reform achieved significant progress

As a pioneer of China's financial reform, we always believe that stable management serves as its solid root network, while reform and innovation are its soul. Without the root there is no stability. Without the soul there is no flexibility. The connection of the root and the soul is intended to ensure high-quality development. In 2018, we identified three important areas for reform that would serve as anchors and best stimulate BoCom's organizational personnel, Fintech and credit risk management. We valued the talents of our people as our most precious asset. We focused people on the front line and market. In 2018, we implemented human resource reform, expanded employee development opportunities, provided incentives for key employees, continued the development of a "Happy Family" culture, motivated employees and focused our people on their strengths. We accelerated the development of Fintech, with digitization and intelligence as its core. We launched the "New 531" project and actively explored the elements of transition to an intelligent bank. Dual-core heterogeneous and distributed cloud computing projects achieved key breakthroughs in both speed and capability. Technologies such as intelligent risk controls, intelligent credit, unified biometric recognition and big data analysis were widely applied. In a rapidly evolving risk environment, we upgraded the risk and credit management system. With "three lines of defense", we strengthened the credit risk management, substantially enhanced the approval flows in order to more effectively manage risk and increase efficiency. We realized that active business development can only be achieved by an energetic business unit and, therefore, our reform in these three important areas was focused on enhancing the capability of frontline business units. We intend to stimulate these "nerve endings", through proper delegation of authority, to further promote innovation and development.

Steady steps improved asset quality

In the complex and rapidly changing environment, we firmly adhered to stable and prudent operation in compliance with relevant laws and regulations. We improved our forward-looking risk management capabilities in an effective and direct manner. Through our comprehensive risk management mechanism, we refined and tailored our policies to address emerging issues, both their symptoms and causes and effectively manage the challenges of originated, extended and interrelated risks. Our approaches, in this regard, included revising operating models, using big data and refining our risk models. We achieved our objective of continuous asset quality control throughout the year. Both the balances of overdue loans and overdue loan for over 90 days continued to decrease. The impaired loans ratio was 1.49%, decreasing by 1 basis point over the end of the previous year. We increased write-offs and accrued provision to accommodate future business development. The provision coverage of impaired loans steadily increased by 18.40 percentage points to 173.13%. The compliance functions of overseas institutions remained stable. Many of our overseas operations achieved the best compliance assessment results among Chinese overseas banks in their respective jurisdictions. The maintenance of a strict line of defense of risk controls consolidated our foundation of steady development.

BoCom's tradition of 110 years is passed from generation to generation

The year of 2018 was the 110th anniversary of BoCom's establishment. As a national finance brand with the longest history in China, BoCom follows the same direction of the development of our country and society. Last year, we held a series of straightforward, passionate and impressive commemorative activities with the logo of "He110", both inside and outside the Bank. With the connection of the Bank's celebration and our commitment to social public welfare, we launched the "Blue Balloon Public Welfare" brand, continued our mission and responsibilities as befitting a centenarian and stimulated the historical and cultural awareness and pride of about 100,000 BoCom employees. In fact, it is our proud historical legacy and culture that instil us with confidence in our future.

Inheriting and passing on the spirt, BoCom is evergreen. In 2018, our Board of Directors and Senior Management team experienced major changes. With the open minds and close cooperation of all colleagues, BoCom undertook a smooth transition and continued its development and reform.

With the honour and trust of the Board of Directors, I succeeded Mr. Niu Ximing as Chairman of Bank of Communications in February 2018. As the Board of Directors and Senior Management work as one team, Mr Niu Ximing and other colleagues created a solid foundation. Personally, I feel the pressure to meet expectations, but I have strong confidence in my new mission and responsibilities. Under Mr. Niu Ximing's excellent leadership as the ex-President and ex-Chairman of BoCom, BoCom achieved a steady growth. Once again, I would like to express my great appreciation for his outstanding contribution during his term of office in BoCom.

In June 2018, Mr. Ren Deqi joined BoCom as the Vice Chairman of Board of Directors and the President. Mr. Ren Deqi has 30-year banking experience and extensive knowledge of economic and financial development and commercial banking operating management. Under his excellent leadership, the Senior Management of BoCom consistently implemented the resolutions of the Board of Directors, actively performed their duties and promoted innovation. The Bank achieved a range of operating objectives under a dynamic and creative operating style.

In January 2019, Mr. Song Shuguang resigned as the Chairman of the Board of Supervisors to satisfy the requirements of our nation's finance efforts. During his term at BoCom, Mr. Song Shuguang diligently devoted himself to his duties and actively explored the best practice of the Board of Supervisors, established and improved the working system of the Board of Supervisors. His work in promoting the stable operation of the Bank and safeguarding the interests of shareholders, the Bank and employees achieved fruitful results. I would like to express my great appreciation to Mr. Song Shuguang for his significant contribution to BoCom and wish him all success in his new position.

In 2018, a number of members of the Board of Directors and Senior Management changed. Mr. Wu Wei and Mr. Cai Haoyi assumed the roles of Executive Director and Independent Non-executive Director, respectively. Mr. Lyu Jiajin joined the BoCom team. Mr. Gu Sheng, Mr. Fu Wanjun, Mr. Xu Han and Mr. Tu Hong were appointed to Senior Management positions. Their arrival injected new energy into our team. Ms. Yu Yali, Mr. Shen Rujun, Mr. Chen Zhiwu, Mr. Shou Meisheng and Mr. Du Jianglong no longer serves as Directors or Senior Management due to retirement or job rearrangement. They made significant contributions after years of devotion and diligence in their fields of work. The people of BoCom sincerely appreciate their services in BoCom and will miss them deeply.

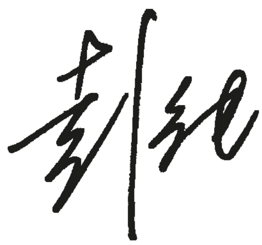
Guided by strategy, BoCom continues its grand journey

The year of 2019 is the 70th anniversary of the founding of the People's Republic of China, as well as a critical year of laying the decisive foundation for the overall building of moderately prosperous society. We developed our insights to the trends and key elements of the economy. Broadly, we expect downward pressure on China's economy in 2019 and an increase in the complexity of the operating environment of the banking sector. We do, however, see positive prospects from the results of transformation from old to new growth paradigms, as well as an improving policy environment. Commercial banks continue to manage important strategic opportunities, while facing ongoing difficulties and challenges.

The supreme art of war is to wisely plan strategy. Given the current opportunities and challenges turning difficulties into opportunities and speeding up the development, it is crucial to decisively determine our strategic direction and approach to implementation. Standing on the new era, new coordinates and new orientation, we should consistently draw our blueprint, while being able to adapt to take advantage of the emerging opportunities and enrich the embedded value of the "BoCom Strategy", which was successfully implemented over the past 10 years. We will create common value between financial products and our customers and support the positive cycle of finance that drives the real economy. We slightly adjusted the strategy of "taking the road of internationalization and integration, building the best wealth management bank". Although we continued to highlight the key theme of serving the real economy, building the best wealth management bank and emphasizing the core message of "creating common value, providing the best service". Under this clear strategic goal, we focused more on setting up strategic implementation and transmission mechanism. We outlined a new strategic system which incorporated "one goal, eight measures and six strategies" ("186" strategic system). Eight measures referred to eight core foundations to achieve our strategic goal including "customer first, internationalization and integration, development of two engines, synergies of two-line services, technology empowerment, talents engine, risk controls and 'Happy Home' construction". Six operating strategies included "increasing active customers, increasing core liabilities, increasing transformation income, reducing cost of risk, reducing cost of capital and reducing operating costs".

The era of grand transformation provides BoCom with the strategic opportunities of becoming stronger and better, which call us to step forward on new journey. With the support of our shareholders and society, guided by the "BoCom Strategy", we will follow the "186" strategic landscape, promote strategy implementation step by step and inject new energy into BoCom to enable us to overcome the difficulties and challenges ahead. We will deeply integrate ourselves into and serve the country's overall development and comprehensively increase the capabilities of coordinating across borders, industries, markets, boundaries and service lines. We will also make every effort to contribute to China's high-quality economic development with "BoCom power". We will fully embrace Fintech, taking "wealth management" into a leading position with technology empowerment, make financial services more equal, efficient and accessible and drive "BoCom Wisdom" to serve people's aspiration to live a better life. We will strengthen the cohesion of employees, realize the BoCom dream of each employee and focus on building the "BoCom Home" for all employees. The Bank will achieve the value expected from investors and customers by continuing high quality, efficient and sustainable operations. We salute the 70th anniversary of the founding of People's Republic of China!

Chairman



STATEMENT FROM PRESIDENT

It is with a strong sense of honour, the trust of the Board of Directors and support from our shareholders, that I served as the President of Bank of Communications from June 2018. I fully understand the level of responsibility expected of me as I join this market leading commercial bank, which has a long and distinguished heritage, as well as a demonstrated willingness to reform. Under the leadership of the Board of Directors and support from Senior Management, we will all be able to diligently work together towards common goals, lead our people towards a shared vision, effectively manage challenges and maintain the momentum of BoCom's stable development. In this regard, I would like to report to our shareholders and society at large on the Bank's operating performance in 2018 on behalf of BoCom's Senior Management.

Ren Deqi
President

We adhered to fundamental base of the real economy, while steadily improving the quality and efficiency of our development.

The economic performance during 2018 was generally steady, yet some of which caused concern in such complex external environment and downward economic pressure. BoCom's Senior Management diligently implemented decisions and directions from the Board of Directors. We followed the principle of high-quality development, maintained an intense focus on serving the real economy and continuously promoted the operating strategy of "three increases and three reductions" – increasing active customers, core liabilities and transformation income, while reducing the costs of risk, capital and our operations. We were also mindful of the potential effect of economic trends on the quality of BoCom's development and were able to achieve "steadily improving development in efficiency, scale and quality". As at the end of the year, the total assets of the Group increased by 5.45% over the end of the previous year to RMB9.53 trillion. Net profits increased by 4.85% to RMB73.630 billion. The impaired loan ratio and the cost-to-income ratio were 1.49% and 31.50%, respectively. The profit per person was RMB0.8223 million. The deposits per outlet (excluding all-inclusive outlets) was RMB2.144 billion. The operating management objectives set by the Board of Director in 2018 were realized, demonstrating the Group's remarkable capability to create value, effectively manage risk and remain keenly competitive in the market.

We diligently optimized our credit origination to promote economic restructuring, reasonably controlling the amount and pace of credit and fully satisfied capital demands of the real economy. We effectively supported the State major strategies and key projects, notably, the "Belt and Road", as well as the integrated development of the Beijing-Tianjin-Hebei Region, the Xiong An New Area, the Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area and "Going Global" of Chinese enterprises. We enabled people to realize their aspiration to live a better life in the boarder business areas of green finance and the emerging healthy aging sector. As at the end of the Reporting Period, the balance of the Group's total loans and advances to customers increased by RMB274.972 billion, or 6.00% over the end of the previous year, including an increase in agriculture-related loans of RMB13.273 billion over the end of the previous year. The balance of loans to of living consumption and public utilities, such as electricity, gas and water, science, education, culture and health, increased by RMB17.9 billion over the end of the previous year while the balance of loans of overcapacity industries decreased by RMB0.83 billion over the end of the previous year.

We strengthened our market research, timely and flexibly adapting for optimized strategies and promoting prudent recalibration from our asset and liability structure to the overall business. In terms of our liabilities, we promoted the innovation of structured deposits, benefitting from strong market liquidity and robust demand for asset management products. The balance of the Group's due to customers increased by RMB179.123 billion, or 3.23% over the end of the previous year. Regarding asset growth, more than two-thirds of newly originated credit was directed towards retail to enable people to achieve their aspiration to live a better life, leading to an increase in the average interest rate of new retail loans of 93 basis points compared with the previous year. The optimization of asset and liabilities structure, made significant contribution to profit growth. We diligently managed costs. During the Reporting Period, the Group's cost-to-income ratio decreased by 0.35 percentage point over the previous year, the first decrease in three years.

We remained focus on implementing the "BoCom Strategy", continued to strengthen in-depth integration of the advantages of internationalization and integration and the brand of wealth management, resulting in strong and sustainable profit growth. During the Reporting Period, overseas branches and subsidiaries contributed a total of 13.92% to the Group's profits, an increase of 0.65 percentage point over the previous year. Net fee and commission income increased by 1.69% to RMB41.237 billion on a year-on-year basis, which was above the industry average. We leveraged the advantages of our headquarters location in Shanghai and those of the "BoCom Strategy". Driven from Shanghai, we promoted the integration of our operations in the Yangtze River Delta. We also built the “pilot field” and “demonstration zone” initiatives, consistent with the “BoCom Strategy”. Similarly, we further expanded into the key areas of free trade zones, financial markets and technology. We were also developing unique service capabilities to support coordinated regional economic development, as part of our supporting Shanghai’s further deepening reform and increased opening up.

The value of stable operations became more prominent. Our risk management demonstrated its effectiveness and stability.

We firmly believed that “steady steps travel far”. Stable operations were always the foundation of an evergreen BoCom. During 2018, facing a complex risk environment, we stringently adhered to a prudent and stable risk appetite, enhancing our risk management across borders, industries, markets, boundaries and our business lines. We improved our capability to manage through economic cycles and other risks, creating a solid foundation for stable business development and compliance with laws and regulations.

We made continuous improvements to our comprehensive risk management system, enhanced our risk forecasting and management capability and achieved a proper balance between business development and risk management. We initiated the reform of our risk credit management by reforming system and processes, improving policies and procedures, technology innovation and process optimization. We also focused on the coordination of all business lines across the Group and established an integrated and comprehensive system of risk monitoring, measurement and management. To improve risk management and operating efficiency, we adhered to the principle of “good customers, efficient processes and stringent controls related to customers with high credit risks". We also categorized customers as having “black", “white” or “grey” risk levels, based on a thorough assessment of customer risk characteristics and operating trends. We managed risk focusing on effectiveness and efficiency, coordinating our efforts for group and cross-institutional customers with risks, emphasized on the risk prevention and elimination and facilitated the disposal of non-performing assets. Given the effectiveness of our risk controls, we were able to effectively address the evolving challenges of risk, maintain stable asset quality, resulting in a demonstration of the value of stable operations that was above average. During 2018, both the balance and proportion of overdue loans and loans overdue for over 90 days decreased for the third consecutive year. The provision coverage of impaired loans significantly increased by 18.4 basis points. Again, our demonstrated ability to effectively manage risk reinforced our already solid foundation for future sustainable performance.

We upgraded channels empowered by technology and created values together based on customers.

We fully understand that customers are the source of the Bank’s value and, therefore, the leading focus of our reform. To stand out in a competitive market, we met customers’ requirements and introduced new products. In 2018, we focused on our frontline operations as a starting point, advanced reforms based on our platforms and channels, constantly improved the customer experience and continuously enhanced our comprehensive capabilities to serve customers and create value.

We fully embraced Fintech, put “technology empowerment” on a new strategic level, launched the “New 531” project, met customers’ requirements and facilitated the Group’s intellectual capacity. We established artificial intelligence platforms, enhanced our knowledge graph and big data capabilities and refined our ability to deliver financial services through a broader range of transaction scenarios. We also provided customized, tailored and targeted products and services. Through “Internet +”, we became industry pioneers in the development of an asset securitization platform based on block chain technology. We launched key innovative products such as “Express Bill Discounting”, “Express Receivable Collector”, “Express Pay” and “Intelligent Automobile Finance”. We also promoted industrial chain finance in the key industries of construction, medical, retail, automobile and modern agriculture. We were also aware of our responsibility to serve small- and medium-sized enterprises. In this regard, we developed an online credit loan product "Shui Rong Tong", based on big data technology for inclusive small- and micro-enterprises.

We improved the customer experience, embraced the principle of "online-based and mobile-first" and extensively reconfigured demonstration pattern, business flow and management processes, to shorten business processes improve our efficiency and enhance customer relationships. The "Win to Fortune E Chain" platform clearly demonstrates the "scenario of financing" in practice. We introduced a new mode of mobile banking, "Online Customer Manager", which included online chat, live broadcasting and one-on-one video. Such new mode was the real practice of the trend of intellectualization, mobilization and socialization of assets management. As at the end of the Reporting Period, the number of the Group's mobile banking registered customers reached 74.14 million, representing an increase of 21.42% over the end of the previous year. During the Reporting Period, the volume of mobile banking transactions increased by 21.71% on a year-on-year basis to 0.370 billion. The aggregate amount of transactions increased by 43.79% on a year-on-year basis to RMB11.00 trillion.

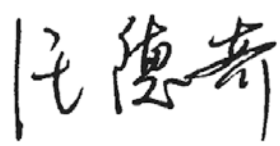
Supported by robust business performance, the Bank's brand image was widely recognized. For example, 135 of our outlets were included in the "Top 1,000" demonstration outlets, leading the industry. Serving customers was our core responsibility for more than a century and we strongly reaffirm this on the occasion of our 110th anniversary. We also met the expectations of our Board of Directors and investors through the stable growth of the Chinese economy with the cooperation of customers, shareholders, society and our strategic partner HSBC and with the support and hard work of about ten thousand employees. Accordingly, on behalf of the Senior Management of BoCom, I would like to express my great appreciation to all of our stakeholders and all employees of the Bank.

Looking to 2019, many important aspects of the strategic development of the banking industry remain relevant. There are both challenges and opportunities in a dynamic environment. Last year, we made refinements to "BoCom Strategy", setting a strategic goal of "taking the road of internationalization and integration, building the best wealth management bank" and developed the "186" strategic landscape, which created a good opening for a new era and new journey of BoCom.

The future is coming and we start our journey again. We will turn pressure into motivation, turn challenges into opportunities, develop via reform, guided by the strategic vision of the Board of Directors and constantly improve the abilities of strategy execution and coordination. We also support the State major strategies and people's growing aspiration to live a better life. We will strongly promote "internationalization and integration" and "building the best wealth management bank" and drive "wealth management" in a leading position. We will proactively respond to market changes and customer requirements, improve the technology of "online + offline" channel services and improve the compatibility of customer products and services. We will continuously improve our capabilities of risk prevention and management. We will also address the uncertainty and challenges of risk through focused transformation and improvement to enhance the defensive capabilities against various risks.

We firmly believe – based on our solid customer base, stable risk management, strong strategic determination and open-minded attitude for innovation – that we are able to flexibly utilize the Group's resources and stimulate our collective value-creating energy. BoCom will achieve a win-win situation with customers, employees and investors!

President



BUSINESS PROFILE

(I) DESCRIPTION OF PRIMARY BUSINESSES AND INDUSTRY

1. Primary Businesses

The Group's primary businesses include corporate banking, personal banking, treasury and other businesses. Corporate banking includes providing various financial products and services to enterprises, government agencies and financial institutions, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses. Personal banking business includes services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Treasury mainly includes money market transactions, trading account businesses, banking account investments and precious metal businesses. Please see "Operating Results by Business Segments" on Page 61 for the information of operating income and profit of primary businesses. In addition, the Group involved businesses in fund, trust, financial leasing, insurance, overseas securities and debt-to-equity conversion through its subsidiaries, including BoCom Schroder Fund, BoCom International Trust, BoCom Leasing, BoCommLife Insurance, BoCom Insurance, BoCom International and BoCom Investment.

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

2. Industry Overview

According to data published by the CBIRC, as at the end of the Reporting Period, total domestic and overseas assets of financial institutions in China's banking sector denominated in RMB and foreign currencies increased by 6.3% on a year-on-year basis over the end of the previous year to RMB268 trillion, among which total assets of large-scale commercial banks increased by 6.0% on a year-on-year basis to RMB98 trillion, accounting for 36.7% of the total assets of financial institutions in China's banking sector. Total domestic and overseas liabilities of financial institutions in China's banking sector denominated in RMB and foreign currencies increased by 5.9% on a year-on-year basis to RMB247 trillion, among which total liabilities of large-scale commercial banks increased by 5.6% on a year-on-year basis over the end of the previous year to RMB90 trillion, accounting for 36.7% of the total liabilities of financial institutions in China's banking sector.

As one of the large-scale financial institutions in China's banking industry, as at the end of the Reporting Period, the Group's total assets increased by 5.45% over the end of the previous year to RMB9.53 trillion. The total liabilities increased by 5.55% over the end of the previous year to RMB8.83 trillion.

(II) ANALYSIS OF CORE COMPETITIVENESS

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

– Profound history background and strong comprehensive capabilities. The year of 2018 was the 110th anniversary of the establishment of the Bank. As an existing national brand of finance with the longest history, Bank of Communications enjoys high recognition and reputation, known as a "century-old bank". The total assets and net profits of the Group exceeded RMB9 trillion and RMB70.0 billion, respectively. The Bank was honored "Top 500 Global Companies" for the ten consecutive years by *FORTUNE*. The Group's Tier-1 capital ranked no.11 among the global top 1,000 banks rated by *The Banker*, with strong comprehensive capabilities.

– Large-scale bank with spirit of reformation. The Bank has always been a pioneer of reformation in banking sector since reorganization, which provides the advantage in reformation and innovation. The Bank is the first national joint-stock commercial bank in China, the first integrated commercial bank to carry out banking, insurance and securities businesses and the first domestic large-scale commercial bank to successfully bring in foreign capital and list overseas. In 2015, the Bank took the initiatives to be responsible for the financial pilot reform in China once again after the *BoCom's plan to strengthen Reformation* approved by the State Council. In 2018, the Bank focused on three key reforms including human resources reform, the "New 531" project and credit risk management, resulting in the positive effects of the reforms. The Bank adhered to develop under "BoCom Strategy" with new interpretation in 2018 and proposed the "186" strategic landscape.

– Constant enhancement of global service ability. The Bank was committed to becoming a first-class international bank with remarkable advantages in international businesses and delivering of global financial services. The Bank is one the most internationalized domestic branches in China. The overseas banking institution "Asia-Pacific as basis and Europe and America as two wings to expand the global landscape" took shape initially. The Bank set up 22 overseas banking entities and established 66 overseas banking outlets in total (excluding the representative offices) in over 16 countries and regions. Total asset of overseas banking entities was over RMB1 trillion. At the same time, the Bank built agency bank relationships with 1,159 banks among 134 countries and regions, which provides cross-border RMB clearing service for 33 countries and regions. The number of currencies of cross-border remittance transactions reached 17.

– Continuous improvement of integrated financial service. The Bank was committed to becoming an integrated financial service group focusing on banking industry to serve the real economy through multiple channels and across the regions. Currently, the Bank ranked first in integration among all commercial banks. Besides the commercial banking businesses, the Bank extended its business to many areas such as trust, financial leasing, fund management, insurance, securities and debt-to-equity conversion, etc. The wholly-owned subsidiaries of the Bank included BoCom Leasing, BoCom Insurance, BoCom Investment and BoCom Asset Management (under establishment). Subsidiaries controlled by the Bank included BoCom International, BoCom Schroder Fund, BoCom International Trust and BoCommLife Insurance. Additionally, BoCom International listed on Hong Kong Stock Exchange in May 2017, becoming the first Chinese funded securities trader and listed in Hong Kong. BoCom Leasing and BoCom International Trust arrived at the top place in the industry.

– Progressive wealth management characteristics. The Bank initiated the concept of wealth management services among the banks in the industry at a earlier period of time. The brand and characteristics of wealth management became more and more prominent by continuous development of the wealth management service system. Service categorization covering both high and mid-end customers and ordinary customers was established in personal banking business. Intelligent services such as "OTO Financial Advisor" and "My Account Manager" were newly introduced. The integrated operation of online and offline achieved initial success. The core service brand "Win to Fortune" for high-end and mid-end customers gained increasing market reputation. As at the end of the Reporting Period, individual financial asset under management ("AUM") amounted to RMB3.06 trillion. The Bank won the Ninth Jin Li Cai "Top Award for 2018 Annual Wealth Management Brand". With regard to corporate business, brand building of "Win to Fortune" achieved initial success, financial service platform "Win to Fortune E Chain" was launched to enhance the capabilities of serving corporate customers in the mobile area. Key products including "Win to Fortune Account", "Win to Fortune Industrial Chain" and asset securitization enjoyed growing influence. The Bank was awarded the "China Best Service Provider – Cash Management" and the "Best Asset Securitization Award in China in 2018" by *The Asset* and "Best Supply Chain Financing Bank" by *Asia Money* in 2018.

– Constant improvement of online and offline all channels' service capabilities. The Bank was among the earliest banks that developed strategic objective of enhancing services and committed to providing best services of all channels. With serving the real economy as its core, the Bank constantly improved the capabilities of financial services for the real economy. As at the end of the Reporting Period, the balance of loans of the Group reached RMB4,854.228 billion, with an increase of RMB274.972 billion over the end of the previous year, which effectively supported the real economy. The Bank constantly improved customer service mechanism, innovated service patterns, optimized service processes focusing on customer experiences. The Bank actively protected consumer rights, continuously promoted financial education to customers and strengthened the spread and popularization of financial knowledge. The Bank speeded up the light and intelligent construction of the outlets, adhered to the transformation direction of "comprehensive operation, flexible services", promoted the innovation of outlet service mode and improved service capabilities and customer experiences. The Bank created "Online + Offline" integrated synergy services, pioneered to realize the trans-time-and-space interaction functions such as mobile banking and live broadcasting in the industry under the transformation strategy of "online-based and mobile-first" with videos as the social communication medium to meet customers' real-time and fragmented service requirements, which achieved "out of the store but still in the Bank, offline but still in the Bank, in store equals online, online equals in store". High-quality service became the Bank's operating advantages and characteristics. In 2018, BoCom Mobile Banking APP won the "Best Personal Mobile Banking Award" of China Financial Accreditation Center, 135 network outlets of the Bank were awarded Top 1,000 Outlets held by China Banking Association, ranking first in the industry, becoming the pioneer in the competition for five times since 2013.

– Fully embraced financial technology development trend. The Bank realized the importance of financial innovation. The Bank set up Product Innovation and Promotion Committee in 2010, headed by Senior Management, continuously promoted businesses and product innovation on strategic level. The Bank established an innovation laboratory to promote forward-looking and uncertain technology exploration, research and incubation. In 2018, the Bank focused on artificial intelligence, block chains, big data, knowledge graph, Internet of Things, home banking and other fields and strengthened the application of emerging technologies in banking-related scenarios. In order to adapt to the trend of digitalization, the Bank established Online Financial Business Center and strived to build a Fintech platform to promote the technology application such as big data, mobile communication and artificial intelligence. Furthermore, the Bank accelerated the construction of online channel by focusing on development of mobile banking APP and Go Pay APP, which reached top of the industry in terms of market influence and number of active customers. In 2018, the Bank initiated the intelligent transformation project of the Group's information system ("New 531" project), which considered digitization and intelligence as the core and promoted the deep integration of banking businesses applications and financial technologies and such as big data, mobile communication, artificial intelligence, block chains, etc.

– **Sound and effective comprehensive risk management system.** The Bank always adhered to the risk appetite with "stability, balance, compliance and innovation" as its core, formed a risk culture characterized by "law compliance, stable operation, innovation and aggressiveness and accountability for the violation of regulations", established the cultural connotation of "process-based and procedure-first", developed the management concept of "horizontal, vertical and complete coverage", finalized the comprehensive risk management system with the committee as the core, innovated various risk management tools and built the core advantage of risk management with its own distinctive features. During the Reporting Period, the Bank initiated and deepened the reform of risk and credit management and further consolidated, inherited and carried forward the advantages of risk management. The Bank continuously moved forward various reform measures by focusing on the goal of establishing the risk management system of "full coverage, differentiation, specialization, intelligence and accountability". As at the end of the Reporting Period, the Bank's major asset-quality indicators were stable and sound. The balances of overdue loan and overdue loan for over 90 days of the Group both continued to decrease, the impaired loans ratio decreased by one basis point over the end of the previous year and provision coverage of impaired loans increased by 18.40 percentage points over the end of the previous year.

– **Fruitful strategic cooperation with HSBC.** In 2004, the Bank entered into a strategic cooperation agreement with HSBC. Over the past decade, BoCom and HSBC had stable cooperation. HSBC increased the share holdings of BoCom for several times. HSBC was the second largest shareholder (19.03% of the total shares) of the Bank, who had two seats in the Board of Directors. Thereinto Mr. Peter Wong Tung Shun, held the post of Non-executive Vice Chairman of the Bank. Senior Management and working team from both parties kept closely communication and stressed on exercising each's advantages, creating BoCom and HSBC "1 + 1" service brand. Cooperation continued to expand in areas such as international businesses, cooperate businesses, personal businesses, custody businesses, achieving mutual benefits and win-win results. In 2018, both parties mutually agreed to upgrade the strategic cooperation between BoCom and HSBC to "deepen strategic cooperation and create shared value" and worked together to create more value for each shareholder, customers and society by constantly enriching the cooperation and exploring the cooperation potentials.

During the Reporting Period, the Group's core competiveness had no significant change.

RANKING AND REWARDS

People Rewards

Annual Banker: Peng Chun
CBN

China Top 100 Excellent Secretary of the Board of Directors: Gu Sheng
China Business Top 100

Comprehensive Ranking

Top 1000 World Banks 2018 (ranked 11)
The Banker (UK)

Fortune Global 500 -2018 (ranked 168)
Fortune (USA)

Brand Rewards

First Class Bank on the Assessment and Evaluation of the Protection of Consumer Rights in the Banking Industry
CBIRC

135 Network Outlets were awarded "Top 1,000 Outlets with Civilized and Standardized Services in the Banking Industry", ranking first in the industry in terms of the number; Best Corporate Social Responsibility Financial Enterprises
China Banking Association

Best Local Bank
The Asset

"Jin Li Cai" Top Award of Wealth Management Bank of the Year
Shanghai Securities News

Caixin ESG Excellent 50 Index Winner- Social Responsibility
Caixin

Business Rewards

Best Wealth Management of the Year
Financial Times

Jun Ding Award of Excellent Wealth Management Institution of the Year
Securities Times

Best Comprehensive Bank, Best Innovative Bank
Eastmoney.com

Best Asset-backed Securitization Award in China
The Asset

China Best Cash Management Service Bank
The Asset

Corporate Banking with Competitiveness of Excellence of the Year
China Business Journal

Premier Platinum Credit Card of the Year
21st Century Media

Excellent Credit Card of the Year (Go Pay APP)
Organizing Committee of the 21st Century Asian Financial Annual Conference

Best Green Bonds Bank
Asia Money

"Jin Li Cai" Outstanding Award of Personal Bank of the Year
Shanghai Securities News

Top 10 Financial Innovation Award (Credit Card Center Intelligent Robots)
The Banker

MANAGEMENT DISCUSSION AND ANALYSIS

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2018, there were many uncertainties in the global economy, especially fluctuations in the financial markets and bulk-commodity market, growth of trade protectionism and unilateralism as well as a significant decline in global investment. China adhered to the overall strategy to make progress and maintained stability, effectively responded to changes in the external environment and implemented high-quality development requirements. National economy ran smoothly, the structural adjustment and transformational upgrading constantly moved forward. The quality of development was constantly enhanced. In 2018, the gross domestic product ("GDP") reached RMB90.03 trillion and increased by 6.6% over the previous year, including the added value of the primary industry, secondary industry and tertiary industry increased by 3.5%, 5.8% and 7.6% respectively. The contribution rate of the tertiary industry to economic growth was 23.6 percentage points higher than that of the secondary industry, with an increase of 0.1 percentage point over the previous year. The contribution of the service industry to economic growth was further enhanced. The contribution rate of final consumption expenditure to economic growth was 76.2%, with an increase of 18.6 percentage points over the previous year. Consumption was the main driving force for economic growth. The new industrial drivers grew rapidly. The added value of high-tech manufacturing increased 11.7%, accounting for 13.9% of the added value of industrial enterprises above designated scale, with an increase of 1.2 percentage points over the previous year. Consumer prices were generally stable, with an increase of 2.1% of consumer price index ("CPI") and an increase of 3.5% of producer price index ("PPI") on a year-on-year basis respectively. The scale of import and export reached RMB30.51 trillion, with an increase of 9.7% over the previous year, among which the scale of export and import value increased by 7.1% and 12.9% respectively. The per-capita disposal income of residents arrived at an average of RMB28,228, with an nominal increase of 8.7% over the previous year. The green development solidly developed. The energy consumption per RMB10,000 of GDP fell by 3.1% over the previous year.

The monetary credit and social financing maintained a stable growth. By the end of 2018, the balance of M2 (broad monetary aggregates) increased by 8.1% on a year-on-year basis. The balance of RMB loans increased by 13.5% on a year-on-year basis, representing an increase of RMB16.2 trillion over the beginning of the year. The scale of social financing during the whole year was RMB19.3 trillion. The People's Bank of China ("PBOC") implemented prudential and neutral monetary policy, further dredged the monetary policy transmission mechanism, strengthened policy coordination and ensured the reasonable and abundant liquidity of the banking system, which led to the optimization of the liquidity structure of commercial banks and financial market and the overall decrease of a series of interest rates of the monetary market. PBOC also strengthened financial support for the real economy, especially small and micro enterprises as well as private enterprises to create a prudent monetary and financial environment for supply-side structural reform and high-quality development.

II. BUSINESS REVIEW

In 2018, the Group actively responded to the changing market and political environment and fully implemented various State policies to serve the real economy, prevent and control risks and deepen reforms. The Group's performance steadily grew The quality and efficiency of operation were continuously improved. As at the end of the Reporting Period, the total assets of the Group amounted to RMB9,531.171 billion with an increase of 5.45% over the end of the previous year. During the Reporting Period, the net profit of the Group (attributable to shareholders of the Bank) increased by 4.85% on a year-on-year basis to RMB73.630 billion. The interest margin of the Group increased quarterly, showing a steady trend, with the net interest margin of 1.51%, which was about the same as the previous year. The net fee and commission income increased by 1.69% on a year-on-year basis to RMB41.237 billion. The cost-to-income ratio decreased by 0.35 percentage point over the previous year to 31.50%, achieving the first decline in the latest three years. Profit grew steadily, but provision increased. The provision coverage of impaired loans increased by 18.40 percentage points over the end of the previous year to 173.13%, which was the highest coverage since 2015. The Group proactively promoted business restructure and internal capital control. Under the situation where there was no external capital, the Group's capital adequacy ratio increased by 0.37 percentage point over the end of previous year to 14.37%.

Under the new guidance of "186" Strategy, the Group stepped onto a new journey

In 2008, BoCom brought forward the development strategy, which was "becoming a first class listed comprehensive banking group focusing on international expansion and specializing in wealth management" (the "BoCom Strategy"). In the recent decade, under the guidance of "BoCom Strategy", the Group maintained a stable performance with good momentum, significantly promoted internationalization and integration and prominently increased service capabilities across borders, industries and markets. Facing the international and domestic macro-economic financial situation, BoCom kept going with the times in 2018. BoCom injected new connotation in development strategy. The strategy after adjustment was "taking the road of internationalization and integration, building the best wealth management bank." The Bank also initiated "186" strategic landscape ("1 goal + 8 measures + 6 strategies") with the objective to further promote high-quality development of BoCom.

"1" highlights the strategic goal of "building the best wealth management bank", establishing the core essence of "creating shared value and providing best services". Wealth Management Strategy Promotion Committee was set up under Senior Management. The committee was in charge of the operation of the Group's wealth management business and promoting the implementation of wealth management strategy.

"8" refers to 8 strategic directions and measures including customer first, "internationalization and integration", "development of two engines", "synergies of two-line services", technology empowerment, talents engine, risk controls and "Happy Home" construction.

"6" refers to firmly implementing the key works of "3 increasing and 3 reducing", promoting core capabilities in aspects of customer development, capital accumulation, dynamic balance of risk and return and cost control.

The Group will constantly deepen the new interpretation of "BoCom Strategy", follow the "186" strategic landscape and firmly grasp the new opportunities in important strategic period to enhance the capabilities of serving the real economy, controlling risk, executing strategy, supporting and guaranteeing. The Group will comprehensively strengthen and improve operation management, focusing on creating shared value between finance and customers.

The Group insisted on the fundamental base of finance and actively served the real economy. The Group supported the State strategic priorities with rapid credit growth in the areas of small and micro enterprises, "agriculture, rural areas and farmers" and poverty alleviations. As at the end of the Reporting Period, the balance of loans and advances to customers of the Group (before allowances, same applies hereinafter unless otherwise indicated) increased by RMB274.972 billion or 6.00% over the end of the previous year to RMB4,854.228 billion. The balance of loans of the inclusive finance under "two increases" standard increased by RMB26.280 billion or 29.63% over the end of the previous year, which was higher than the average growth rate of all loans. The Group's balance of loans on targeted financial poverty alleviation was RMB27.743 billion with an increase of 72.78%. The decrease of interest rates of small and micro-enterprises loans outperformed the regulatory requirements. Interest rates in the fourth quarter of 2018 dropped by 110 basis points compared with the first quarter of the same year. The targets of "two increases and two controls", the balance of agriculture-related loans, the balance of loans on targeted financial poverty alleviation, MPA and other indicators all met the regulatory requirements.

The Group adhered to the road of "internationalization and integration" and created the characteristics of wealth management. The establishment of Prague Branch was approved, The Melbourne Branch and BoCom Financial Asset Investment Co., Ltd. officially opened, The number of overseas service institutions increased to 22 and integrated services extended to the field of debt-to-equity conversion. The Group promoted and optimized "OTO Financial Advisor", creatively launched OTO Financial Quotient Index, wealth diagnosis system and product referral system, launched the first "Tax-Deferred Pension Insurance" in the country and launched the first "Group Financial Management" in the industry with a total of nearly 10,000 groups. As at the end of the Reporting Period, the amount of custody assets increased by 8.33% over the end of the previous year to RMB8,913.212 billion. The amount of individual financial assets under management (AUM) increased by 6.11% over the end of the previous year to RMB3,057.596 billion. The number of qualified customers of BoCom Fortune, OTO Fortune and private banks increased by 1.82%, 9.40% and 11.09%, respectively over the end of the previous year.

The sales department of Pudong Branch, Shanghai.

The Group deepened the reform, resulting in great achievement in technology empowerment. The development of "two engines" of divisions and branches was continuously strengthened and the Group maintained the focus on retail business transformation under the new era. During the Reporting Period, the profit before tax and provision of the six major business division profit centers increased by 15.87% on a year-on-year basis. The contribution of operating profit of provincial branches increased by 2 basis points over the previous year. The Group promoted the upgrading of the intelligent transformation project, synergized online and offline cross-boundary collaboration, optimized and integrated offline channels and fully exercised the role of mobile channels, especially mobile banking. Under the development trend of financial technology, the Group increased R&D investment annually in recent years. During the Reporting Period, information technology investment increased by 6.10% over the previous year. During the Reporting Period, the volume of mobile banking transactions reached 0.370 billion with an increase of 21.71% on a year-on-year basis. The amount of transactions reached RMB11.00 trillion with an increase of 43.79% on a year-on-year basis. The number of registered credit cards of domestic branches (including quasi-credit cards) exceeded 70.00 million. The accumulated annual consumption of debit cards increased by 7.21% on a year-on-year basis.

Risk management was strengthened and capital strength was significantly enhanced. The Group promoted the reform of risk and credit management and improved the forward-looking risk decision system with the committee as its core. The Group also strengthened the credit risk management characterized by "horizontal, vertical and full coverage". The Group further enhanced the ability of risk management by improving the Group's unified system of risk monitoring, measurement, elimination and supervision. As at the end of the Reporting Period, the impaired loan ratio decreased by 0.01 percentage point over the end of the previous year to 1.49%, the balance of overdue loans and the balance of overdue loans over 90 days achieved declines of RMB10.334 billion and RMB13.520 billion respectively over the end of the previous year, which represented a decrease of 0.33 percentage point and 0.38 percentage point respectively over the end of the previous year. The provision coverage of impaired loans sharply increased by 18.40 percentage points over the end of the previous year to 173.13%. Given the capital intensive development, active business restructure and internal capital control, the growth rate of risk-weighted assets (RWA) was lower than the growth rate of assets by 4.67 percentage points. The proportion of RWA in total assets was 59.70%, representing a decrease of 2.77 percentage points over the end of the previous year. As at the end of the Reporting Period, the core Tier-1 capital adequacy ratio, the Tier-1 capital adequacy ratio and the capital adequacy ratio of the Group were 11.16%, 12.21% and 14.37% respectively, representing an increase of 0.37, 0.35 and 0.37 percentage point over the end of the previous year respectively.

The Group built a good image and the brand value was increasingly prominent. The Group was ranked among the Fortune Global 500 by *FORTUNE* for ten consecutive years and was ranked No. 168 in terms of revenue, 3 places up over the previous year. It also ranked No. 11 among the global top 1,000 banks rated by *The Banker* and won "Top 10 Financial Innovation Award (Corporation Business)". In 2018, the Group was honored with the award of "Best Local Bank" in China for the year of 2018 by *The Asset*. The Group was honored as the First Class Bank on the assessment and evaluation of the protection of consumer rights by the CBIRC. 135 network outlets of the Group were awarded "Top 1,000" demonstration units held by China Banking Association, ranking first in the industry.

(I) Corporate Banking Businesses

- **During the Reporting Period, the Group's profit before tax from corporate banking businesses amounted to RMB37.779 billion, including net interest income amounting to RMB69.473 billion and net fee and commission income amounting to RMB14.322 billion.**
- **As at the end of the Reporting Period, the Group's corporate deposit balance increased by 2.28% over the end of the previous year to RMB3,944.098 billion. Corporate loan balance increased by 1.55% over the end of the previous year to RMB3,218.601 billion.**
- **As at the end of the Reporting Period, the Group's impaired corporate loan balance was RMB57.172 billion and the impaired loans ratio was 1.78%.**

The Group fully exercised the operational advantages of "BoCom Strategy" and satisfied customers' comprehensive financing requirements by products portfolio, such as credit, bonds, funds, leasing, trust, asset management, insurance and investments. The Group vigorously developed core and characteristic businesses such as supply chain finance, cash management, investment banking, cross-border finance and asset custody, continuously increased support for inclusive finance and promoted the high-quality development of corporate financial services.

1. *Corporate and institutional businesses*

Guided by the major national and regional strategies, the Group accelerated the transformation and innovation of the company's business system and mechanisms as well as business model and optimized the systematic function of products. During the Reporting Period, the Group increased 969 institutional system customers and 13,607 corporate system customers. The Group published corporate mobile banking and wechat official account for corporate finance and created mobile financial service model to promote scenarios and industry-oriented services solutions, including that the number of source customers of payroll agency business had a net increase of 0.3226 million. 650 schools became new customers of "Bank-Connected-School" business. 190 hospitals became new customers of "Bank-Connected-Hospital" business. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 9.36% over the end of the previous year.

2. *Inclusive finance businesses*

The Group continuously optimized the system and mechanism of inclusive finance, strengthened the construction of overall comprehensive inclusive financial system and launched online standardized and petty credit loan products such as "You Dai Tong" and "Shui Rong Tong". As at the end of the Reporting Period, the loan balance of the inclusive finance under "two increases" standard increased by RMB26.280 billion or 29.63% over the end of the previous year, which was higher than the average growth rate of all loans. The number of customers with loan balance increased by 15,607 over the end of the previous year. The balance of agriculture- related loans was RMB581.147 billion, representing an increase of RMB13.273 billion, or 2.34% over the end of previous year with the same caliber. The balance of loans on targeted financial poverty alleviation amounted to RMB27.743 billion with an increase of 72.78%. Meanwhile, the targets of "two increases and two controls", the balance of agriculture-related loans, the balance of loans on targeted financial poverty alleviation, MPA and other indicators all met the regulatory requirements.

3. *Industrial value chain financial services*

The Group strengthened the promotion of industrial chain finance in key industries such as construction, medical, retail, automobile and modern agriculture, promoted products like "Express Bill Discounting", "Express Receivable Collector", "Express Pay" and "Intelligent Automobile Finance" and optimized the system platforms such as electronic supply chain and intelligent automobile finance. As at the end of the Reporting Period, the total number of qualified industrial chain networks of domestic branches reached more than 3,000. The financing balance of key financial products in industrial chain exceeded RMB110.0 billion, with an increase of 22.42% over the end of the previous year. The Group was awarded "Top 10 Financial Innovation Award (Corporation Business)" of 2018 by *The Banker* and "China Best Supply Chain Financing Bank" of 2018 by *Asia Money*.

4. *Cash management businesses*

The Group strengthened the innovation of scenario application of cash management, made every effort to build BoCom Intelligent Financial Service Platform, launched mobile scan-to-pay products such as "e-pay" and financial electronic receipts generated from the inter connection system between enterprises and banks, established a sound green channel service mechanism for key customers, innovated to build a global cash management platform, enriched online channels for account opening and improved the account-opening experience of small and medium-sized customers. As at the end of the Reporting Period, there were 24.1 thousand group customers in the cash management of the "Win to Fortune" account, which involved 462.0 thousand cash management accounts. The Group was awarded the "China Best Service Provider–Cash Management" by *The Asset* and "Best Cash Management Bank" by *Finance Asia* in 2018.

5. *International settlement and trade finance businesses*

The Group actively promoted international settlement and cross-border trade finance, provided financial support and guarantee for "Going Global" enterprises, launched the program of cross-border "Payroll Intelligent Remittance" and realized the full channel coverage of cross-border remittance, which improved the convenience and security of settlement businesses. During the Reporting Period, the transaction amounts of international settlements of domestic branches, the international trade finance and the external guarantee of domestic branches amounted to RMB4,798.979 billion, RMB129.157 billion and RMB107.270 billion, respectively.

6. *Investment banking businesses*

The Group supported the development of national housing rental business and was the lead underwriter of USD and RMB sovereign bonds of the Ministry of Finance of China, completing major projects such as the Central Huijin Investment Ltd.'s medium-term notes of RMB30.0 billion, the State Grid's medium-term notes of RMB5.0 billion, the Industrial Bank's financial bonds of RMB30.0 billion and HSBC (China)'s financial bonds of RMB7.0 billion. The Group successfully created three credit risk mitigation warrants for private enterprises, amounting to RMB0.55 billion. The underwriting amount of green debt financial instruments as the lead underwriter reached RMB2.8 billion. The issuance amount of the overseas bonds reached USD53.5 billion. The Group successfully completed Agricultural Development Bank of China's overseas dual currency bonds of USD0.7 billion and RMB1.2 billion. The Group comprehensively promoted asset securitization business. The total underwriting asset securitization amount (including credit-asset-backed securities and asset-backed notes) ranked first in the banking system. The Group successfully issued "Jiao Yuan" first credit card installment asset-backed securities of RMB16.95 billion in 2018 and "Jiao Ying" first personal housing mortgage asset-backed securities of RMB9.314 billion in 2018. During the Reporting Period, the Group achieved an income of RMB4.424 billion in investment banking businesses, accounting for 9.90% of the Group's total fee and commission income. The number of debt financing instruments (excluding local government debt) underwritten by domestic branches as the lead underwriters was 437. The underwriting amount of such instruments (excluding local government debt) increased by 80.15% on a year-on-year basis to RMB320.163 billion. The Group was rewarded as the "Jun Ding Award of Chinese Comprehensive Investment Bank" by *Securities Times* and the "Best Green Bond Bank" by *Asian Currency*.

7. Asset custody businesses

The Group continuously broadened the types and service of custody products, successfully developed the first batch of custody product of Pension FOF, promoted the connection between custody products and internet consignment platforms such as Yu'E Bao as well as the tencent finance communications platform. The custody scale of public funds exceeded RMB one trillion. The Group established a customer-oriented online service system of "Custody E-Connect" to improve operational efficiency and customer service experience. As at the end of the Reporting Period, the total custody assets increased by 8.33% over the end of the previous year to RMB8,913.212 billion.

Fast Breakthrough in Innovation of Mobile Financial Services Products

In September 2018, the Group officially launched the "Win to Fortune e-Mobile Financial Services Platform", which built a new model of corporate financial mobile services of BoCom by mobile products such as corporate finance wechat official accounts of BoCom, enterprise mobile banking and wechat mini programs. Regarding information services and financial products, "Win to Fortune e-Mobile Financial Services Platform" provided convenient services such as mobile account opening, mobile loan, mobile settlement, mobile wealth management with BoCom' characteristics to corporate users, realized the connection of channels and tasks and provided personalized services by customermizing notifications and reminders. As an important part of building a digitalized and intelligent bank, the platform took "Fintech empowered mobile service" as its core, closely combined technology, scenario and big data with BoCom's corporate services and provided more intelligent, convenient and secure corporate financial mobile services to corporate customers. The platform also focused on the differentiated requirements of small and micro enterprises for mobile services and launched a series of special service products such as "e-account opening", "e-credit", "e-pay", "e-account manager".

(II) Personal Banking Businesses

- **During the Reporting Period, the Group's profit before tax from personal banking businesses was RMB24.620 billion, including net interest income of RMB50.693 billion and net fee and commission income of RMB24.131 billion.**
- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 5.38% over the end of the previous year to RMB1,776.488 billion. The balance of personal loans of the Group increased by 16.01% over the end of the previous year to RMB1,635.627 billion. The total number of individual customers in domestic branches increased by 3.08% over the end of the previous year.**
- **As at the end of the Reporting Period, the balance of personal impaired loans of the Group was RMB15.340 billion and the impaired loan ratio was 0.94%.**

The Group actively responded to changes in the market environment, followed the "customer-centered" principle, provided customers with professional and comprehensive wealth management services and aimed at establishing the best wealth management bank. The Group accelerated financial technological innovation and the transformation of online and offline integration, constantly enhanced the influence of service brands and promoted the high-quality development of personal financial services.

1. *Personal deposits and loans*

The Group accelerated the innovative development of debt business, introduced different structural deposits including "steadily increasing interest" and "daily increasing interest", contracted flexible interest-bearing deposit products such as "over-enjoyment deposit" and large endowment certificates, which promoted the steady development of personal deposits business.

The Group strictly implemented the State macro-control policies, made reasonable arrangement for mortgage loans placement. The Group promoted product and service innovation, provided a micro-credit loan product named "Benefit Loan" to eligible customers and successfully issued RMB23.1 billion of mortgage asset-backed securities. As at the end of the Reporting Period, the balance of personal residential mortgage loans of the Group increased by 12.29% over the end of the previous year to RMB1,007.528 billion. The balance of "Benefit Loan" increased by RMB6.281 billion over the end of the previous year to RMB6.874 billion.

2. *Wealth management businesses*

The Group continuously enriched the interpretation of "Your Wealth Management Bank". The number of funds acting for public fund products ranked first in the industry. The Group sold "tax-deferred pension insurance" online as the first Bank in the country and won the Ninth Jin Li Cai "Top Award of Wealth Management Bank of the Year 2018". The Group continuously promoted and optimized the intelligent "OTO Financial Advisor ", creatively launched the OTO Financial Quotient Index, Wealth Diagnosis System and Product Recommendation System and won the "2018 China Financial Science and Technology Innovation List" as the annual excellent example of financial science and technology innovative application. BoCom live broadcasting platform was available and accessible anytime anywhere and won the "Most Influential Brand Award" of the 9th Golden Mouse Digital Marketing Competition. Based on mobile banking. The Group launched the new online customer service model of one-to-one "My Account Manager".

The Group promoted "group financial management" as the first bank in the industry, with a total of nearly 10,000 groups. The Group organized the Second "OTO Fortune" square dancing competition, which attracted tens of thousands of dance teams.

As at the end of the Reporting Period, the amount of individual financial assets under management (AUM) increased by 6.11% over the end of the previous year to RMB3,057.596 billion. The number of qualified customers of BoCom Fortune, OTO Fortune and private banking increased by 1.82%, 9.40% and 11.09%, respectively, over the end of the previous year. The customers of wealth management with assets above RMB50 thousand per day in a quarter increased by 6.15% over the end of the previous year.

3. Bank card businesses

Credit card businesses

The number of registered credit cards of domestic branches (including quasi-credit cards) exceeded 70.00 million. The standard platinum cards were elected as outstanding platinum cards by Asian financial competitiveness in the 21st century for two consecutive years. The number of registered customers of "Go Pay" App 3.0 exceeded 54.00 million. The app diverted more than 20% of call that needed to be responded by staff service. The Group took the full advantage of the "Super Red Friday" and built the most popular catering business circle. Consumption and mobile payment transactions increased by 35% and 61%, respectively, on a year-on-year basis, both ranking to the second place in the industry. The volume of credit transactions increased by 17% on a year-on-year basis because of the launching of "Wan Jin Hua", a new consumer credit product integrated with insurance. The Group promoted the application of voiceprint recognition, customer label and intelligent seating technology in the field of credit cards. At the end of the Reporting Period, intelligent robot seating reached 200 seats, which diverted 10% of mobile customer service. The Group pioneered in the industry for video customer service, compensation for dispute in seconds, human-machine cooperation and other projects. The projects of intelligent robot and video customer service were successively awarded Top 10 of Financial Product Innovation Award and Outstanding Achievements in Innovation by China Financial Innovation Forum and China Banking Association.

As at the end of the Reporting Period, the number of registered credit cards of domestic branches (including quasi-credit cards) amounted to 71.55 million, representing a net increase of 9.12 million over the end of the previous year. The accumulated annual consumption amounted to RMB3,070.276 billion, representing a year-on-year increase of 35.19%. The Group's credit card overdraft balance increased by 26.61% over the end of the previous year to RMB505.190 billion. The credit card overdraft impairment ratio was 1.52%, representing a decrease of 0.32 percentage point over the end of the previous year.

Debit card businesses

Given mobile communication technology, the Group promoted C2B and C2C scan code payment products, and electronic debit card products such as "Security Pay", cards without intermediary and featured value-added services such as "Worry-free Card" to provide customers with safer and more convenient services. The Group further simplified the procedures of opening and cancellation of accounts, added online self-service with cancellation account function to continuously optimize the personal user experience.

As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 14.253 million, representing a net increase of 10.85 million over the end of the previous year. The accumulated annual consumption increased by 7.21% on a year-on-year basis to RMB1,005.0 billion.

The Best Wealth Management Bank in China For You

With the goal of "Building the Best Wealth Management Bank" and "Creating Common Value and Providing the Best Services", the Group continuously strengthened the innovation of retail products, enhanced the ability of maintaining and increasing the customers' wealth. Additionally, the Group speeded up the application of financial science and technology in order to create the best service experience for customers.

Focusing on common values the Group was committed to achieve value-added of wealth for individual customers.

– The financial management capacity continued to improve. By strengthening resource integration and group collaboration, the Group constantly improved the product and service system and helped customers to maintain or increase the assets value. The Group closely focused on the inheritance of family wealth. The performance of family trust business achieved breakthrough progress and the private banking products developed rapidly. The overall return of 165 products outperformed the market. The Group sold more than 2,700 public fund products of nearly 100 fund companies as an agent, ranking the first among interbank agents in terms of the agency sales.

– Financial services benefited the public. Given "Fintech and Serving the People", the Group realized intelligent assessments of assets liquidity, assurance, security and profitability. The Group also realized automatic analysis and formulation of investment plans. Public customers could enjoy a series of wealth added solutions by one click and different wealth management services, which used to be available only to high-end customers.

– The Group targeted at different needs. On one hand, focusing on the short-term fund management requirements, the Group introduced the contractual flexible interest-bearing product named "over-enjoyment deposit" with automatic daily deposit, automatic withdraw when necessary, which satisfied both liquidity and profitability. On the other hand, in consideration of the requirements of medium and long-term wealth management, the Group innovated large amount certificates of deposit with monthly interest payment, US dollar certificates of deposit, certificates of deposit in etiquette manner and other products. The Group integrated and launched the "OTO pension plan", including two series, "saving" and "enjoyment", and five categories. In addition, the Group were one of the first batch of agent banks that sold pension fund and commercial pension plan to defer individual income tax.

Providing the best service, the Group dedicated to building the best bank with full channel service.

– Online service upgrades were accelerated. The Group adhered to the "online-based, mobile-first" channel transformation and upgrading strategy. Mobile banking function and customers' experience were continuously improved. The Group created a new online customer service model named "My Account Manager". Those customer managers responded inquiries via internet. With big data platform, the Group provided more than 100 types of business online, such as product consulting, overseas study inquiries, risk assessment and wealth planning. The service covered all mobile banking customers. More people could enjoy one-to-one, face-to-face financial services without leaving home.

– Offline services were optimized intelligently. The Group continuously promoted the intelligent and light outlet services. The Group innovatively introduced biotechnology, remote intelligent services, natural semantics intelligent recognition and response technology in intelligent machines. With such technologies, the efficiency of service among outlets and customer experience were significantly improved. "Smart Communication", a self-service tool to support major financial businesses, covered all outlets and diverted over 50% of transaction. The Group continuously improved customer service mechanism and optimized service process for better customer experience. The average waiting time of the Bank was 7.45 minutes, which was 46.9% lower than that over the end of the previous year.

– Online and offline operations were smoothly integrated. Followed the guidance of "event-driven, scenario marketing", the Group coordinated online service resources with off-line customer managers in situations where wealth management products expired and high-value transactions were involved. Customers renewed and reserved our financial products. The Group became the first bank in the industry to provide automated investment management services. By launching outlet reservation service on mobile banking, the Group promoted the integration of online and offline service. The Group continuously integrated online and offline service channels and constantly explored the new service model of "obtaining customers online and following-up offline, obtaining customers offline and referring to online channels".

During the Reporting Period, the Group won the 9th Jin Li Cai "Top Award of Wealth Management Bank of the Year 2018" and the "Outstanding Award of Personal Bank of the Year 2018" by Shanghai Securities News. In 2018, the Group was awarded the "Class One Bank" in the assessment of consumers' rights protection in 2017 by the CBIRC. BoCom was the only Tier-1 bank awarded for two consecutive years among large state-owned commercial banks and national joint-stock commercial banks. 135 outlets were awarded the "Top 1000" demonstration units by China Banking Association in terms of civilized and standardized service. The total number BoCom's demonstration units ranked the first among the industry.

In the future, BoCom will continue follow the strategic goal of "building the best wealth management bank", and deeply explored in wealth management. BoCom will utilize technology empowerment to continuously improve the level and efficiency of serving the real economy and customers.

The service with Southeast Asian characteristics provided by Guiya Branch, Guangxi District

(III) Interbank and Financial Market Businesses

- **During the Reporting Period, the Group's profit before tax from treasury businesses of financial market was RMB20.829 billion, including net interest income of RMB8.509 billion and net fee and commission income of RMB0.603 billion.**
- **As at the end of the Reporting Period, the Group's financial investments amounted to RMB2,821.909 billion with an increase of 11.61% over the end of the previous year. During the Reporting Period, the securities investment yield was 3.58%.**

The Group adhered to the fundamental base of finance, focused on serving the main business of the real economy and firmly prevented regional systematic risks. The Group strived to enhance our capabilities of coordinating across industries, borders and markets in order to serve the real economy and promoted the healthy development of various businesses.

1. Interbank business

The Group developed insight of the social capital allocation under the background of financial disintermediation and focused on the business of settlement, transaction and liquidation to enhance the ability of interbank capital accumulation at low cost. During the Reporting Period, the average balance of RMB interbank demand deposits accounted for 41.55% of the total interbank deposits, which increased by 3.14 percentage points over the previous year. The Group actively promoted the infrastructure construction of the financial market and became the first batch of brokerage depository banks for domestic and foreign customers in the International Energy Center. The scale of crude oil futures deposit was in the leading position of the market. The Group became the first overseas brokerage depository bank of Dalian Commodity Exchange and Zhengzhou Commodity Exchange. The Group also obtained the qualification of the brokerage depository bank of over the counter derivative business in Inter-organization Quotation of China Securities, Zhengzhou Commodity Exchange, Dalian Commodity Exchange and Shanghai Futures Exchange. During the Reporting Period, the average balance of deposits in the financial market amounted to RMB172.5 billion.

The Group promoted the construction of interbank platforms and launched businesses including interbank cooperation in wealth management consignment, real precious metals and precious metal wallets. The Group initiated businesses of over-the-counter financial bond of policy bank and agency settlement. At the end of the Reporting Period, there were 884 cooperative corporate customers on the interbank platform, increased by 351 over the end of the previous year. There were 722 corporate customers on the interbank wealth management platform "Interbank Smart Platform", increased by 492 over the end of the previous year. The Group enhanced the ability of clearance service of direct financing market. There were 101 cooperative securities companies in the business of third-party custody, 89 cooperative securities companies in the business of margin trading and short selling and 65 cooperative securities companies in the business of transferring between banks' accounts and securities companies' special accounts for margin. The number of cooperative securities companies in transferring between bank's accounts and securities company's special accounts for margin reached 65. The Group also carried out business cooperation with 110 fund companies and 146 futures companies. At the end of the Reporting Period, the deposit balance of futures companies reached RMB108.0 billion, maintaining a leading position in the market.

2. *Financial market businesses*

The Group actively responded to price fluctuations in the bond market, undertook the responsibility of performing the "Bond Connect" business market maker and strived to promote sales business to overseas customers. During the Reporting Period, 109 "Bond Connect" transactions were completed, amounting to RMB27.148 billion. The Group proactively developed RMB bond lending business and signed new Master Agreements for RMB bond lending business with 118 institutions. The Group strengthened market analysis and anticipation and actively expanded overseas counterparties in foreign exchange swap transactions. During the Reporting Period, the transaction volume of domestic branches in respect of RMB-denominated bonds reached RMB4.98 trillion and the volume of interbank foreign currency transactions reached USD2,036.501 billion.

The Group strengthened market research, optimized the structure of bond and reasonably arranged the duration of portfolio. As at the end of the Reporting Period, the Group's financial investments amounted to RMB2,821.909 billion, representing an increase of 11.61% over the end of the previous year. During the Reporting Period, the securities investment yield was 3.58%, which was basically the same as that of the previous year.

3. *Wealth management*

The Group actively promoted the transformation of asset management and improved product structure to meet the increasingly diversified investment requirements of investors. During the Reporting Period, the average daily value of net-worth wealth management products increased by RMB35.619 billion over the previous year. The proportion of net-worth wealth management products in off-balance-sheet wealth management increased by 4.83 percentage points over the previous year to 15.52%. During the Reporting Period, the Bank issued a total of 6,208 wealth management products, raised funds amounting to RMB17.59 trillion and achieved revenue of more than RMB61.279 billion for customers. As at the end of the Reporting Period, the scale of RMB off-balance sheet asset management amounted to RMB769.669 billion, representing an increase of 11.83% over the end of previous year.

4. *Precious metals businesses*

The Group was the first batch of gold futures market makers of Shanghai Futures Exchange, the first batch of pilot members of the forward curve quotation group of the silver inquiry market, the first batch to obtain the qualification of gold option implied volatility quotation of the Shanghai Gold Exchange and launched agency and self-operated Panda Gold Coin contracts with Shanghai Gold Exchange at the same time. During the Reporting Period, the domestic branches achieved RMB115.426 billion in terms of volume of precious metal brokerage transactions. The sales of real precious metals products businesses amounted to RMB2.563 billion. The accumulated gold trading accounted to 10,852.90 tons. The gold trading volume of the Shanghai Gold Exchange ranked among top three in the market and continuously maintained its active banking status in the market.

(IV) Construction of "Online and Offline" Channel

- **During the Reporting Period, the profit per person of the Group amounted to RMB0.8223 million, representing an increase of 6.83% on a year-on-year basis. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 3.33% over the end of the previous year to RMB2.144 billion.**
- **During the Reporting Period, the total e-channels transactions in domestic branches reached 3.333 billion and the transaction amount reached RMB108.19 trillion. As at the end of the Reporting Period, the diversion rate of e-channels increased by 2.05 percentage points over the end of the previous year to 96.59%.**
- **As at the end of the Reporting Period, the total amount of domestic banking institutions' outlets decreased by 29 over the end of the previous year to 3,241, including that 41 outlets were newly opened and 70 low-yield outlets were integrated.**

The Group adhered to the channel transformation direction of "online-based, mobile-first, offline integrated operation, mobile services and online and offline coordinated development" and created multi-channel contacts of "Online + Offline", "Inside + Outside the Bank", "Manual + Automatic service", "in front + behind the Counter". The Group continuously improved the channel's ability of attracting customers, comprehensive services and management to provide new momentum for deepening reform and transformation development.

1. Online network construction

Mobile banking. The Group strived to provide intelligent, mobilized and socialized financial services, launched the function of "My Account Manager" and "OTO Financial Advisor", created an exclusive consumption scenario of the security account "Security Pay" and newly promoted different services such as Wai Hui Bao, Manjinbao Service, as well as small and micro enterprises services. As at the end of the Reporting Period, the number of the Bank's mobile banking registered customers reached 74.14 million, representing an increase of 21.42% over the end of the previous year. During the Reporting Period, the number of mobile banking transactions reached 0.370 billion, representing an increase of 21.71% on a year-on-year basis. The transaction amount increased by 43.79% on a year-on-year basis to RMB11.00 trillion.

Online Banking. The Group published corporate mobile service brand of "Win to Fortune E Chain", continued to innovate the agency settlement product of "Delivery and Guarantee". As at the end of the Reporting Period, the number of corporate e-banking customers increased by 18.54% over the end of the previous year. Regarding the personal e-banking, the Group achieved the upgrades of risk control and security, innovatively launched the functions of e-banking daily bills and interbank bulk transfer to provide a more stable and reliable trading environment to customers. As at the end of the Reporting Period, the number of personal e-banking customers increased by 12.64% over the end of the previous year. The number of personal e-banking transactions (excluding mobile banking transactions) increased by 30.08% on a year-on-year basis to 6.003 billion.

2. Offline network construction

Physical outlets. The Group accelerated the pace of intelligent and light outlets construction, maintained the advantages of high coverage, multi-contact and excellent service offline outlets layout of the Bank and established an offline network system. Comprehensive flagship outlets were the backbone, light and intelligent outlets are the main operation. Automated banks were the contacts. As at the end of the Reporting Period, the total number of domestic banking institutions' outlets decreased by 29 over the end of the previous year to 3,241, including that 41 outlets were newly opened and 70 low-yield outlets were integrated. The number of comprehensive outlets, traditional outlets and inclusive outlets was 577, 1,998 and 665, respectively. The Group's network covered 239 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities at 71.56%, which remained stable over the end of the previous year. The coverage ratio in Western China was 43.51%.

Self-service banking. The Group continuously improved the efficiency of machine utilization. As at the end of the Reporting Period, the total number of self-service machines in domestic branches was 20.6 thousand and the number of self-service branches was 2,621. The ratio of self-service branches to non-characteristic traditional branches was 1.02:1. During the Reporting Period, the number of self-service banking transaction was 0.330 billion with transaction amounts reaching RMB2.76 trillion.

Relationship Manager. The Group further strengthened the construction of relationship management team, improved the training system and promoted the comprehensive development of relationship managers across sections. As at the end of the Reporting Period, the total number of relationship managers in domestic branches reached 22,185, accounting for 29.07%. The number of corporate relationship managers reached 10,329 and the number of retail relationship managers reached 11,856.

Excellent lobby manager of "Stepping into BoCom and Feeling the Warmth" in 2018 — the lobby manager, Zhangzhou Branch, Ningbo.

Technology Empowerment Promoted the Intelligent Transformation of the Group

With the development trend of Fintech, the Group promoted the "technology empowerment" to a strategic level in the "186" strategic landscape, and initiated the "New 531" project of the Group information system intelligence transformation. By building a digital and intelligent bank on the basis of advanced IT system and technology, the Group brought high-quality service and experience to customers with intelligence, convenience, efficiency and collaboration.

"New 531" project aimed to build multiple projects as the overall framework around "1" technical framework, "2" supporting platforms and the "5" major application areas. A "centralized + distributed" technology framework was adopted to realize the advanced "dual core and heterogeneous operation" mode in the industry, which strongly supported the rapid development of business. The two supporting platforms of "data application" and "cyber security" were constructed to improve the data intelligent application to ensure the management and security of customer financial transactions and data information. The Group comprehensively enhanced the Group's integrated service capabilities across borders and industries to meet customers' requirements for the integrated management of global funds. The Group provided localized professional and specialized services with flexiblity, enhanced the intelligence and differentiation of business units. The Group promoted information sharing, intelligent decision-making and service interaction through all channels and created a one-stop intelligent service mode between online and offline. The Group integrated financial services with business scenarios of other industries. The Group built a comprehensive ecosystem of "finance + scenario" to provide cross-border integrated services for customers. The Group comprehensively improved the risk detection and prevention in quality and effectiveness and compliance with the technologies such as data mining and deep learning.

The Group actively promoted the deep integration of new Fintech and banking business applications in order to continuously promote product innovation. By optimizing business processes, business models were improved and customers' experience was enhanced. Block chain technology was applied to asset securitization, letter of credit and other business. Biotechnology such as face, fingerprint and voiceprint was applied to many business scenarios, including mobile banking, self-service terminals, counters, mobile devices and other online and offline channels such as user login, customer card opening, class II account opening, etc. Intelligent voice technology was applied to the field of intelligent customer service and intelligent outgoing call. Graphic recognition technology was applied to the centralized input of image information and the examination of international document information.

(V) Internationalization and Integrated Operation

1. Internationalization strategy

- **During the Reporting Period, net profits of the Group's overseas banking institutions increased by 7.47% on a year-on-year basis to RMB5.507 billion, accounting for 7.48% of the Group's total net profits, representing an increase by 0.18 percentage point on a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 10.83% over the end of the previous year to RMB1,069.186 billion, accounting for 11.22% of the Group's total assets, representing an increase of 0.55 percentage point to over the end of the previous year.**
- **As at the end of the Reporting Period, the impaired loan balances of the Group's overseas banking institutions was RMB0.901 billion and the impaired loan ratio was 0.25%.**

The Group continuously promoted the "BoCom Strategy", actively adapted the "Belt and Road" Strategy and "Go Global" of Chinese-funded enterprises, continuously improved the layout of global institutions and provided cross-border integrated services. With the objective of serving the real economy, the Group consistently optimized the structure of overseas banking businesses, enhanced the financial service abilities across borders, industries and markets and promoted high-quality development of internationalization.

Overseas service network

The landscape of overseas service network made a steady progress. During the Reporting Period, the Bank of Communications (Hong Kong) Limited officially opened. The acquired subsidiary in Brazil was officially approved to be renamed as Banco BoCom BBM S.A. and its operation and management had a smooth transition. Melbourne Branch of Australia officially opened. The setup application of Prague branch of Czech was approved by domestic and foreign regulatory authorities. Toronto branch of Canada and the Johannesburg branch of South Africa were actively preparing for the setup. As at the end of the Reporting Period, the Group set up 22 overseas subsidiaries, branches and representative offices in 16 countries and regions. They were Hong Kong Branch/Bank of Communications (Hong Kong) Limited, New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, London Branch/Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited/ Luxembourg Branch, Brisbane Branch, Bank of Communications (Luxembourg) S.A. Paris Branch, Bank of Communications (Luxembourg) S.A. Rome Branch, Bank of Communications (Brazil) Co., Ltd., Melbourne Branch and Toronto representative office, with a total of 66 overseas operating outlets (excluding the representative offices). The Bank established agency relationship with 1,159 banks in 134 countries and regions, set up 240 cross-border RMB inter-bank accounts for 121 overseas RMB participating banks in 33 countries and regions and opened 83 foreign currency settlement accounts in 26 currencies with 64 banks in 31 countries and regions.

In December 2018, Mr. Hou Weidong, the Executive Vice President, attended the opening of the Melbourne Branch.

Domestic and overseas synergetic businesses

The Group strengthened the synergy among domestic branches, overseas subsidiaries and branches and offshore centers and continued to track the financial requirements of "Go Global" and "Bring In" enterprises. The Group successfully met customers' requirements for cross-border financing by cross-border financing, overseas project financing, international bank consortium and other major synergetic products. During the Reporting Period, the domestic and overseas synergetic commissions increased by 8.08% on a year-on-year basis to USD54.157 billion. Total transaction amount of the synergetic businesses of overseas branches was USD37.106 billion. Its accumulated revenue reached USD0.416 billion.

Cross-border RMB transactions

Through "Bond Connect", the Group underwrote several terms of short-term bonds and medium- term notes of Central Huijin Investment Ltd. in 2018. The Group became the first batch of qualified banks to obtain domestic and overseas customers' guaranteed deposits of Shanghai International Energy Center and successfully put the second phase of Cross-border Interbank Payment System (CIPS) into implementation. As the leading underwriter and bookkeeper, the Group successfully completed the underwriting and issuing of the first medium-term note (Panda Bond) of China Power International Development Ltd. in 2018. During the Reporting Period, the transaction amount of the cross-border RMB settlements by domestic and overseas banking institutions amounted over RMB2.1 trillion.

Offshore services

The Group actively promoted the internationalization strategy. All indicators maintained a steady growth trend. During the Reporting Period, the number of new offshore high-quality customers increased by 18.29% on a year-on-year basis, the international settlement volume increased by 5.97% on a year-on-year basis and the net revenue of offshore intermediary business increased by 7.05% on a year-on-year basis. As at the end of the Reporting Period, the total amount of offshore assets was RMB121.111 billion. The loan balance was RMB75.838 billion and deposit balance was RMB73.585 billion.

2. Integrated operation

- **During the Reporting Period, net profits attributable to shareholders of the Bank from the subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited, Banco BoCom BBM S.A. and Bank of Communications (Hong Kong) Limited, same applies hereinafter) amounted to RMB4.745 billion, representing a year-on-year increase of 13.14%, the proportion of which to the net profit of the Group increased by 0.47 percentage point to 6.44% on a year-on-year basis.**
- **As at the end of the Reporting Period, the total assets of the subsidiaries increased by 16.02% over the end of the previous year to RMB367.785 billion, the proportion of which to the total assets of the Group increased by 0.35 percentage point to 3.86% over the end of the previous year.**

The Group insisted on deepening reforms, improved top-level design, enhanced the efficiency of integrated operation and provided services to customers across borders, industries and markets.

Bank of Communications Financial Leasing Co., Ltd. strived to promote the business in aviation and shipping. The assets of 220 aircrafts and 380 ships amounted to RMB128.267 billion, accounting for 58.20% of all leasing assets. During the Reporting Period, BoCom Leasing realized a net profit of RMB2.737 billion, representing a year-on-year increase of 13.62%. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB220.407 billion, representing an increase of 10.20% over the end of the previous year.

Bank of Communications International Trust Co., Ltd. accelerated the pace of business transformation and actively promoted the active management, asset securitization, family trust and other business development. As at the end of the Reporting Period, AUM reached RMB883.047 billion. BoCom International Trust realized a net profit (attributable to shareholders of the Bank) of RMB0.899 billion, representing a year-on-year increase of 7.92%. BoCom International Trust was rated as Class A for three consecutive years in the industry rating of China Trustee Association, awarded the "Excellent Risk Control Trust Company Award" by the *Securities Times* for three consecutive years and was named "Excellent ABS Issuer" and "Excellent Asset Management Institution" by China Central Depository & Clearing Co., Ltd.

Several public funds under Bank of Communications Schroder Fund Management Co., Ltd. achieved outstanding performance. BoCom Alfa, BoCom Advantaged Industry and BoCom Rongxiang with Principal Guaranteed were ranked the first among same type of funds in terms of performance. Eight funds such as BoCom Pharmaceutical Innovation, BoCom Pioneer and BoCom Theme were ranked top 10 among same type of funds in term of annual performance. As at the end of the Reporting Period, AUM reached RMB438.876 billion (including two subsidiaries).

BoCommLife Insurance Company Limited fully exercised the characteristics of insurance funds, achieving stable investment income and steadily improving its operating efficiency. As at the end of the Reporting Period, BoCommLife Insurance's total assets exceeded RMB40.0 billion with a 6.31% comprehensive investment yield, reaching the advanced level of the industry. The solvency margin ratio of BoCommLife Insurance increased by 112 percentage points over the end of the previous year to 287%.

China BoCom Insurance Co., Ltd. solidly promoted the high-quality development of underwriting and maintained continuous market outperform. BoCom Insurance continued to deepen the Group's synergetic businesses and strive to build a global professional service platform of the general insurance for the Group. During the Reporting Period, BoCom Insurance's underwriting profit before expenditure increased by 15.83% and its net compensation ratio was 28.07%.

BoCom Financial Asset Investment Co., Ltd. adhered to the main business of debt-to-equity swaps. With integrated service solution as the core, BoCom Investment actively explored business models such as debt repayment in stock and debt-for-equity swap and fully promoted the market oriented debt-to-equity swap. During the Reporting Period, BoCom Investment executed 16 projects, which amounted to RMB7.949 billion. The percentage of utilization of capital from targeted requirement reserve ratio cuts reached 31.50%.

III. FINANCIAL STATEMENT ANALYSIS

(I) Analysis on Key Income Statement Items

1. *Profit before tax*

During the Reporting Period, the Group's profit before tax increased by RMB2.802 billion on a year-on-year basis, representing an increase of 3.37% to RMB86.067 billion. Profit before tax was mainly derived from net interest income and net fee and commission income.

The table below illustrates the selected items from the income statement of the Group during the periods indicated:

(in millions of RMB)

	2018	2017
Net interest income	**130,908**	124,873
Net non-interest income	**82,147**	71,647
Including: Net fee and commission income	**41,237**	40,551
Net operating income	**213,055**	196,520
Assets impairment losses	**N/A**	(31,469)
Credit impairment losses	**(43,454)**	N/A
Impairment losses on other assets	**(60)**	N/A
Insurance business expense	**(6,722)**	(12,211)
Other operating expenses	**(76,752)**	(69,575)
Including: Operating costs	**(64,040)**	(60,405)
Profit before tax	**86,067**	83,265
Income tax	**(11,902)**	(12,574)
Net profit for the year	**74,165**	70,691

2. *Net interest income*

During the Reporting Period, the Group's net interest income increased by RMB6.035 billion on a year-on-year basis to RMB130.908 billion, accounting for 61.44% of the net operating income, which was a major component of the Group's income.

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

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
	Average balance	**Interest income/ (expense)**	**Annualized average rate of return (cost) (%)**	Average balance	Interest income/ (expense)	Annualized average rate of return (cost) (%)
Assets						
Cash and balances with central banks	**892,407**	**13,048**	**1.46**	946,071	13,570	1.43
Due from banks and other financial institutions	**791,264**	**24,945**	**3.15**	737,709	20,528	2.78
Loans and advances to customers	**4,625,409**	**225,422**	**4.87**	4,361,925	200,207	4.59
Including: Corporate loans	**2,974,243**	**135,890**	**4.57**	2,959,565	126,900	4.29
Individual loans	**1,507,695**	**82,821**	**5.49**	1,266,575	67,746	5.35
Discounted bills	**143,471**	**6,711**	**4.68**	135,785	5,561	4.10
Investment securities	**2,383,808**	**85,449**	**3.58**	2,227,051	79,895	3.59
Interest-bearing assets	**8,692,888**	**348,864**	**4.01**	8,272,756	314,200	3.80
Non-interest-bearing assets	**662,259**			533,858		
Total assets	**9,355,147**			8,806,614		
Liabilities and Shareholders' Equity						
Due to customers	**5,668,198**	**128,589**	**2.27**	5,395,166	111,366	2.06
Including: Corporate deposits	**3,905,635**	**86,677**	**2.22**	3,755,836	76,240	2.03
Individual deposits	**1,762,563**	**41,912**	**2.38**	1,639,330	35,126	2.14
Due to banks and other financial institutions	**2,066,506**	**66,788**	**3.23**	2,123,709	64,751	3.05
Debt securities issued and others	**575,704**	**22,579**	**3.92**	356,690	13,210	3.70
Interest-bearing liabilities	**8,310,408**	**217,956**	**2.62**	7,875,565	189,327	2.40
Shareholders' equity and non-interest–bearing liabilities	**1,044,739**			931,049		
Total Liabilities and Shareholders' Equity	**9,355,147**			8,806,614		
Net interest income		**130,908**			124,873	
Net interest spread[1]			**1.39**			1.40[4]
Net interest margin[2]			**1.51**			1.51[4]
Net interest spread[1,3]			**1.56**			1.55[4]
Net interest margin[2,3]			**1.68**			1.66[4]

Notes:

1. Represented the difference between the average rate of return on total average interest-bearing assets and the average cost ratio of total average interest-bearing liabilities.
2. Represented the net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bond investments, etc.
4. Due to changes in the presentation basis on the items in financial statements, the comparative figures of the prior period were restated to the current presentation basis.

During the Reporting Period, the Group's net interest income increased by 4.83% on a year-on-year basis. The net interest spread decreased by 1 basis point on a year-on-year basis to 1.39%. The net interest margin was 1.51%, remaining about the same on a year-on-year basis. The net interest spread and net interest margin in the fourth quarter increased by 2 basis points and 4 basis points respectively as compared with those in the third quarter.

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

	2018			
Item (%)	**January – March**	**April – June**	**July – September**	**October – December**
Net interest spreads	**1.25**	**1.34**	**1.47**	**1.49**
Net interest margin	**1.36**	**1.45**	**1.59**	**1.63**
Net interest spreads[Note]	**1.41**	**1.50**	**1.64**	**1.68**
Net interest margin[Note]	**1.52**	**1.62**	**1.76**	**1.81**

Note: Taken into account the tax exemption on interest income from bond investments, etc.

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

(in millions of RMB)

	Comparison between 2018 and 2017		
	Increase/(decrease) due to		
	Amount	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Cash and balances with central banks	(767)	245	(522)
Due from banks and other financial institutions	1,489	2,928	4,417
Loans and advances to customers	12,094	13,121	25,215
Investment securities	5,628	(74)	5,554
Changes in interest income	18,444	16,220	34,664
Interest-bearing liabilities			
Due to customers	5,624	11,599	17,223
Due to banks and other financial institutions	(1,745)	3,782	2,037
Debt securities issued and others	8,104	1,265	9,369
Changes in interest expenses	11,983	16,646	28,629
Changes in net interest income	6,461	(426)	6,035

During the Reporting Period, the Group's net interest income increased by RMB6.035 billion on a year-on-year basis, of which the increase of RMB6.461 billion was due to changes in the average balances of assets and liabilities and the decrease of RMB0.426 billion was due to changes in the average rate of return and average cost ratio.

(1) Interest income

During the Reporting Period, the Group's interest income increased by RMB34.664 billion or 11.03% on a year-on-year basis to RMB348.864 billion.

A. Interest income from loans and advances to customers

Interest income from loans and advances to customers was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers increased by RMB25.215 billion or 12.59% on a year-on-year basis to RMB225.422 billion, which was largely due to the year-on-year increase of 28 basis points in the average rate of return and the increase of RMB263.484 billion in the average balance of loans and advances to customers.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB5.554 billion or 6.95% on a year-on-year basis to RMB85.449 billion, which was largely due to the year-on-year increase of RMB156.757 billion in the average balance of investment securities.

C. Interest income from cash and balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks decreased by RMB0.522 billion or 3.85% on a year-on-year basis to RMB13.048 billion, which was largely due to the average balance with central banks decreased by RMB53.664 billion on a year-on-year basis.

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

During the Reporting Period, the interest income from balances due from banks and other financial institutions increased by RMB4.417 billion or 21.52% on a year-on-year basis to RMB24.945 billion, which was largely due to the year-on-year increase of 37 basis points in the average rate of return of balances due from banks and other financial institutions and the year-on-year increase of RMB53.555 billion in the average balances.

(2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB28.629 billion or 15.12% on a year-on-year basis to RMB217.956 billion.

A. Interest expenses on due to customers

Due to customers were the Group's main source of funding. During the Reporting Period, interest expenses on due to customers increased by RMB17.223 billion or 15.47% on a year-on-year basis to RMB128.589 billion, accounting for 59.00% of total interest expenses. The increase in interest expenses of due to customers was mainly due to the year-on-year increase of RMB273.032 billion in the average balances of due to customers and the year-on-year increase of 21 basis points in the average rate of cost of due to customers.

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

During the Reporting Period, interest expenses on due to banks and other financial institutions increased by RMB2.037 billion or 3.15% on a year-on-year basis to RMB66.788 billion, which was largely due to the year-on-year increase of 18 basis points in the average rate of cost of due to banks and other financial institutions.

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

During the Reporting Period, interest expenses on bonds issued and other interest-bearing liabilities increased by RMB9.369 billion or 70.92% on a year-on-year basis to RMB22.579 billion, which was mainly due to a year-on-year increase of RMB219.014 billion in average balances of bonds issued and other interest-bearing liabilities.

3. Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continued facilitating the transformation of its profit-making mode and moved towards a business mode with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB0.686 billion or 1.69% on a year-on-year basis to RMB41.237 billion. Bank cards were the main drivers of the Group's intermediary businesses.

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

(in millions of RMB)

	2018	2017
Bank cards	20,114	16,267
Management services	12,524	14,948
Investment banking	4,424	4,518
Brokerage services	2,777	3,216
Guarantee and commitment	2,461	2,554
Settlement services	2,167	1,884
Others	206	673
Total fee and commission income	44,673	44,060
Less: fee and commission expenses	(3,436)	(3,509)
Net fee and commission income	41,237	40,551

Fee income from bank card services increased by RMB3.847 billion or 23.65% on a year-on-year basis to RMB20.114 billion, which was mainly due to an increase of issued volume and card consumption business.

Fee income from management services decreased by RMB2.424 billion or 16.22% on a year-on-year basis to RMB12.524 billion, which was mainly due to the decrease in the fee income from the Group's wealth management services.

Fee income from investment banking decreased by RMB0.094 billion or 2.08% on a year-on-year basis to RMB4.424 billion.

Fee income from brokerage services decreased by RMB0.439 billion or 13.65% on a year-on-year basis to RMB2.777 billion.

Fee income from guarantee and commitment services decreased by RMB0.093 billion or 3.64% on a year-on-year basis to RMB2.461 billion.

Fee income from settlement services increased by RMB0.283 billion or 15.02% on a year-on-year basis to RMB2.167 billion.

4. Credit impairment losses

During the Reporting Period, the Group's impairment losses on credit was RMB43.454 billion, including that the credit impairment losses on loans increased by RMB12.335 billion or 40.90% on a year-on-year basis to RMB42.496 billion. During the Reporting Period, credit cost ratio of the Group increased by 0.19 percentage point on a year-on-year basis to 0.85%.

5. Operating costs

During the Reporting Period, the Group's operating costs increased by RMB3.635 billion or 6.02% on a year-on-year basis to RMB64.040 billion. The Group's cost-to-income ratio was 31.50%, representing a year-on-year decrease of 0.35 percentage point.

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

(in millions of RMB)

	2018	2017
Staff costs and welfare	**29,519**	28,193
Operating expenses	**28,844**	26,334
Depreciation and amortization	**5,677**	5,878
Total operating costs	**64,040**	60,405

6. Income tax

During the Reporting Period, the Group's income tax expenses decreased by RMB0.672 billion or 5.34% on a year-on-year basis to RMB11.902 billion. The effective tax rate of 13.83% was lower than the statutory tax rate of 25%, which was mainly due to the tax exemption on interest income from government bonds and local government bonds held by the Group, as promulgated in relevant tax provisions.

(II) Analysis on Key Balance Sheet Items

1. *Assets*

As at the end of the Reporting Period, the Group's total assets increased by RMB492.917 billion or 5.45% over the end of the previous year to RMB9,531.171 billion.

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

(in millions of RMB unless otherwise stated)

	31 December 2018		31 December 2017	
	Balance[Note]	**Proportion (%)**	Balance	Proportion (%)
Loan and advances to customers	**4,742,372**	**49.76**	4,473,255	49.49
Financial investments	**2,821,909**	**29.61**	2,528,276	27.97
Cash and balances with central banks	**840,171**	**8.81**	938,571	10.38
Due from banks and other financial institutions	**848,067**	**8.90**	782,468	8.66
Other items	**278,652**	**2.92**	315,684	3.50
Total assets	**9,531,171**	**100.00**	9,038,254	100.00

Note: According to the *Notice on Revising the Format of Financial Statements for Financial Enterprises in 2018* (Cai Kuai [2018] No. 36) issued by the Ministry of Finance of the People's Republic of China, the balances of the above assets at the end of 2018 included interest receivables accrued from relevant financial instruments in the effective interest rate method. The comparative figures were not adjusted.

(1) Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans and reasonably controlled the volume, origination and pace of credits. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB274.972 billion or 6.00% over the end of the previous year to RMB4,854.228 billion. The RMB loans from domestic branches increased by RMB328.835 billion, representing an increase of 8.41% over the end of the previous year.

Loan concentration by industry

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

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

(in millions of RMB unless otherwise stated)

	31 December 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**119,091**	**2.45**	114,010	2.49
Manufacturing	**581,412**	**11.98**	580,906	12.69
– Petroleum and chemical	**104,806**	**2.16**	110,087	2.40
– Electronics	**95,858**	**1.97**	76,261	1.67
– Steel	**33,241**	**0.68**	36,377	0.79
– Machinery	**93,828**	**1.93**	96,532	2.11
– Textile and clothing	**29,146**	**0.60**	30,043	0.66
– Other manufacturing	**224,533**	**4.64**	231,606	5.06
Electricity, gas and water production and supply	**186,117**	**3.83**	180,471	3.94
Construction	**114,577**	**2.36**	112,544	2.46
Transportation, storage and postal services	**573,151**	**11.82**	576,156	12.58
Telecommunication, IT services and software	**28,682**	**0.59**	26,229	0.57
Wholesale and retail	**246,706**	**5.08**	283,654	6.19
Accommodation and catering	**34,486**	**0.71**	35,531	0.78
Finance	**98,342**	**2.03**	118,533	2.59
Real estate	**216,536**	**4.46**	189,295	4.13
Services	**413,716**	**8.52**	358,956	7.84
Water conservancy, environmental and other public utilities	**263,235**	**5.42**	265,073	5.79
Education, science, culture and public health	**89,436**	**1.84**	82,780	1.81
Others	**96,428**	**1.99**	106,278	2.32
Discounted bills	**156,686**	**3.23**	138,958	3.03
Total corporate loans	**3,218,601**	**66.31**	3,169,374	69.21
Mortgage loans	**1,007,528**	**20.75**	897,264	19.60
Credit card overdraft	**505,190**	**10.41**	399,004	8.71
Others	**122,909**	**2.53**	113,614	2.48
Total individual loans	**1,635,627**	**33.69**	1,409,882	30.79
Gross amount of loans and advances to customers	**4,854,228**	**100.00**	4,579,256	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB49.227 billion or 1.55% over the end of the previous year to RMB3,218.601 billion. The four most concentrated industries were manufacturing, transportation, storage and postal services, services, water conservancy, environmental and other public utilities, which accounted for 56.90% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB225.745 billion or 16.01% over the end of the previous year to RMB1,635.627 billion. The proportion of personal loans to total loans and advances to customers increased by 2.90 percentage points over the end of the previous year to 33.69%.

Loan concentration by borrowers

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for 3.60% of the Group's net capital. The total loans of top 10 customers accounted for 16.64% of the Group's net capital, which were in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

	31 December 2018		
	Type of industry	Loan balances	Percentage of total loans and advances (%)
Customer A	**Manufacturing– Electronics**	**29,412**	**0.61**
Customer B	**Transportation, storage and postal services**	**25,909**	**0.53**
Customer C	**Services**	**14,200**	**0.29**
Customer D	**Transportation, storage and postal services**	**12,302**	**0.25**
Customer E	**Transportation, storage and postal services**	**11,034**	**0.23**
Customer F	**Mining**	**10,000**	**0.21**
Customer G	**Services**	**9,700**	**0.20**
Customer H	**Transportation, storage and postal services**	**8,542**	**0.18**
Customer I	**Electricity, gas and water production and supply**	**8,400**	**0.17**
Customer J	**Mining**	**6,500**	**0.13**
Total of Top 10 Customers		**135,999**	**2.80**

Loan concentration by geography

The Group's credit customers were mainly located in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 34.88%, 16.23% and 7.84%, respectively. The loan balance in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta increased by 10.29%, 3.86% and 8.00%, respectively, over the end of the previous year.

Loan quality

As at the end of the Reporting Period, the impaired loan ratio decreased by 0.01 percentage point over the end of the previous year to 1.49%. The provision coverage ratio of impaired loans increased by 18.40 percentage points over the end of the previous year to 173.13%.

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

(in millions of RMB unless otherwise stated)

	31 December 2018	31 December 2017
Impaired loans	**72,512**	68,506
Overdue loans for more than 90 days	**63,321**	76,841
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**1.49**	1.50

(2) Financial investments

As at the end of the Reporting Period, the Group's net balance of financial investments increased by RMB293.633 billion or 11.61% over the end of the previous year to RMB2,821.909 billion.

The table below illustrates the breakdown of the Group's financial investments by nature and by the presentation basis of financial statements as of the dates indicated:

– The breakdown of investments by nature

(in millions of RMB)

	31 December 2018	31 December 2017
Bonds	**2,369,521**	2,111,329
Equity instruments	**17,720**	6,107
Others	**434,668**	410,840
Total	**2,821,909**	2,528,276

– The breakdown of investments by the presentation basis of financial statements

(in millions of RMB unless otherwise stated)

	31 December 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial investments – financial assets at fair value through profit and loss	**376,386**	**13.34**	227,030	8.98
Financial investments – debt investments at amortized cost	**2,000,505**	**70.89**	N/A	N/A
Financial investments – debt investments at fair value through other comprehensive income	**437,630**	**15.51**	N/A	N/A
Financial investments – equity instrument investments at fair value through other comprehensive income	**7,388**	**0.26**	N/A	N/A
Financial investments – loans and receivables	**N/A**	**N/A**	387,733	15.34
Financial investments – available-for-sale	**N/A**	**N/A**	402,138	15.91
Financial investments – held-to-maturity	**N/A**	**N/A**	1,511,375	59.77
Total	**2,821,909**	**100.00**	2,528,276	100.00

As at the end of the Reporting Period, the balance of the Group's bond investments increased by RMB258.192 billion or 12.23% over the end of the previous year to RMB2,369.521 billion. In the future, the Group's investment securities will be mainly based on local government bonds and government bonds in terms of the bonds' types. The Group will maintain the scale of policy-related financial bonds and appropriately increase the scale of investments in high-rated credit bonds, also and closely monitor to the default risk in the duration of the bonds. In terms of bonds' duration, the Group will continue to strengthen the research and judgement on macroeconomic situation and changes in monetary policies. Meanwhile, the Group will moderately manage the duration of bond portfolios to prevent the interest rate risk resulting from the reversal of monetary policies and interests.

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

(in millions of RMB unless otherwise stated)

	31 December 2018		31 December 2017	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Governments and central banks	**1,511,839**	**63.81**	1,306,610	61.88
Public sector entities	**34,651**	**1.46**	35,663	1.69
Banks and other financial institutions	**696,168**	**29.38**	641,387	30.38
Corporate entities	**126,863**	**5.35**	127,669	6.05
Total	**2,369,521**	**100.00**	2,111,329	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to RMB696.168 billion, including policy bank bonds of RMB294.510 billion and banks and non-bank financial institutions bonds of RMB401.658 billion, which accounted for 42.30% and 57.70% of the total bonds, respectively.

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Serial Number	Bond Name	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
1	2018 policy bank bonds	6,900	4.99	24/01/2023	1.20
2	2017 policy bank bonds	6,590	4.39	08/09/2027	1.11
3	2018 policy bank bonds	6,510	4.82	24/01/2021	1.11
4	2015 policy bank bonds	5,860	3.74	10/09/2025	0.91
5	2017 policy bank bonds	5,720	4.44	09/11/2022	0.85
6	2018 policy bank bonds	5,421	4.98	12/01/2025	0.93
7	2018 policy bank bonds	4,500	4.83	22/01/2021	0.67
8	2017 banks and non-bank financial institutions bonds	4,400	4.45	08/11/2027	–
9	2018 policy bank bonds	4,400	4.97	29/01/2023	0.67
10	2018 policy bank bonds A	4,381	Three months Hibor+0.31	01/02/2019	0.07
10	2018 policy bank bonds B	4,381	Three months Hibor+0.31	01/02/2019	0.07

2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB463.880 billion or 5.55% over the end of the previous year to RMB8,825.863 billion. Due to customers increased by RMB179.123 billion or 3.23% over the end of the previous year, which accounted for 64.86% of total liabilities and represented a decrease of 1.46 percentage points over the end of the previous year. Balance of due to banks and other financial institutions increased by RMB56.101 billion or 2.66% over the end of the previous year, which accounted for 24.50% of total liabilities and represented a decrease of 0.69 percentage point over the end of the previous year.

Due to customers

Due to customers was the Group's main source of funding. As at the end of the Reporting Period, the Group's due to customers balance increased by RMB179.123 billion or 3.23% over the end of the previous year to RMB5,724.489 billion. In terms of the Group's customer structure, the proportion of corporate deposits accounted for 68.90%, representing a decrease of 0.64 percentage point over the end of the previous year. The proportion of individual deposits was 31.03%, representing an increase of 0.63 percentage point over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 2.67 percentage points over the end of the previous year to 42.56%, while the proportion of time deposits increased by 2.66 percentage points over the end of the previous year to 57.37%.

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

(in millions of RMB)

	31 December 2018	31 December 2017
Corporate deposits	**3,944,098**	3,856,119
Including: Corporate demand deposits	**1,748,857**	1,852,676
Corporate time deposits	**2,195,241**	2,003,443
Individual deposits	**1,776,488**	1,685,792
Including: Individual demand deposits	**687,393**	655,559
Individual time deposits	**1,089,095**	1,030,233

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the balance of Group's cash and cash equivalents was RMB243.492 billion, representing a net increase of RMB14.573 billion over the end of the previous year.

The net cash inflows from operating activities increased by RMB113.165 billion on a year-on-year basis to RMB123.892 billion, mainly due to the year-on-year increase of the cash inflows resulting from the net decrease of balances with central banks and due from banks and other financial institutions.

The net cash outflows from investing activities decreased by RMB22.819 billion on a year-on-year basis to RMB100.140 billion, mainly due to the decrease in net cash outflows related to financial investment activities.

The net cash outflows from financing activities increased by RMB43.958 billion on a year-on-year basis to RMB13.476 billion, mainly due to the year-on-year decrease in the cash inflows from the issuance of bonds.

(IV) Segment Analysis

1. Operating results by geographical segments

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

(in millions of RMB)

	2018		2017	
	Profit before tax	**Net operating income[1]**	Profit before tax	Net operating income[1]
Northern China	**12,471**	**22,100**	13,468	23,109
North Eastern China	**(3,907)**	**7,130**	2,457	7,461
Eastern China	**32,914**	**75,696**	26,091	74,315
Central and Southern China	**22,268**	**39,060**	21,408	36,372
Western China	**6,694**	**17,529**	7,772	16,845
Overseas	**7,899**	**13,285**	6,909	11,526
Head Office	**7,728**	**38,255**	5,160	26,892
Total[2]	**86,067**	**213,055**	83,265	196,520

Notes:

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

2. Deposits and loans and advances by geographical segments

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

(in millions of RMB)

	31 December 2018		31 December 2017	
	Deposit balances	**Loans and advances balances**	Deposit balances	Loans and advances balances
Northern China	**994,799**	**619,891**	959,447	588,224
North Eastern China	**301,526**	**205,989**	288,765	207,142
Eastern China	**2,040,424**	**1,710,884**	1,974,271	1,625,585
Central and Southern China	**1,292,776**	**941,511**	1,254,785	851,780
Western China	**652,735**	**480,670**	661,326	447,924
Overseas	**424,431**	**355,681**	402,687	424,852
Head Office	**17,798**	**539,602**	4,085	433,749
Total	**5,724,489**	**4,854,228**	5,545,366	4,579,256

3. *Operating results by business segments*

The Group's four main business segments were corporate banking, personal banking, treasury businesses and other businesses. The corporate banking segment was the primary source of profit for the Group, accounting for 43.89% of the Group's profit before tax.

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

(in millions of RMB)

	2018		2017	
	Profit before tax	**Net operating income**	Profit before tax	Net operating income
Corporate banking business	**37,779**	**97,888**	41,483	95,529
Personal banking business	**24,620**	**77,901**	27,320	67,895
Treasury business	**20,829**	**23,280**	11,448	14,259
Other businesses	**2,839**	**13,986**	3,014	18,837
Total	**86,067**	**213,055**	83,265	196,520

(V) Capital Adequacy Ratio

The Group calculated the capital adequacy ratios pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC and the relevant requirements. Since the adoption of the Advanced Approach of Capital Management upon the first approval from the CBIRC in 2014, the Bank steadily implemented and applied it in accordance with the regulatory requirements. Pursuant to the *Administrative Measures for the Capital of Commercial Bank (Trial Implementation)*, the Bank met the conditions of completing the parallel period. Upon the approval of the CBIRC, the Bank expanded the application scope of the Advanced Approach of Capital Management and ended the parallel period. As at the end of Reporting Period, the Group's capital adequacy ratio was 14.37%, Tier-1 capital adequacy ratio was 12.21% and core Tier-1 capital adequacy ratio was 11.16%, all of which met the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

Item	**The Group**	**The Bank**
Net core Tier-1 capital	**634,807**	**567,382**
Net Tier-1 capital	**694,832**	**627,259**
Net capital	**817,549**	**746,918**
Core Tier-1 capital adequacy ratio (%)	**11.16**	**10.65**
Tier-1 capital adequacy ratio (%)	**12.21**	**11.77**
Capital adequacy ratio (%)	**14.37**	**14.02**

Note:

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

2 According to the implementation scope of the Advanced Measurement Approach of Capital Management approved by the CBIRC, the credit risk met the regulatory requirements was assessed by the internal rating-based approach, the market risk by the internal model approach, the operational risk by the standardized approach. The credit risk not covered by the internal rating-based approach was assessed by the weighted approach. The market risk not covered by the internal rating-based approach was assessed by the standardized approach. The operational risk not covered by the standardized approach was assessed by the basic-indicator approach.

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

Item	The Group	The Bank
Core Capital Adequacy Ratio (%)	**10.09**	**9.92**
Capital Adequacy Ratio (%)	**13.09**	**12.75**

For further information on the Group's capital measurement, please refer to the *2018 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd.* at the website of SSE, the website of Hong Kong Stock Exchange or the official website of the Group.

(VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC in January 2015. As at the end of Reporting Period, the Group's leverage ratio was 6.78%, which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

Item	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Net Tier 1 capital	**694,832**	**679,152**	**659,959**	**661,344**
Balance of adjusted on-and-off-balance sheet assets	**10,242,926**	**10,095,931**	**10,026,128**	**10,010,549**
Leverage ratio (%)	**6.78**	**6.73**	**6.58**	**6.61**

Information relating to leverage ratio

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2018
1	Total consolidation assets	**9,531,171**
2	Adjusted items of consolidation	**(36,849)**
3	Adjusted items of customers' assets	**–**
4	Adjusted items of derivatives	**37,077**
5	Adjusted items of securities financing transactions	**5,698**
6	Adjusted items of off-balance sheet items	**711,395**
7	Other adjusted items	**(5,566)**
8	Balance of adjusted on-and-off-balance sheet items	**10,242,926**

Note: Information disclosed according to the requirements of the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)*, which is the difference of items between regulatory consolidation and accounting consolidation.

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2018
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**9,220,176**
2	Less: deduction of Tier-1 capital	**(5,566)**
3	**Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)**	**9,214,610**
4	Replacement costs of derivatives (less eligible margin)	**29,350**
5	Potential risk exposure of derivatives	**37,077**
6	Sum of collaterals that were deducted from the balance sheet	**–**
7	Less: assets receivable from providing eligible margin	**–**
8	Less: asset balance of derivatives from transactions with central counterparties in providing clearing services for customers	**–**
9	Notional principal of sold credit derivatives	**–**
10	Less: balance of deductible sold credit derivatives	**–**
11	**Balance of derivatives**	**66,427**
12	Accounting asset balance of securities financing transactions	**244,796**
13	Less: balance of deductible securities financing transaction assets	**–**
14	Counterparty credit risk exposure of securities financing transactions	**5,698**
15	Balance of securities financing transaction assets from brokerage for securities financing transactions	**–**
16	**Asset balance of securities financing transactions**	**250,494**
17	Balance of off-balance sheet items	**1,667,448**
18	Less: balance of off-balance sheet items from reduction of credit transfer	**(956,053)**
19	**Balance of adjusted off-balance sheet items**	**711,395**
20	Net Tier-1 capital	**694,832**
21	Balance of adjusted on-and-off-balance sheet items	**10,242,926**
22	**Leverage ratio (%)**	**6.78**

(VII) Liquidity Coverage Ratio

Pursuant to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks*, commercial banks should disclose the daily average liquidity coverage ratio within the quarter since 2017. The daily average liquidity coverage ratio of the Group in the forth quarter of 2018 was 112.03% (the daily average within the quarter is the arithmetic average of daily data of the quarter, the number of average of daily data is 92), which increased by 2.08 percentage points over the last quarter, which was mainly due to the impacts of the increase in the qualified high-quality liquid assets. The details of average monthly liquidity coverage ratio ins the forth quarter are listed as follows:

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		**1,548,570**
Cash Outflow			
2	Retail deposits, small business deposits, including:	**1,405,920**	**132,530**
3	Stable deposit	**157,694**	**7,707**
4	Less stable deposit	**1,248,226**	**124,823**
5	Unsecured wholesale funding, including:	**3,844,898**	**1,682,923**
6	Business relationship deposit (excluding agency business)	**2,310,425**	**576,072**
7	Non-business relationship deposit (including all counterparties)	**1,530,511**	**1,102,889**
8	Unsecured debts	**3,962**	**3,962**
9	Secured funding		**15,085**
10	Other items, including:	**1,496,832**	**699,699**
11	Cash outflow relates to derivatives and other collateral/pledged assets	**656,880**	**652,017**
12	Cash outflow relates to loss of funding on asset-blocked securities	**85**	**85**
13	Committed credit and liquidity facilities	**839,867**	**47,597**
14	Other contractual obligation to extend funds	**43,195**	**43,195**
15	Contingent funding obligations	**1,034,325**	**33,454**
16	Total expected cash outflow		**2,606,886**

Serial Number		Amount before conversion	Amount after conversion
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	**59,732**	**58,150**
18	Inflows from fully performing exposure	**754,633**	**496,515**
19	Other cash inflow	**683,727**	**669,971**
20	Total expected cash inflow	**1,498,092**	**1,224,636**
			Amount after adjustment
21	The qualified high-quality liquid assets		**1,548,570**
22	Net cash outflow		**1,382,250**
23	Liquidity Coverage Ratio (%)		**112.03**

(VIII) Other Financial Information

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

1. Fair value measurement related items

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

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

(in millions of RMB)

Item	Closing balance as at 31 December 2017	Gains/ (Losses) on changes in fair value for the year	Cumulative fair value gains/ (losses) recognized in equity	Impairment losses (accrued)/ reversed for the year	Closing balance as at 31 December 2018
Financial assets					
1.Financial investments – financial assets at fair value through profit or loss	227,030	4,909	–	–	376,386
2.Derivative financial assets	34,007	1,541	11	–	30,730
3.Financial investments – financial investments at fair value through other comprehensive income	N/A	(81)	(1,696)	(265)	445,018
4.Financial investments – available-for-sale	402,138	N/A	N/A	N/A	N/A
5.Loans and advances to customers at fair value through profit or loss	N/A	1	–	–	494
6.Loans and advances to customers at fair value through other comprehensive income	N/A	–	(259)	317	184,184
Financial assets subtotal	663,175	6,370	(1,944)	52	1,036,812
Investment properties	8,217	117	-	-	7,899
Total	671,392	6,487	(1,944)	52	1,044,711
Financial liabilities Note	(78,355)	(3,238)	19	-	(67,643)

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

2. *Restructured loans and overdue loans*

(in millions of RMB unless otherwise stated)

	31 December 2018	31 December 2017	Increase or decrease over the end of the previous year (%)
Restructured loans	**9,415**	10,843	(13.17)
Overdue loans	**89,164**	99,498	(10.39)

3. *Commitments and contingencies*

(in millions of RMB)

	31 December 2018	31 December 2017
Credit commitments and financial guarantees	**1,456,218**	1,412,703
Including: Loan commitments	**58,440**	70,306
Credit card commitments	**759,994**	742,011
Letters of credit commitments	**141,137**	131,280
Letters of guarantee	**268,097**	272,981
Acceptances bills	**228,550**	196,125
Operating lease commitments	**12,345**	13,806
Capital expenditure commitments	**66,968**	70,236

4. *Others*

(1) Overall analysis in external equity investments. As at the end of the Reporting Period, the long term external equity investments of the Group increased by RMB0.296 billion over the end of the previous year to RMB3.653 billion. Please refer to Note 22 to the Consolidated Financial Statements for the details of the change in the equity investments of the Group.

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

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

(4) The information of the structured entities such as wealth management businesses controlled by the Group. Unconsolidated custody and trust are set out in Notes 41 and the Bank's asset securitization is set out in Notes 42.3 to the financial statements.

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

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

IV. BUSINESS INNOVATION AND NEW PRODUCTS

During the Reporting Period, based on the outline of the "13th Five-Year Plan" for product innovation and 2018 Action Plan, the Group innovated and developed core businesses in corporate, retail and interbank businesses.

(I) Consummated business innovation mechanisms

Firstly, the Group deepened the reform of major innovation project systems and formulated the *Management Measures for Major Innovation Projects of BoCom (2018 Edition)* to continuously promote the "five special mechanism" innovation of special team, special authorization, special policies, special resources and special assessments. The Group established expert database for innovative products, explored the "Joint of Branches and Head Office" project construction mechanism of "led by branches and cooperated with Head Office". The first batch of projects such as mobile banking reached the construction target and a new batch of major innovative projects of the branches and Head Office were approved.

Secondly, the Group launched three innovation initiatives as Innovation Competition, Innovation Conference and Innovation Index. The Innovation Competition was to discover excellent ideas, which were committed to creating shared value and providing best services. The Innovation Index was to build a market-oriented evaluation platform for the Group's products innovation results. The Innovation Conference was to inspire the innovation enthusiasm of the employees of the Group by demonstrating and testing the Group's annual products innovation results.

(II) Corporate financial business innovation

1. *Cash management*

The Group created BoCom Intelligent Service Platform, launched mobile scan-to-pay products such as "e-pay" and established a global cash management platform to expand the scope of global cash management business. The Group optimized the process of opening accounts, provided online account opening channels, built the green channel service mechanism for large customers to improve customers' after-sales experience.

Mr. Peng Chun, Chairman of the Board of Directors, presented the award to the winner of the Grand Prize of the "Jiaofeng Cup" Innovation Contest.

2. *Industrial value chain finance*

The online discount function was continuously optimized to support the whole paperless operation for all kinds of bank acceptance bills and commercial acceptance bills. A platform for funding withdrawal of smart-car finance research was added, which achieved intelligent management of sales repayment. The online acceptance function was newly put into use and its business growth was rapid. The invoice cloud technology further promoted paperless trade finance. Besides, the big data technology continuously improved the financial risk identification ability of industrial chain. Furthermore, the block chain technology was applied in the field of automobile Internet of Things and accounts receivable chain business was rapidly promoted.

3. Investment banking business

The Group fully exercised the advantages of bond underwriting of foreign investment banks' sub-centers, assisted the Ministry of Finance in inviting tenders for issuing foreign national bonds by follow-on offering for the first time and assisted the People's Bank of China in issuing RMB Central Bank Bills for the first time in Hong Kong. The Group took the lead in setting up the "Lujiazui Asset Securitization Alliance" and launched the first asset-backed securities system of "Lian Jiao Rong" based on block chain technology in the whole market. The Group successfully issued the first credit card installment asset-backed securities introducing foreign investors through the "Bond Connect", the first asset-backed securities based on block chain technology and the first asset-backed bill under "Bond Connect". The Group successfully launched the first debt financing plan which contained the option of converting shares share conversion option in Beijing Financial Asset Exchange.

4. International settlement and trade finance

The Group fully implemented the acceptance for cross-border remittance transactions through the channels of bank counters, online banking, mobile banking, Smart Communication and Bank-Connected-Enterprise Platform. The Group provided customers with convenient services such as delivering electronic documents, processing batch information and setting secondary virtual accounts and also achieved the automated processing systems for centralized collection and payment with large financial companies through the SWIFT Platform. The Group launched the project of "Cross-border Payroll Intelligent Remittance" to serve "Going Global" customers and provided them with one-stop service of cross-border salary payment, cross-border batch remittance and unified settlement. The Group utilized emerging technologies to promote settlement and trade finance businesses, took the lead in achieving a breakthrough in the application of block chain technology and launched the block chain services of domestic letter of credit, which significantly improved the settlement and financing efficiency, reduced transaction costs and supported the development of the real economy.

5. Inclusive finance business

The Group optimized the institutional mechanism of inclusive finance, improved the professional service of inclusive finance and set up Inclusive Finance Development Committee both in Head Office and in provincial branches. The Group continuously improved the inclusive financial product system for small and micro enterprises, "agriculture, rural areas and farmer", poverty alleviation and "Popular Entrepreneurship Innovation" to provide comprehensive and integrated services to customers. The Group promoted the revolving loans and refinancing loans to reduce costs of operation. The Group promoted timely businesses of discount of commercial acceptance bills and factoring to solve the difficulties of collaterals given no security was pledged for small and micro enterprises with light assets. The Group developed online standardized and microcredit loan products such as "Online You Dai Tong" and "Online Shui Rong Tong" to provide customers with periodical microcredit loans initiatively by use of the funds settlement in the Bank and the tax-related information of customers. The Group also developed "Online Mortgage Loans", created handheld mobile terminals that were applicable to small and micro customers and provided online application functions in account opening, settlement, wealth management and credit to improve customer experience.

(III) Personal financial business innovation

1. Credit card business

The Group combined the resources and advantages of the existing platinum card and Y-Power card and issued the YouthElite platinum credit card for the young and high-end customers to provide precise and customized consumer financial solutions for outstanding young people in the new era. During the Reporting Period, the number of cards issued exceeded 2 million. The Group launched an innovative consumption credit product called "Wanjinhua" which was combined with insurance. The Group built a real-time intelligent marketing engine for consumer credit and effectively enhanced the proportion of the self-service channel of consumer credit through the Internet to more than 40%. The Group promoted the application of voiceprint recognition, customer label and intelligent seating technology of credit cards. Using different technologies especially big data analysis and artificial intelligence, the Group pioneered in the industry for video customer service, compensation for dispute in seconds, human-machine cooperation and other projects to achieve improvements on business processing efficiency and customer experience.

2. Wealth management services

The Group optimized "OTO Financial Advisor", created OTO Financial Quotient Index and product referral system by utilizing big data and artificial intelligence technologies to provide customers with intelligent diagnosis and personalized configuration suggestions for liquidity, safety, security and profitability of assets. Public customers could enjoy a series of wealth added solutions by one click and different wealth management services, which used to be available only to high-end customers. This function was awarded "China Fintech Innovation List 2018" and "Annual Excellent Case of Fintech Innovation Application".

3. Deposits and financial management products

Focusing on both liquidity and profitability, the Group launched a contractual flexible interest-bearing deposit product called "Over-Enjoyment Deposit" with functions of automated daily deposit and automatic withdrawal when necessary. To meet diversified saving demands, the Group introduced innovative products including large amount certificates of deposit with monthly interest payment, US dollar certificates of deposit and certificates of deposit in etiquette manner. Taking into account of the wealth management for the elderly persons, the Group integrated and launched the "OTO Pension Plan", formed a pension product system of 2 series of "saving" and "enjoying" and 5 categories of products and served as the first sales agency to sell the pension-target funds and personal tax deferred commercial pension insurance. Taking into account of the needs of long-tail customers, the Group increased the supply of a variety of high-quality consignment products with small-start amounts such as high-performance monetary funds, consumer medical insurance and home property insurance.

4. Retail credit

Based on mobile internet and big data technology, the Group launched the online consumption micro-credit loan product called "Benefit Loan" targeting at eligible customers to meet their financial requirements through mobile phone applications and "quick approval and quick loan". The Group added the functions of mortgage online booking and pre-application to optimize the business process. The Group achieved "zero breakthrough" on the securitization of mortgage assets and successfully issued RMB23.1 billion of mortgage asset-backed securities to improve the liquidity of assets. The asset securitization trading system that was independently developed by the Bank was awarded the "Outstanding Contribution Award for Scientific and Technological Innovation in the Financial Industry in 2018 – Development and Innovation Contribution Award" by *Finance Electronization*.

5. *Mobile payment*

The Group improved the electronic debit card product in mobile payment called "Security Payment", provided online account opening, account cancellation, password management and other services. With facial recognition technology, special account security insurance and trading quotas, the Bank strengthened account security control and theft prevention to provide customers with safe and convenient mobile payment experience.

6. *Online services*

Regarding customers' requirements, the Group updated the mobile banking every two weeks and improved or increased 1,244 function points in total, including "Wai Hui Bao and Man Jin Bao Transaction", online loan application, physical gold mall, precious metal wallet, financial product renewal and pre-sale, small and micro merchant services, certificate of deposits, group financial management. The Group pioneered in the industry to realize many trans-time-and-space interaction functions such as "My Account Manager" and "BoCom Live Broadcasting" to provide customers with online wealth management, overseas education consulting, risk assessment, wealth planning and other services.

In February 2019, the second "Jiaofeng Cup" Bank of Communications Innovation Contest Finals was held in Shanghai.

(IV) Interbank and financial market business innovation

1. *Financial market business*

The Group became the market maker of interbank foreign exchange and further broadened the scope of interbank foreign exchange market and bond market transactions. The Group was one of the first batch of banks to complete credit default swaps and participate in the new forward contracts transactions of standard bonds and government bonds as market-making support operation innovation business and launched bond trading over-the-counter. The Group fully participated in the clearance with central counterparties undertaken by the Shanghai Clearing House for interest rates, exchange rates, commodities and credit derivatives. The Group pioneered in the industry to introduce interbank overdraft business under low-risk bond pledge, which filled the gap of collateral management in this field. The Group implemented the interbank structured deposit derivatives position squaring trading to realize the independent risk management of structured derivatives. The Group continuously expanded the derivatives linked with structural deposits issued by the Bank, including exchange rate, interest rate and index. The Group further promoted the interest rate swap business for customers and launched the central counterparty credit model to better meet customers' demands for RMB interest rate swaps. The Group created the Credit Risk Mitigation Warrant (CRMW) to provide credit enhancement services and promote the development of bond financing for private enterprises. Beijing Branch (Bishuiyuan), Zhejiang Branch (Futong) and Shanghai Branch (Yongda Automobile) firstly undertook the CRMW for bond issuance.

2. *Asset management business*

The Group promoted the standardized development of financial management business according to regulatory requirements. In terms of product innovation, the Group innovatively introduced public-offered closed-end net-value products represented by OTO Full Enjoyment for 360 days and Private Banking Enjoyment of net-value products for 357 days and 539 days to better meet the diversified requirements of customers. In terms of asset model innovation, the Group innovatively introduced the "pre-abs+" mode of "short-term non-standard investment + securities-backed project + standardized asset investment" to effectively solve the term matching problem of financial capital investment. The first order was carried out in Guangdong Branch. In terms of channel innovation, the Group created a new "TA model" to directly register customers' financial shares, which greatly improved the efficiency of cooperation.

V. RISK MANAGEMENT

In 2018, the Group initiated and deepened the reform of credit risk management by focusing on the goal of establishing the risk management system of "full coverage, differentiation, specialization, intelligence and accountability". The Group improved the risk management system, optimized the structure of credit origination, strengthened the control of key areas, improved the management of risk in credit, market, liquidity, operation, compliance, reputation and country and achieved solid results in preventing and managing financial risks. As at the end of the Reporting Period, the Bank's major asset quality indicators were stable and sound. Both of the balances of overdue loans and overdue loans for over 90 days of the Group continued to decrease. The impaired loan ratio decreased by 1 basis point over the beginning of the year. Provision coverage ratio of impaired loans increased by 18.40 percentage points over the end of the previous year.

(I) Risk Appetite

The Board of Directors of the Bank established the overall risk appetite of "Stability, Balance, Compliance and Innovation" for the Bank and defined its four-dimensional risk tolerance in terms of return, capital, quality and risk rating. The Board of Directors further set 21 specific indicators of risk limits against eight major risks including credit, market, operation, liquidity, interest rate of banking book, information technology, country (economic entity) and reputation to regularly manage the changes of overall risk.

The Group believed the operation was in compliance with laws and regulations, insisted on the prudent risk management, carefully implemented external regulatory requirements, actively served the real economy, strictly managed different risks, constantly and comprehensively deepened the reform to ensure the bottom line of preventing the occurrence of systematic financial risks. In 2018, the implementation of the Bank's overall risk appetite was overall satisfactory.

(II) Risk Management Framework

The Board of Directors of the Bank assumed the ultimate responsibility, served the highest function of decision-making and monitored the Group's risk management through its Risk Management and Related Party Transaction Control Committee. The Bank's Senior Management established a "1+4+2" Risk Management Committee, where four sub-committees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management Committee and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit and Investment Review Committee and High-risk Asset Review Committee were also established and performed their respective duties.

Each Tier-1 branch, overseas branch, subsidiary and directly operating institution correspondingly established simplified and practical Risk Management Committee referring to the aforementioned framework. In addition to the plenary meeting of the Comprehensive Risk Management Committee, each Tier-1 branch also set up the executive meeting of the Comprehensive Risk Management Committee, which served as the main platform for the leader and members of the team to study the prevention and control of systematic and regional risks and decision-making on major issues.

The Group ensured the full execution of risk management requirements through the mechanism of "Leadership and Execution, Supervision and Reporting" between Risk Management Committee and sub-committees and between committees of Head Office and branches, resulting in a unified and coordinated risk management.

(III) Risk Management Tool

The Group highly monitored to the establishment and application of risk management tools, information systems and econometric models. Risk management was supported by Fintech. The Group actively explored the application of big data, artificial intelligence, cloud computing and graphic computing in the field of risk management, initiated the construction of the Group's risk data application in ecological system and created a unified risk monitoring system of the Group. During the Reporting Period, through innovative data mining, the ability of information consolidation was strengthened and the controls of credit risk management were enhanced. The Group enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk, improved the application of risk management tool in business management and strengthened real time control over operating risk, fraud risk and money laundering risk through different information system to continuously improve the effectiveness of risk management.

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

During the Reporting Period, upon the approval of the CBIRC, the Group completed the parallel period of the Advanced Approach of Capital Management and expanded the application scope. The Group continued to optimize the econometric models and management systems of different key risks. The Group consistently implemented operation model in monitoring and analyzing, optimized the model and extensively deepened the application of measuring results in strategic planning, structural adjustment, business decision, performance appraisal as well as business management.

(IV) Credit Risk Management

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

The Group was determined to implement the decisions and deployments of the central government and the State Council. In response to State policies and market fluctuations, the Group issued and dynamically upgraded an outline regarding the credit authorization and risk management guidelines on industrial or regional direction. The Group also proactively served the real economy, constantly optimized credit assets structure, supported national strategies and focused on industrial transformation and upgrading. The Group's credit investment this year was in line with the implementation of major national strategies of serving the real economy.

The Group optimized the credit risk management, formulated and promulgated *Opinions on Further Strengthening Risk Management and Striving for Forestalling and Defusing the Battle of Financial Risks under the New Situation* around the goal of establishing the risk management system of "full coverage, differentiation, specialization, intelligence and accountability" to promote the solid implementation of different reform measures. The Group set up credit authorization procedures in written documents and introduced them at pilot branches. The Group formulated a unified risk monitoring system plan, promoted the monitoring system functions in the Bank. The monitoring results were embedded in the application of the whole process. The Group also formulated a unified construction plan of risk disposal system to promote the reform of the quasi-business department for asset preservation of provincial branches, which was implemented in more than 20 branches.

The Group focused on key controls at the level of important areas, branches and customers by means of total volume control, name list and quota limits. The Group made dynamic and in-depth investigation to achieve full inventory management of risky assets. The Group continuously carried out risk investigation and monitored in important areas such as stock pledge, real estate, credit bonds, bills, illegal fund-raising and leakage of group customers and established a rolling investigation and disposal mechanism for zombie enterprises.

The Group put efforts into the elimination of risks, proactively made use of different disposal and collection strategies to eliminate the current credit risk in timely manner. In 2018, the total amount of disposal of impaired loans was RMB67.211 billion, including the write-off loans amounted to RMB50.168 billion. The Group completed the issuance of the Bank's first non-performing assets securitization products for credit card.

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

As at the end of the Reporting Period, the Group's balance of impaired loans increased by RMB4.006 billion over the beginning of the year to RMB72.512 billion. The impaired loan ratio decreased by 0.01 percentage point over the end of the previous year to 1.49%. As at the end of the Reporting Period, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities is as follows:

(in millions of RMB unless otherwise stated)

	31 December 2018		31 December 2017		31 December 2016	
Categories	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass loan	4,662,605	96.06	4,378,840	95.62	4,031,560	95.52
Special mention loan	119,111	2.45	131,910	2.88	125,842	2.98
Total performing loan balance	4,781,716	98.51	4,510,750	98.50	4,157,402	98.50
Sub-standard loan	13,711	0.28	18,723	0.41	18,346	0.43
Doubtful loan	38,456	0.79	24,865	0.54	26,950	0.64
Loss loan	20,345	0.42	24,918	0.55	17,937	0.43
Total impaired loan balance	72,512	1.49	68,506	1.50	63,233	1.50
Total	4,854,228	100.00	4,579,256	100.00	4,220,635	100.00

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

Loan migration rates (%)	2018	2017	2016
Pass loan	1.85	2.09	2.80
Special mention loan	30.01	21.62	24.60
Sub-standard loan	88.62	53.59	50.04
Doubtful loan	15.36	26.86	33.72

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

(V) Market Risk Management

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

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

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

During the Reporting Period, the Group kept improving the market risk management by setting up the administrative measures for the market risk in overseas institutions and strengthening oversea market risk management. The Group also optimized the market risk information system, continuously promoting the construction of overseas funds product management system and initiating the construction of the market risk middleground system. The Group established new valuation models, parameters and market data for new businesses and products. In addition, the Group improved the risk management models and configurations, in which the newly established models were tested independently and the data quality was regularly reviewed.

The Group continued to promote the application of the results derived from market risk measurement in management's practice. Daily capital transaction positions of the Bank and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, the Group measured VaR on a daily basis from different perspectives, including risk factors and investment portfolios and products, using the historical simulation method. The results were also applied to capital measurement using the internal model-based approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results of 2018 showed that the market risk was reflected and analyzed in an timely and objective manner via market risk measurement model. The Group closely followed up the changes of both overseas and domestic market risk management. In addition, the Group actively participated in the CBIRC's quantitative testing and performed in-depth analysis of the feasibility and challenges of developing new market risk management systems. The Group timely provided comments and recommendations.

(VI) Liquidity Risk Management

The governance structure of liquidity risk management of the Group consists of a decision-making body comprised the Board of Directors and its subordinate Risk Management and Related Transactions Control Committee, Senior Management and its subordinate Market and Liquidity Risk Management Committee, a supervisory body comprised the Board of Supervisors and Audit Supervision Bureau and an executive body comprised Asset and Liability Management Department, Global Markets Center, Risk Management Department, Asset Management Center, Operations Management Department, branches, subsidiaries and Head Office's departments in charge of each business.

The Group's liquidity risk management goal was to establish and improve the liquidity risk management, effectively identify, measure, monitor and manage the liquidity risk at legal person level and group level, subsidiaries, branches and business lines to ensure that the liquidity needs can be timely satisfied at a reasonable cost.

The Group annually determined liquidity risk preference according to business strategies, business characteristics, financial strength, financing abilities, overall risk appetite and market influence. According to the liquidity risk appetite, the Group formulated written liquidity risk management strategies, policies and procedures. The strategies and policies of liquidity risk management covered all on-and-off balance sheet businesses, as well as all business departments, branches and subsidiaries that might have a significant impact on liquidity risk at home and abroad and included liquidity risk management under normal and stressful conditions.

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

During the Reporting Period, the businesses of the Group were developed in a coordinative manner under a stable liquidity risk condition, with satisfactory liquidity indicators under regulatory requirements of liquidity coverage ratio, liquidity ratio and net stable funds ratio. The Group strengthened on- and off-balance sheet liquidity risk management in accordance with the requirements of the regulatory authorities and the whole Bank's requirements of deepening the reform. Forecasting in advance and performing cash flow calculation and analysis, the Group reinforced the coordination and integration to improve financing management and high-quality liquidity asset management, continuously monitored to ensure daytime liquidity security and liquidity limit controllable and launched regular stress testing for liquidity risk, in which the stressed scenarios were established under the consideration of the correlation between different risks and liquidity risk and the impacts of market liquidity on the Group's liquidity. The results of stress test showed that liquidity risk was in a controllable range under various pressures scenarios. The Group organized emergency exercise for liquidity risk to improve the reaction speed and liquidity risk elimination ability of relevant departments.

(VII) Operational Risk Management

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

During the Reporting Period, the Group strengthened operational risk management, improved the operational risk management system and risk assessment mechanism, carried out operational risk control assessment on key processes and established an integrated business continuity management at home and abroad to extend outsourcing risk assessment mechanism to the whole Group.

(VIII) Legal Compliance and Anti-Money Laundering

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

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

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

(IX) Reputational Risk

The Group established and improved the reputational risk management framework, which effectively prevented risks of negative comments from various stakeholders resulted from the Group's operation, management, any other behavior or external events. Myriad reputational risk events were appropriately handled.

The Group continued to improve reputational risk management mechanism. The Group intensified the identification, warning, assessment and monitoring of reputational risk, tracked and monitored the occurrence and changes of reputational risk factors in real time, promptly adjusted corresponding strategy and measures and actively explored the quantification method of reputational risk. The Group compiled the *Handbook of Reputation Risk Management* to pass knowledge and skills of reputation risk management to grass-roots employees, achieving the overall coverage of trainings on media literacy and reputation risk management within the whole Group. During the Reporting Period, negative public opinions were actively handled and the reputational risk was under control. No major reputational risk events occurred.

In 2018, the Group continued to exercise the duties of Reputation Risk Management Committee of the 4th Session of Standing Committee of the Professional Committee on Reputation Risk Management of the China Banking Association to promote the development of reputation risk management in the banking industry.

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

The Group set up the risk management system across industries and borders, characterized by "centralized management, clear task allocation, IT support, risk quantification and consolidation of substantially controlled entities". With such system, the Group promoted the risk management of subsidiaries and overseas institutions with consideration of the Group's requirements and the specific requirements from local authorities in order to prevent additional risk from operation across industries and borders.

During the Reporting Period, the Group strengthened risk management across industries and borders, carried out risk assessment of overseas banking institutions and promoted overseas institutions to implement the *Opinions on Further Strengthening Risk Management of Overseas Institutions under the New Situation*. The Group promoted the consolidation management, assessed the risk management of invested banks and rural banks and implemented differentiated management. The Group revised the policies and methods of consolidation management and promoted the development of consolidation management system. The Group implemented country risk management, optimized country risk limit management and control plans, regularly monitored country risk exposures and timely carried out country risk rating and assessment.

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

(XI) Management of Large Exposure

The Group thoroughly implemented the requirements of the *Administrative Measures for the Large Exposures of Commercial Banks* issued by the CBIRC, closely monitored large exposures, conducted special research of deployment, improved the management structure, formulated and implemented the *Management Policies of Concentration Risk and Large Exposure of Bank of Communications Co., Ltd.* The Group differentiated the management requirements and responsibilities for large exposure and centralized risk in different situations. Such differentiations helped to improve the Group's ability to prevent systematic and regional risks.

During the Reporting Period, all indicators of the Group's large exposure met regulatory requirements.

VI. OVERVIEW OF MAJOR SUBSIDIARIES

(I) BoCom Schroder Fund

BoCom Schroder Fund was set up in August 2005 with registered capital of RMB0.2 billion, jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., which accounted for 65%, 30% and 5%, respectively. The primary businesses included the fund raising and management of publicly offered securities investment fund and asset management services for specific clients, investment management, asset management, industrial investment, investment advisory and other services. As at the end of the Reporting Period, the total assets and net assets of BoCom Schroder Fund were RMB3.750 billion and 3.041 billion, respectively. Net profits of BoCom Schroder Fund during the Reporting Period were RMB0.478 billion.

As at the end of the Reporting Period, BoCom Schroder Fund (including two subsidiaries) had a total of 329 employees, including that over 210 held a Master's degree or higher, 104 held a Bachelor's degree and 15 held a college degree or below. The BoCom Schroder Fund had 4 internal departments including investment research, marketing, supervision and auditing and back-office support. The employee's remuneration of BoCom Schroder Fund comprised basic salary and bonus. Basic salary was determined according to employees' position as well as their knowledge and skill level, while bonus was determined based on company's operation, remuneration system, employees' performance as well as their contribution to the company.

(II) BoCom International Trust

BoCom International Trust was set up in October 2007 with registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd contributed 85% and 15%, respectively. The business scope included asset trust, investment and financing, M&A and restructuring, corporate finance and financial advisory services. Furthermore, BoCom International Trust also offered securities underwriting services entrusted by the State Council, intermediary services, consulting and credit investigation. It provided custody services and safety box services. It also carried out businesses of interbank deposits, interbank offers, loans, leasing, investments and guarantees with the use of own assets. As at the end of the Reporting Period, the balance of total own assets and trust assets were RMB12.526 billion and RMB870.522 billion, respectively. The amount of average trust assets for the year was RMB855.258 billion. The net profit during the Reporting Period was RMB1.057 billion.

As at the end of the Reporting Period, BoCom International Trust had a total of 229 employees, including that 58.5% were front-office personnel and 98.69% held a Bachelor's degree or higher. BoCom International Trust implemented an internally fair and externally attractive performance appraisal and remuneration system. In order to facilitate the strategic development and enhance the human resource quality of the company, BoCom International Trust developed and implemented an annual training system, formulated a scientific and complete training system that applied to all of the staff at different levels, facilitating the development of BoCom International Trust and enabling individuals to achieve their career goals. The development of talents strengthened the growth of BoCom International Trust.

(III) BoCom Leasing

BoCom Leasing, the Bank's wholly-owned subsidiary, was set up in December 2007 with registered capital of RMB8.5 billion. The business scope included financial leasing, accepting lease deposits from lessees, investment in fixed-income securities, assigning or being assigned financial leasing assets, accepting fixed-term deposit of which the deposit term is more than 3 months (inclusive.) from non-bank shareholders, interbank borrowing and lending, borrowing from financial institutions, overseas foreign currency borrowing, sales and handling of leaseholds and economic consulting. Furthermore, BoCom Leasing established project companies to operate financial leasing business in tariff-free zones in China. BoCom Leasing also provided guarantees for the external financing of its controlling subsidiaries and project companies. As at the end of the Reporting Period, the total assets and net assets of BoCom Leasing were RMB231.743 billion and RMB21.756 billion, respectively. The net profit during the Reporting Period was RMB2.737 billion.

The 200th airplane delivered to Air China by BoCom Leasing.

As at the end of the Reporting Period, BoCom Leasing had a total of 221 employees, including that 5 were senior executives, 32 were middle management personnel, 95 were front-office personnel. 89 were middle- and back-office personnel. The number of employees holding a Master's degree was 91, accounting for 41%. The number of employees holding a Bachelor's degree was 114, accounting for 52%. The number of employees holding a college degree or below was 16, accounting for 7%. The employees' remuneration policy of BoCom Leasing was implemented in accordance with the related policies of the Bank. BoCom Leasing emphasized on staff training, collected teaching cases and advocated the staff training via case studies.

(IV) BoCommLife Insurance

BoCommLife Insurance was set up in January 2010 with registered capital of RMB5.1 billion, including that the Bank and the Commonwealth Bank of Australia contributed 62.5% and 37.50%, respectively. The business scope included life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances (excluding statutory insurance businesses) operated in the Shanghai administrative region, as well as provinces, autonomous regions and municipalities directly under the Central Government where the branches were established. As at the end of the Reporting Period, BoCommLife Insurance's total assets and net assets were RMB40.583 billion and RMB5.712 billion, respectively. During the Reporting Period, the net profit was RMB0.322 billion. The original premium income amounted to RMB8.018 billion, including the new insurance premium income of RMB3.527 billion.

As at the end of Reporting Period, BoCommLife Insurance had a total of 1,786 employees, including 837 sales personnel and 445 front-office personnel. The number of employees holding a Master's degree, Bachelor's degree and college degree or below was 186, 1,148 and 452, respectively. BoCommLife Insurance adhered to performance orientation. The performance allocation inclined to business departments and outstanding employees, reflecting the performance culture of sharing responsibilities and interests. During the Reporting Period, BoCommLife Insurance had more than 1,300 participants in more than 30 various types of training. The training involved company executives, middle-level managers, B-level and A-level employees, line training, Party and League training as well as professional comprehensive trainings.

(V) BoCom International

BoCom International was set up in May 2007 and listed on the main board of Hong Kong Stock Exchange in May 2017. As at the end of the Reporting Period, the Bank's shareholding in BoCom International was 73.14%. The main business of BoCom International was divided into four major divisions, namely securities brokerage and margin financing, corporate finance and underwriting, investment and loan and asset management and consulting. For the performance and related information of BoCom International, please refer to the performance report of BoCom International released on the Hong Kong Stock Exchange on 26 March 2019.

(VI) BoCom Insurance

As a wholly-owned subsidiary of the Bank, BoCom Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The business scope includes all kinds of general insurance businesses. As at the end of the Reporting Period, total assets and net assets of BoCom Insurance were HKD0.747 billion and HKD0.535 billion. Net profit for the year was HKD9.58 million.

As at the end of the Reporting Period, BoCom Insurance had a total of 42 employees (including 3 accredited staff from BoCom), of which 88% were front-office employees, 60% of total employees hold a Bachelor's degree or above. The salary was paid once a month and the amount of bonus was determined based on performance.

(VII) BoCom Investment

As a wholly-owned subsidiary of the Bank, BoCom Investment was set up in December 2017 with a registered capital of RMB10.0 billion. The business scope included debt-to-equity conversion and supporting services, funds raising from qualified social investors to implement debt-to-equity conversion, financial bonds issuance, special funds for debt-to-equity conversion and other businesses approved by the CBIRC in accordance with the laws and regulations. As at the end of the Reporting Period, the total assets and net assets of BoCom Investment were RMB20.370 billion and RMB10.059 billion respectively. The company's net profits during the Reporting Period were RMB0.053 billion.

As at the end of the Reporting Period, BoCom Investment had a total of 24 employees, of which 62.5% were front-office employees, 95.8% of total employees hold a Bachelor's degree or above. BoCom Investment had 3 internal departments including front-office marketing, middle-office risk management and back-office support. The employee's remuneration of BoCom Investment was guided by the Bank's remuneration policies and comprised basic salary and bonus. Basic salary was determined according to employees' position, while bonus was determined based on the performance of BoCom Investment as well as employees' performance and contribution to BoCom Investment. Meanwhile, BoCom Investment provided targeted staff training based on development strategy, business direction and talent team construction goals.

(VIII) Four Rural Banks

1. Dayi BoCom Xingmin Rural Bank

It was officially opened in September 2008, with a registered capital of RMB60.00 million. It had a total of 42 employees, of which 71.43% hold a Bachelor's degree or above. The Bank holds 61% of its shares.

2. Zhejiang Anji BoCom Rural Bank

It was officially opened in April 2010, with registered capital of RMB0.18 billion. It had a total of 102 employees, of which 81% hold a Bachelor's degree or above. The Bank holds 51% of its shares.

3. Xinjiang Shihezi BoCom Rural Bank

It was officially opened in May 2011, with registered capital of RMB0.15 billion. It had a total of 86 employees, of which 81.4% hold a Bachelor's degree or above. The Bank holds 51% of its shares.

4. Qingdao Laoshan BoCom Rural Bank

It was officially opened in September 2012, with registered capital of RMB0.15 billion. It had a total of 74 employees, of which 96% hold a Bachelor's degree or above. The Bank holds 51% of its shares.

As at the end of the Reporting Period, total assets and net assets of four rural banks were RMB7.611 billion and RMB0.813 billion, respectively. The total balance of due to customers and loans to customers of four rural banks were RMB6.187 billion and RMB4.630 billion, respectively.

VII. OUTLOOK

Looking forward to the year of 2019, the economic environment remains complex and evolving. Global economy becomes more uncertain. However, the condition for high quality development of Chinese economy keeps improving. The negotiation of Sino-US trade friction is achieving win-win outcome. Technology innovation brings the emergence of new industries. Overall, opportunities and challenges exist alongside in banking industry in 2019.

On one hand, the commercial banks will have great opportunities regarding the transformation and development. The reverse regulation of macro-policy is deepening. The improvement of economic structure is accelerating. The liquidity of interbank market is generally sufficient. The monetary policy is supporting private enterprises more effectively. The fiscal policy is implemented effectively step by step. The overall financing situation of the enterprise sector is expected to improve. Fintech empowers the transformation and innovation of banks and expands the boundary and the market of financial services. Meanwhile, "Belt and Road", RMB internationalization and two-way opening of financial systems provides the international businesses of commercial banks with greater developing space.

On the other hand, the Bank faces many operating challenges. Commercial banks' quality of assets have certain downward pressures. It is heavy task to prevent and manage potential risk in certain areas. The hidden debts of local government exist potential risk. It is noted that certain credit risk resulting from the blind expansion of private and small and micro enterprises. Significant debt pressure of some real estate enterprises draws the attention of risk too. Asset management industry is facing the transition from old system to new system with the implementation of new asset management regulations. The operation and profit of asset management business are under certain pressure of factors including the decrease of wealth management products with principal guaranteed and the transformation of wealth management products towards net realized value and shorter period.

The Group will tightly focus on the State's three major tasks, which are "serving the real economy, preventing and managing financial risks, deepening financial reforms" and consistently implement the regulatory requirements. Based on the "186" strategic landscape, the Group aims at "building the best wealth management bank" under the new interpretation of "BoCom Strategy". The Group will concentrate on improving the capacities of serving the real economy, maintain high quality development and continue to create values for shareholders, customers and employees. The Group will emphasize on the following areas:

Firstly, actively participate in the national development strategy and improve the efficiency and effectiveness of serving the real economy. The Group will serve the supply-side structural reform, support the strategic emerging industries, the structural adjustment, transformation and upgrade of high-tech enterprises, emerging industries and manufacturing industry, the development of private enterprises and inclusive finance.

Secondly, adhere to the philosophy of stable operation and succeed in the battle of forestalling and defusing the financial risks. The Group will deepen the reform of risk and credit management and establish a risk and credit management of "full coverage, differentiation, specialization, intelligence and accountability". BoCom will promote the Group's unified management of credit risk and build a unified system of risk monitoring, measurement and elimination. The Group will adhere to technology empowerment, comprehensively upgrade the big data risk management system, constantly innovate risk monitoring methods and tools and strengthen risk monitoring and investigation in key areas. The Group will also strictly adhere to the bottom line of compliance risk and enhance the construction of Anti-Money Laundering system and technical supports.

Thirdly, focus on improving customer experience and deepen the interpretation of wealth management. The Group will implement the philosophy of "create shared value and provide best services" in the construction of financial services ecosystem. Focusing on customer experience, the Group will build an integrated product service system through advantages of "two-lines" channel and the use of big data. BoCom will continuously strengthen product innovation, integration and promotion and enhance customer's offline experience, with the objective of turning brand advantages into business advantages.

Fourthly, insist on "BoCom Strategy" and constantly improve operation effectiveness and efficiency. The Group will make full use of competitive advantage of international business license. Based on the "Go Global" strategy of domestic high-quality enterprises, BoCom will strengthen the whole-process support to meet customers' requirements of investment and financing in trading across borders and markets. The Group will expand integrated business to enlarge the scale of coordinated financing, continue to promote the deep integration of subsidiaries in various business sectors of the Group and continuously promote the scale and performance of asset management, trust, funds, insurance and custody business. It is expected that the Group's overall business including assets and liabilities will maintain a steady growth in 2019.

Fifthly, strengthen Fintech empowerment and promote digital and intelligent transformation. Driven by market, customers and users, the Group will utilize its capacities on channel, system and data to consolidate the technical foundation and optimize business applications in the areas of customer experience, burden reduction and efficiency improvement, business development and management improvement. The Group will enhance online service capabilities emphasizing on mobile banking and establish an integrated intelligent service ecosystem of "Block Integration, Human-Machine Cooperation and Mobile Service" in order to achieve online and offline integrated operations.

BOCOM-HSBC STRATEGIC COOPERATION

BoCom-HSBC Strategic Cooperation, an important achievement of the reform and opening up of China's financial industry and the deepening of the joint-stock reform of the Bank, became a major characteristic advantage of the Bank. Over the past 14 years of cooperation, on the basis of a solid equity partnership, both parties always adhered to the principle of mutual benefits, maintained efficient and smooth communications, steadily promoted cooperation in various areas and achieved fruitful results, which was regarded as models of mutually beneficial cooperation between Chinese and foreign banks.

In 2018, the Senior Management and working teams of both parties maintained close communications, actively seized market opportunities, fully exploited complementary advantages and carried out many fruitful cooperation in the fields of global business, technological exchanges and social welfare. In particular, Chairman of the Board of Directors of the Bank, Peng Chun and President Fan Ning of HSBC Group held a high-level meeting in London this year to upgrade the strategic cooperation between BoCom and HSBC to "deepen strategic cooperation and create shared value" in the new era, creating more value for their shareholders, customers, employees and society by continuously enhancing the integration, contribution and influence of strategic cooperation and strived to make BoCom-HSBC Strategic Cooperation an important benchmark for China's reform and opening up in the financial industry in the new era.

Upgrade and development of strategic cooperation. Both parties believe that promoting the deepening of BoCom-HSBC Strategic Cooperation is highly in line with their respective strategies and will help both parties to work together in expanding the opening up of China's financial industry. Both parties agreed to endow the BoCom-HSBC Strategic Cooperation with new interpretation in the new era.

— Business cooperation is integrated into the "1+1 Global Financial Services" framework. Under this framework, business cooperation between both parties is deeper. Besides the regular interbank business cooperation, both parties will also grasp the opportunities of the "Belt and Road" and the "Guangdong-Hong Kong-Macao Greater Bay Area", focus on serving key areas such as China's relevant strategies and cross-border and overseas business and actively promote retail and wealth management and channel cooperation.

— "Technology Cooperation and Exchange" (TCE) will be upgraded to "Resource and Experience Sharing" (RES), with emphasis on resource sharing, two-way support and interpretation expansion. After upgrading, in addition to continuing to promote two-way training, both parties will also increase exchanges in Fintech, overseas compliance and other aspects to promote cooperation of research team.

Fruitful results in global business cooperation. The two banks continuously improved the system of "Global Business and Technology Exchange and Cooperation" to promote the potential cooperation of the two banks in the key business areas. The two banks continued to promote the "Belt and Road" business cooperation mechanism, worked hard to carry out effective communication and cooperation in bond underwriting, buyer's credit financing and syndicated loans along the "Belt and Road" regions. The two banks also held special sessions on the business cooperation in "Guangdong-Hong Kong-Macao Greater Bay". At the meetings, the teams from the two banks explored the cooperation of syndicated loans and trade financing in the Great Bay Area under the framework of "1+1 Global Financial Services".

— Working together to support Chinese enterprises to "Go Global". During the Reporting Period, the two banks served the foreign currency financing requirements of Chinese funded enterprises by use of "1+1" model, with the total amount of cooperation projects reaching about USD4.7 billion.

— Overseas regional cooperation. The total amount of cooperative bond issuance and syndicated loan projects between the two banks in Hong Kong was USD24.8 billion. The total amount of cooperative syndicated loan projects in Sydney, London and Luxembourg was nearly USD20 billion.

— Trusteeship and fund consignment cooperation. Through mutual referrals of products, the two banks cooperated 51 trust products, amounting to RMB66.454 billion. As at the end of the Reporting Period, the Bank had 19 HSBC Jintrust fund products in consignment, amounting to RMB1.96 billion. The Hong Kong Branch of the Bank had 39 HSBC Global Investment Funds in consignment, amounting to HKD0.154 billion.

— Subsidiaries cooperation. During the Reporting Period, HSBC participated in the issuance of USD1.5 billion of foreign debt by BoCom Leasing. BoCom International Trust cooperated with HSBC in QDII overseas trusteeship, with a total of USD0.161 billion in trusteeship at the end of the Reporting Period.

In-depth development of two-way technological exchanges. During the Reporting Period, the two banks focused on business cooperation, risk compliance and back-office support to further promote technical exchanges and cooperation.

— Continuously promoting the two-way trainings for Senior Management. During the Reporting Period, the experts of the Bank held two sessions of special study and exchanges for Senior Management of HSBC. The Bank designated 50 managers to HSBC Group and HSBC Headquarters for training on strategic mindset and execution, leadership, operational management and innovation and risk compliance management, etc.

— Continuing the risk experts accreditation and exchange mechanism. HSBC accredits risk management experts to share HSBC's advanced experiences and practices in risk prevention and control in time to meet the requirements of business development and risk management of the Bank. The risk management teams of both parties constantly shared experiences on hot issues of common interest through regular exchanges and visits.

— Implementing special exchanges for business development. During the Reporting Period, HSBC provided special trainings on interest margin management and human resources management for the Bank. The Bank selected talents at all levels to study cross-border mergers and acquisitions products and services, credit management and so on in HSBC Asia-Pacific.

Remarkable results in cooperation of social responsibilities. The two banks continuously promoted the "Century-old BoCom and HSBC serving the public hand-in-hand – BoCom·HSBC Shanghai Yi Le Action Plan". During the Reporting Period, the two banks established special community funds in 9 streets with severe aging of population problems in Shanghai, benefiting 90 thousand community residents. Through various public welfare projects such as financial and business education for the elderly, construction and development of elderly volunteer organizations, the two banks actively participated in "serving the elderly" and jointly practiced corporate social responsibilities.

In 2019, the BoCom-HSBC Strategic Cooperation enters its 15th year. In accordance with the consensus of "deepening strategic cooperation and creating shared value", the two banks will continue to work closely together, adhere to the complementary advantages, prioritize the concept of cooperation, explore opportunities for cooperation in depth and work together to create more cooperation results.

CHANGES IN ORDINARY SHARES AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

As at the end of the Reporting Period, the Bank issued a total of 74,262,726,645 ordinary shares, including 39,250,864,015 A shares and 35,011,862,630 H shares, which accounted for 52.85% and 47.15%, respectively. All the ordinary shares issued by the Bank are not subject to sales restrictions. According to the statistics, the number of the Bank's ordinary shares owned by the State (including state-owned shares and state-owned legal person shares) was 43,750,157,981, among which the number of state-owned shares (including the ordinary shares owned by Ministry of Finance, the SSF and local finance bureaus) was 31,331,922,786, accounting for 58.91% and 42.19% of total ordinary shares, respectively.

	31 December 2018		Increase or decrease during the Reporting Period					31 December 2017	
	Number of shares (share)	Percentage (%)	Newly issued	Bonus share	Conversion from reserves	Others	Sub-total	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	–	–	–	–	–	–	–	–	–
II. Shares not subject to sales restrictions	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00
1. RMB ordinary shares	39,250,864,015	52.85	–	–	–	–	–	39,250,864,015	52.85
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
III. Total	**74,262,726,645**	**100.00**	–	–	–	–	–	**74,262,726,645**	**100.00**

II. ISSUANCE AND LISTING OF ORDINARY SHARES

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

The Bank has no employee share.

III. SHAREHOLDERS OF ORDINARY SHARES

(I) Number of Ordinary Shareholders

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 341,373, of which 306,385 were shareholders of A shares and 34,988 were shareholders of H shares. On 28 February 2019, the total number of shareholders of ordinary shares of the Bank was 328,790, of which 293,937 were shareholders of A shares and 34,853 were shareholders of H shares.

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

Name of shareholders (Full name)	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares	Shares pledged or frozen[1]	Nature of shareholders
The Ministry of Finance of the People's	–	15,148,693,829	20.40	A Share	Nil	The State
Republic of China	–	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited	5,789,261	14,960,288,532	20.15	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited	–	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund	–	1,877,513,451	2.53	A Share	Nil	The State
	–	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	(182,164,227)	2,222,588,791	2.99	A Share	Nil	State-owned legal person
Capital Airport Holding Company	–	1,246,591,087	1.68	A Share	Nil	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	A Share	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	A Share	Nil	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.	–	745,305,404	1.00	A Share	Nil	State-owned legal person
FAW Equity Investment (Tianjin) Co., Ltd.	–	663,941,711	0.89	A Share	Nil	State-owned legal person

Notes:

1. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert. The Bank is not aware of the existence of any associated relationship among other top 10 shareholders, or those acting in concert.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure of interests filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. The number of beneficial shares held by HSBC was 249,218,915 shares more than that recorded in the Bank's register of members. This difference was caused by HSBC's purchase of H shares from the secondary market in 2007 and its subsequent acquisition of bonus shares and participation in the allotment of shares. This part of shares were registered under the name of HKSCC Nominees Limited. Please refer to "Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the *Securities and Futures Ordinance*" for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the Bank's register of members, as at the end of the Reporting Period, the SSF held 1,877,513,451 A Shares and 1,405,555,555 H Shares. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, the SSF held additional 7,640,085,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 612,308,000 H shares were indirectly held by certain asset managers. As at the end of the Reporting Period, the SSF held a total of 10,923,154,783 A shares and H shares of the Bank, representing 14.71% of the Bank's total ordinary shares issued.

(III) Controlling Shareholders/Actual Controllers

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

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

Name of institutional shareholders	Person in charge or Legal representative	Date of incorporation	Organization code/ Business registration No./Unified Social Credit Code	Registered capital	Main responsibilities or management activities
Ministry of Finance	Liu Kun	October 1949	00001318-6	N/A	Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policies.
HSBC	Fan Ning	1865	00173611-000	N/A[Note]	Primarily provide local and international banking services and related financial services in Asia-Pacific region.
SSF	Lou Jiwei	August 2000	12100000717800822N	RMB8.00 million	Under the management of Ministry of Finance and an independent legal entity responsible for managing and operating national social security fund.

Note: As at the end of the Reporting Period, HSBC issued ordinary share capital of HKD116.1025 billion and USD7.198 billion, divided into 46.4410 billion ordinary shares.

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

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

Details of related party transactions among the Bank and Ministry of Finance, HSBC and the SSF are disclosed in Note 43 to the Consolidated Financial Statements.

(V) Other Substantial Shareholders Stipulated by *Provisional Measures on the Shareholdings Administration of Commercial Bank*

1. China National Tobacco Corporation. According to information provided by China National Tobacco Corporation, 7 shareholders of the Bank (affiliated enterprises of China National Tobacco Corporation) entrusted China National Tobacco Corporation to exercise their voting rights on behalf of them. As at the end of the Reporting Period, the above 7 shareholders together held 3.00% of the shares of the Bank. China National Tobacco Corporation was established on 15 December 1983 with registered capital of RMB57.0 billion and its legal representative was Zhang Jianmin. The State Council was the competent department of China National Tobacco Corporation. China Tobacco Corporation did not pledge the shares of the Bank.

2. Capital Airport Holding Company. As at the end of the Reporting Period, Capital Airport Holding Company held 1.68% of the Bank's shares. Capital Airport Holding Company was established on 13 June 1988 with registered capital of RMB12.0 billion and its legal representative was Liu Xuesong. The substantial shareholder's wholly-owned controlling shareholder was Civil Aviation Administration of China. The substantial shareholder did not pledge the shares of the Bank. As at the end of the Reporting Period, the balance of loans of Capital Airport Holding Company in the Bank was RMB0.782 billion.

3. FAW Equity Investment (Tianjin) Co., Ltd. As at the end of the Reporting Period, FAW Equity Investment (Tianjin) Co., Ltd. held 0.89% of the Bank's shares. FAW Equity Investment (Tianjin) Co., Ltd. was established on 28 March 2018 with registered capital of RMB2.7 billion and its legal representative was Zhang Ying. The substantial shareholder's wholly-owned controlling shareholder was China FAW Group Corporation. The substantial shareholder did not pledge the shares of the Bank.

4. Luneng Group Co., Ltd. As at the end of the Reporting Period, Luneng Group Co., Ltd. held 0.6% of the Bank's shares. Luneng Group Co., Ltd. was established on 12 December 2002 with registered capital of RMB20.0 billion and its legal representative was Liu Yu. The substantial shareholder's wholly-owned controlling shareholder was State Grid Corporation of China. The substantial shareholder did not pledge the shares of the Bank. As at the end of the Reporting Period, the balance of loans of State Grid Corporation of China in the Bank was RMB2.5 billion.

5. Aviation Industry Corporation of China, Ltd. As at the end of the Reporting Period, Aviation Industry Corporation of China, Ltd. held 0.4% of the Bank's shares. Aviation Industry Corporation of China, Ltd. was established on 6 November 2008 with registered capital of RMB64.0 billion and its legal representative was Tan Ruishong. The substantial shareholder's wholly-owned controlling shareholder was State-owned Assets Supervision and Administration Commission of the State Council. The substantial shareholder did not pledge the shares of the Bank.

6. Daqing Petroleum Administration Bureau. As at the end of the Reporting Period, Daqing Petroleum Administration Bureau. held 0.4% of the Bank's shares. Daqing Petroleum Administration Bureau was established on 14 September 1991 with registered capital of RMB46.5 billion and its legal representative was Sun Longde. The substantial shareholder's wholly-owned controlling shareholder was China's National Energy Corporation. The substantial shareholder did not pledge the shares of the Bank.

7. *China Huaneng Group Co., Ltd.* As at the end of the Reporting Period, China Huaneng Group Co., Ltd. held 0.02% of the Bank's shares. China Huaneng Group Co., Ltd. was established on 31 March 1989 with registered capital of RMB34.9 billion and its legal representative was Shu Yinbiao. The substantial shareholder's wholly-owned controlling shareholder was State-owned Assets Supervision and Administration Commission of the State Council. The substantial shareholder did not pledge the shares of the Bank.

The transactions between the Bank and the above shareholders were conducted in accordance with general commercial terms and conditions and the terms were fair and reasonable.

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

As at the end of the Reporting Period, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of *SFO* are as follows:

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

Name of substantial shareholders	Capacity	Number of H shares	Nature of interests[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	9,045,641,332[3]	Long position	25.84	12.18
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC Holding plc	Interest of controlled corporations	14,135,636,613[4]	Long position	40.37	19.03

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held 9,045,641,332 H shares and 1,877,513,451 A shares of the Bank, representing 12.18% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. HSBC Holding plc wholly owned HSBC Asia Holdings Limited, which wholly owned HSBC. HSBC beneficially held 14,135,636,613 H shares of the Bank. Pursuant to the *SFO*, HSBC Holding plc was deemed to own the interests associated with the 14,135,636,613 H shares held by HSBC.

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

INFORMATION OF PREFERENCE SHARES

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

On 2 September 2016, the Bank completed the domestic non-public issuance of preference shares totaling RMB45.0 billion. The net raised funds were RMB44.952 billion after the deduction of issuance expenses, all of which were used to replenish other Tier-1 capital of the Bank.

Code of preference share	Abbreviation of preference share	Issuance date	Issue price	Nominal dividend yield (%)	Number of shares issued (share)	Listing date	Number of shares approved for trading (share)	Delisting date
360021	BOCOM PREF1	02/09/2016	RMB100/ share	3.90	450,000,000	29/09/2016	450,000,000	–

II. PREFERENCE SHOREHOLDERS AND THEIR SHAREHOLDINGS

(I) Total Number of Preference Shareholders

As at the end of the Reporting Period, the total number of overseas preference shareholders was 1 and that of domestic preference shareholders was 42. By 28 February 2019, the total number of shareholders of overseas and domestic preference shares remained unchanged.

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

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

Notes:

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

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

Serial Number	Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Shares pledged or frozen: Status of shares	Shares pledged or frozen: Number of shares	Nature of shareholders
1	China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Nil	–	State-owned legal person
2	AXA SPDB Investment Managers – SPDB – Shan`ghai Pudong Development Bank Shanghai Branch	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
3	CCB Trust Co., Ltd. – "Qian Yuan – Ri Xin Yue Yi" open-ended wealth management single fund trust	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
4	Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
5	Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
6	Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
7	China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	18,000,000	4.00	Domestic preference share	Nil	–	Others
8	China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Nil	–	State-owned legal person
9	China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Nil	–	Others
10	China Citic Bank Corporation Limited – LeYing Series of CITIC Banking Service	(2,000,000)	12,000,000	2.67	Domestic preference share	Nil	–	Others

Notes:

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

III. DIVIDENDS DISTRIBUTION OF PREFERENCE SHARES

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

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 15th meeting of the 8th Session of Board of Directors of the Bank was held on 27 April 2018, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares were approved. The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the overseas preference shares. In addition, in accordance with relevant laws and regulations, 10% withholding tax of USD13,611,111 was withheld by the Bank on behalf of overseas preference shareholders. The above dividends were fully paid in cash on 30 July 2018. The total amount of domestic preference shares' dividend distributed by the Bank amounted to RMB1,755,000,000 with a nominal dividend yield of 3.9% and were fully paid in cash on 7 September 2018.

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

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

Preference share type	Date of dividend distribution	Total amount of dividend distributed (including tax)	Dividend rate
Domestic Preference Share	7 September 2018	RMB1,755,000,000	3.9%
Overseas Preference Share	30 July 2018	USD136,111,111	5.0%
Domestic Preference Share	7 September 2017	RMB1,755,000,000	3.9%
Overseas Preference Share	31 July 2017	USD136,111,111	5.0%
Overseas Preference Share	29 July 2016	USD136,111,111	5.0%

IV. REDEMPTION AND CONVERSION OF PREFERENCE SHARES

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

V. RESTORATION OF VOTING RIGHTS

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

VI. ACCOUNTING POLICY FOR PREFERENCE SHARES AND ITS RATIONALE

According to *Accounting Standards for Business Enterprises No. 22 – Recognition* and *Measurement of Financial Instruments*, *Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments* issued by Ministry of Finance, *International Financial Report Standards 9 – Financial Instruments* and *International Accounting Standards 32 – Financial Instruments: Presentation* issued by International Accounting Standards Board as well as terms and conditions of the preference shares, the issued preference shares met the requirements to be recognized as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

I. PROFILE OF DIRECTORS

The Bank currently has 18 Directors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Peng Chun	Chairman of the Board of Directors and Executive Director	Male	57	November 2013 – date of 2018 Annual General Meeting
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	Male	55	August 2018 – the same as above
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	Male	67	August 2005 – the same as above
Hou Weidong	Executive Director and Executive Vice President	Male	59	October 2015 – the same as above
Wu Wei	Executive Director, Executive Vice President and Chief Financial Officer	Male	49	January 2019 – the same as above
Wang Taiyin	Non-executive Director	Male	54	August 2013 – the same as above
Song Guobin	Non-executive Director	Male	53	August 2017 – the same as above
He Zhaobin	Non-executive Director	Male	50	August 2017 – the same as above
Helen Wong Pik Kuen	Non-executive Director	Female	57	August 2016 – the same as above
Liu Hanxing	Non-executive Director	Male	45	August 2016 – the same as above
Luo Mingde	Non-executive Director	Male	54	October 2016 – the same as above
Liu Haoyang	Non-executive Director	Male	45	August 2016 – the same as above
Yu Yongshun	Independent Non-executive Director	Male	68	August 2013 – the same as above
Li Jian	Independent Non-executive Director	Female	65	October 2014 – the same as above
Liu Li	Independent Non-executive Director	Male	63	September 2014 – the same as above
Jason Yeung Chi Wai	Independent Non-executive Director	Male	64	October 2016 – the same as above
Raymond Woo Chin Wan	Independent Non-executive Director	Male	64	November 2017 – the same as above
Cai Haoyi	Independent Non-executive Director	Male	64	August 2018 – the same as above

Notes:

1. Term of office of Directors begins from the date of appointment qualification approved by the CBIRC.
2. Term of office of Mr. Peng Chun, Mr. Ren Deqi, Mr. Hou Weidong and Mr. Wu Wei refers to their term of office as Executive Directors of the Bank.
3. Term of office of Mr. Peter Wong Tung Shun refers to his term of office as Non-executive Director of the Bank.

Mr. Peng Chun, age 57, Chairman of the Board of Directors, Executive Director and Senior Accountant. Mr. Peng has been Chairman of the Board of Directors and Executive Director of the Bank since February 2018. From November 2013 to February 2018, Mr. Peng was Vice Chairman of the Board of Directors and Executive Director of the Bank. Mr. Peng was President of the Bank from October 2013 to January 2018. Mr. Peng previously served as Deputy General Manager of China Investment Corporation and served as Executive Director and General Manager of Central Huijin Investment Ltd. from April 2010 to September 2013. Mr. Peng served as Executive Director and Executive Vice President of the Bank from August 2005 to April 2010, Executive Vice President of the Bank from September 2004 to August 2005, Director and Assistant to the President of the Bank from June 2004 to September 2004, Assistant to President of the Bank from September 2001 to June 2004, Deputy General Manager and General Manager of Urumqi Branch, General Manager of Nanning Branch and General Manager of Guangzhou Branch from 1994 to 2001. Mr. Peng obtained his Master's degree in Economics in Graduate School of People's Bank of China in 1986.

Mr. Ren Deqi, age 55, Vice Chairman of the Board of Directors, Executive Director, President and Senior Economist. Mr. Ren has been Vice Chairman of the Board of Directors, Executive Director and President of the Bank since August 2018. From December 2016 to June 2018, Mr. Ren was Executive Director and Executive Vice President of Bank of China and served as Non-executive Director of Bank of China Hong Kong (Holdings) Limited from October 2015 to June 2018 and the Chief Executive Officer of Bank of China Shanghai RMB Trading Business Headquarters from September 2016 to June 2018. From July 2014 to November 2016, Mr. Ren served as Executive Vice President of Bank of China. From August 2003 to May 2014, Mr. Ren served as several positions in China Construction Bank, including Deputy General Manager of Credit Approval Department, General Manager of Risk Monitoring Department, General Manager of Credit Management Department, General Manager of Hubei Branch and General Manager of Risk Management Department. From July 1988 to August 2003, Mr. Ren worked in Yueyang Changling Sub-branch, Yueyang Central Sub-branch, Yueyang Branch, Credit Management Committee Office and Credit Risk Management Department of China Construction Bank successively. Mr. Ren obtained his Master's degree in Engineering in Tsinghua University in 1988.

Mr. Peter Wong Tung Shun, age 67, Vice Chairman of the Board of Directors and Non-executive Director. Mr. Wong has been Vice Chairman of the Board of Directors of the Bank since September 2016 and Non-executive Director of the Bank since August 2005. Mr. Wong currently serves as Deputy Chairman and Chief Executive Officer of HSBC (the Bank's substantial shareholder), the Group Standing Director and member of the Group Management Board of HSBC Holdings plc, Chairman of the Board of Directors and Non-executive Director of HSBC Bank (China) Company Limited. Mr. Wong also serves as Non-executive Director of Hang Seng Bank Limited. Mr. Wong was Chairman of the Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China included Economic Consultant for the Governor in the International Consultation Conference on the Future Economic Development of Guangdong Province, member of the 13th Chinese People's Political Consultative Conference ("CPPCC"), International Economics Consultant for the Mayor of Chongqing, Council Member of the China Banking Association Council, member of the advisory committees of China (Guangdong) Pilot Free Trade Zone (Qianhai and Shekou area) and the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Bachelor's and Master's degrees in Computer Science and MBA in Marketing and Finance from Indiana University in the United States in 1976 and 1979 respectively.

Mr. Hou Weidong, age 59, Executive Director, Executive Vice President and Senior Engineer. Mr. Hou has been Executive Director of the Bank since October 2015. Mr. Hou has been Executive Vice President and Chief Information Officer of the Bank since December 2010 (no longer served as Chief Information Officer concurrently since January 2017). He held the position of Chief Information Officer from August 2004 to December 2010, General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. He served as Deputy General Manager of Technology Security Department and General Manager of Data Center in ICBC from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

Wu Wei | Wang Taiyin | Song Guobin | He Zhaobin

Mr. Wu Wei, age 49, Executive Director, Executive Vice President and Chief Financial Officer. Mr. Wu has been Executive Director, Executive Vice President and Chief Financial Officer of the Bank since January 2019. From September 2017 to January 2019, Mr. Wu served as Executive Vice President and Chief Financial Officer of the Bank. From April 2015 to August 2017, Mr. Wu served as Chief Financial Officer and General Manager of Asset and Liability Management Department. From July 2013 to April 2015, Mr. Wu served as General Manager of Investment Banking Department, Chief Executive Officer of Investment Banking Business Center. Since December 2014, Mr. Wu served as General Manager of Asset and Liability Management Department concurrently. From October 2011 to July 2013, Mr. Wu served as General Manager of Financial Budget Department of the Bank. From January 2010 to October 2011, Mr. Wu served as General Manager of Liaoning Branch of the Bank. From July 1998 to January 2010, Mr. Wu served as Head, Deputy Division Chief and Deputy General Manager of Financial Division of Finance and Accounting Department. During this period of time, Mr. Wu also served as Deputy General Manager and General Manager of Financial Budget Department. From July 1994 to October 1995, Mr. Wu worked in Internal Audit Division in Wuhan Branch of People's Bank of China. Mr. Wu obtained his Doctoral degree in Economics in Graduate School in Academy of Fiscal Science of Ministry of Finance in 1998.

Mr. Wang Taiyin, age 54, Non-executive Director. Mr. Wang has been Non-executive Director since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013 including Staff Member and Senior Staff of the Technical Expert Division of Human Resource Department and Grass-root Level Service Department of the Ministry of Finance, Principal Staff of the Grass-root Level Service Division of Personnel and Education Department, Principal Staff of the Representative Agency of the Personnel and Education Department (during which he served as Assistant to Head of Chaoyang County, Liaoning Province from October 1995 to October 1996), Deputy Division Chief, Researcher, Secretary of the Personnel and Education Department (enjoyed benefit package as Division Chief), Division Chief of the Representative Agency of the Personnel and Education Department and Deputy Inspector-General of the Personnel and Education Department. Mr. Wang graduated from Zhongnan University of Economics and Law with major in Political Science in 1986 and obtained his MBA degree from Arizona State University in the United States in 2015.

Mr. Song Guobin, age 53, Non-executive Director. Mr. Song is Non-executive Director since August 2017. Mr. Song previously held various positions from August 1988 to June 2017 including Staff Member, Senior Staff and Principal Staff of the Propaganda Department of the Party Committee of the Ministry of Finance, Principal Staff of the Senior Care and the Unemployment of the Department of Social Security of the Ministry of Finance and the Senior Security Department, Deputy Division Chief of the Senior Security Department and the Special Care and Relief Department, Researcher of the Special Care and Relief Department, Division Chief of the System Actuarial Division and Employment Security Division, Deputy Supervisor of the Office of Commissioner of the Ministry of Finance in Jilin, Deputy Supervisor and Head of the Discipline Inspection Team, Deputy Director General of Department of Assets Management in Ministry of Finance from August 1988 to June 2017. Mr. Song graduated from Zhongnan University of Economics and Law with major in Philosophy in 1988 and obtained his Master's degree in World Economics from the Party School of the CPC Central Committee in 2008.

Mr. He Zhaobin, age 50, Non-executive Director, China Certified Public Accountant. Mr. He has been Non-executive Director of the Bank since August 2017. Mr. He served as Deputy Director of National Agricultural Comprehensive Development Office of Ministry of Finance from August 2014 to June 2017. He served as Deputy Director of Reform Group of Agriculture Comprehensive Development Office of the State Council from December 2013 to August 2014. He served as Deputy Division Chief, Division Chief and Deputy Director-General of Supervision and Inspection Committee of the Ministry of Finance from June 2000 to December 2013. During the period from November 2011 to November 2013, Mr. He took a temporary post as Vice Mayor in Huangshi municipal people's government in Hubei province. He worked in Supervision Division of Treasury Department of Ministry of Finance from August 1994 to June 2000. And he worked in Tax and Financial Price Inspection Office in the State Council from August 1990 to August 1994. Mr. He graduated from Shanghai University of Finance and Economics in 1990 with a Bachelor's Degree in Economics. In 2007, he obtained his Master's Degree in Public Administration in China National School of Administration and Peking University.

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

Ms. Helen Wong Pik Kuen, age 57, Non-executive Director. Ms. Wong has been Non-executive Director of the Bank since August 2016. Ms. Wong currently holds positions as Chief Executive Officer of Greater China Region of HSBC (the Bank's substantial shareholder), and Vice Chairman of the Board of Directors of HSBC Qianhai Founder Securities Co., Ltd. Ms. Wong served as Deputy Chief Executive Officer, President and Chief Executive Officer of the HSBC Bank (China) Company Limited from August 2009 to February 2015. She served in HSBC as Manager of Syndicated Loans Division, Senior Manager of Capital Market Division, Head of Debt Issuance Division of Greater China Region and Standing Director of Global Banking Division of Hong Kong from July 1992 to July 2009. She also served as Senior Manager of the Oesterreichische Nationalbank – Hong Kong Branch from February 1990 to June 1992, Manager of Credit and Market Development Division of the Development Bank of Singapore (Asia) Company Limited from May 1987 to January 1990, Manager of the China Department of the Hong Kong Branch of Bank of Tokyo from October 1986 to May 1987 and Manager of Hong Kong Branch of Oversea-Chinese Banking Corporation Limited from May 1984 to October 1986. Ms. Wong obtained her Bachelor's degree in Social Sciences from the University of Hong Kong in 1983.

Mr. Liu Hanxing, age 45, Non-executive Director and economist. Mr. Liu has been Non-executive Director since August 2016. Mr. Liu has been Head of Asset Allocation & Research Department of the National Council for Social Security Fund since March 2016. He served as Deputy Director and Director of the General Office of the National Council for Social Security Fund from April 2008 to March 2016. He served as Deputy Division Chief and Division Chief of the General Office of Bank of Communications, Division Chief of Market Development Department, Senior Manager of Corporate Business Department, Senior Manager of Operation Department of Beijing Branch of the Bank, Assistant to the General Manager and Deputy General Manager of Beijing Branch of the Bank from July 2004 to April 2008. He served as Deputy Division Chief of Non-Banking Department of the CBIRC and Deputy Division Chief of Information Center of the CBIRC from September 2003 to July 2004. He served as Senior Staff, Principal Staff and Deputy Division Chief of the General Office of the People's Bank of China from August 1997 to September 2003. Mr. Liu obtained his Doctoral degree in Management from the Graduate School of Chinese Academy of Sciences in 2012.

Mr. Luo Mingde, age 54, Non-executive Director and Senior Accountant. Mr. Luo has been Non-executive Director since October 2016. Mr. Luo has been Deputy Secretary of Party Committee, Deputy Director-General and Deputy General Manager (in charge of the overall work) in Tobacco Monopoly Bureau (Company) of Heilongjiang Province since December 2018. Mr. Luo served as Deputy Division Chief, Division Chief, Deputy Inspector and Deputy Director-General of Accounting Department of Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration from February 2000 to December 2018 (he temporarily served as Member of Luzhou (Sichuan Province) Municipal Committee and Commissioner of its Standing Committee from January 2014 to December 2015). He served as Officer of Finance and Commodity Prices Department, Staff Member, Senior Staff and Principal Staff of Finance and Accounting Department of China National Tobacco Corporation from July 1986 to February 2000. Mr. Luo obtained his Bachelor's degree in Economics from the Finance Department of Shaanxi College of Finance and Economics in July 1986.

Mr. Liu Haoyang, age 45, Non-executive Director and Accountant. Mr. Liu has been Non-executive Director since August 2016. Mr. Liu has been Deputy General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since November 2015. He served as Deputy General Manager of Capital Airport Group Finance Co., Ltd. from October 2012 to November 2015, Chief Financial Officer of Inner Mongolia Airport Group from June 2009 to October 2012, Assistant to General Manager and Deputy General Manager of Finance Department of Beijing Capital Airport Holding Company from March 2005 to June 2009, Assistant to Manager of Finance Department of Jinfei Civil Aviation Economic Development Center from July 2001 to March 2005 and Assistant to Manager of Finance Department of Beijing Huadu Breeding Company from July 1994 to September 1998. Mr. Liu obtained his Master's degree in Management from College of Economics and Management of China Agricultural University in 2001.

Mr. Yu Yongshun, age 68, Independent Non-executive Director and Senior Economist. Mr. Yu has been Independent Non-executive Director since August 2013 and currently holds his position as Independent Non-executive Director of the Board of Supervisors of Huaxin Trust Co., Ltd. Mr. Yu served as General Manager of Internal Audit Department and Chief Audit Executive of CCB from April 1999 to December 2010. Mr. Yu held various positions including Deputy General Manager of Financial Planning Department, General Manager of Real Estate Credit Department, General Manager of Xinjiang Uygur Autonomous Region Branch and General Manager of the Second Division of Business Department of CCB from October 1990 to April 1999. Mr. Yu graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics), majored in Infrastructure Financing in 1977 and graduated from Monetary Banking from the Department of Finance and Trade Economics of Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Yu receives special government allowances issued by the State Council.

Ms. Li Jian, age 65, Independent Non-executive Director. Ms. Li is Independent Non-executive Director since October 2014, currently serving as Doctoral Supervisor of Financial School and Supervisor of Post-doctoral Research Station in Central University of Finance and Economics. Ms. Li has been teaching in Central University of Finance and Economics since 1983. At present, Ms. Li also holds positions including Council Member of China Society for Finance and Banking, Standing Council Member of China Market Economy Society and Independent Non-executive Director of Bank of Beijing Co., Ltd., China Life Asset Management Company Limited and China Life Insurance Company Ltd. Ms. Li obtained her Doctoral degree in Economics from Xi'an Jiaotong University in 1997 and has been enjoying special government allowances of the State Council since 2004.

Mr. Liu Li, age 63, Independent Non-executive Director, China Certified Public Accountant. Mr. Liu has been Independent Non-executive Director since September 2014, currently serving as Professor in Guanghua School of Management of Peking University, Deputy Head and Doctoral Supervisor in Finance and Securities Research Center of Peking University. Mr. Liu has been teaching in Guanghua School of Management (formerly known as Business Management Department of Economic School) of Peking University since January 1986. He taught in Beijing University of Iron and Steel Technology from September 1984 to December 1985. At present, Mr. Liu also holds positions including Independent Director of China Machinery Engineering Corporation, China International Capital Corporation Limited, CNPC Capital Co., Ltd and Shenzhen Success Electronics Ltd. Mr. Liu obtained his Master's degree in Physics from Peking University in 1984 and MBA from Catholic University of Louvain in Belgium in 1989.

Mr. Jason Yeung Chi Wai, age 64, Independent Non-executive Director and Lawyer. Mr. Yeung has been Independent Non-executive Director since October 2016. Mr. Yeung has been serving as Director of Supervision and Risk Management of Fung Group (1937) and its Hong Kong listed company since July 2015. At present, Mr. Yeung also holds positions such as Independent Director of China Telecom Corporation and Member of Convention of Hospital Authority in Hong Kong. Mr. Yeung served as Executive Vice President of Bank of China (Hong Kong) Limited (in charge of Personal Banking Business) from April 2011 to February 2015, before which he also served as Secretary of the Board of Directors of Bank of China (Hong Kong) Limited and of Bank of China Limited and took positions in charge of supervision of market and compliance of laws and regulations in Hong Kong government, the Securities and Futures Commission, law firms and various enterprises. Mr. Yeung graduated from the University of Hong Kong in 1978, the College of Law of England and Wales in 1985 and the Faculty of Law of University of Western Ontario in 1991 and obtained his MBA degree from University of Western Ontario in 2001.

Raymond Woo Chin Wan

Cai Haoyi

Mr. Raymond Woo Chin Wan, age 64, Independent Non-executive Director, Hong Kong and Canadian Certified Public Accountant. Mr. Woo has been serving as Independent Non-executive Director of the Bank since November 2017. Mr. Woo joined Ernst & Young in June 1985 and retired in June 2015. Within this period, he served as Senior Accountant, Manager, Senior Manager, Partner and Managing Partner. To be specific, he served as Managing Partner of Ernst & Young's China business from 2011 to June 2015 and served as Director and General Manager in Ernst & Young from 2007 to 2012. Mr. Woo was also member of Ernst & Young's China Management Committee from 1998 to 2015. From December 1984 to June 1985, Mr. Woo served in Rongxing Securities Co., Ltd. Mr. Woo also served as Lecturer in Department of Business Administration in University of Hong Kong from December 1984 to June 1986. From September 1982 to October 1984, Mr. Woo worked in PwC Canada. He also worked in PwC Hong Kong from September 1979 to August 1980. Mr. Woo is currently Independent Non-executive Director of Dah Chong Hong Holdings Limited and Lenovo Group Limited. Mr. Woo obtained his MBA degree from York University in Canada in 1982.

Mr. Cai Haoyi, age 64, Independent Non-executive Director and Researcher. Mr. Cai has been Independent Non-executive Director of the Bank since August 2018. Mr. Cai currently serves as Master's Supervisor in PBC School of Finance, Tsinghua University, Doctoral Supervisor in University of International Business and Economics and Postdoctoral supervisor in Financial Research Institute of People's Bank of China. Mr. Cai served as Chairman of the Board of Supervisors in Everbright Bank of China from November 2012 to June 2015 and Non-executive Director in Bank of China from August 2007 to November 2012. Mr. Cai held various positions in Bank of China from July 1986 to March 2007, including Principal Staff of Graduate Department, Deputy Division Chief of Political Department, Division Chief of Political Department, Director, Deputy Director of the General Office of Financial Research Institute, Deputy Head of Financial Research Institute, Deputy Head of Research Bureau and Secretary General of Monetary Policy Committee. Mr. Cai obtained his Doctoral Degree from Financial Research Institute of People's Bank of China in 2001 and he obtained special government allowances from the State Council in 2003.

II. MEMBERS OF THE BOARD OF SUPERVISORS

The Bank currently has 12 Supervisors as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Gu Huizhong	Shareholder Supervisor	Male	62	August 2010 – date of 2018 Annual General Meeting
Zhao Yuguo	Shareholder Supervisor	Male	56	June 2016 – the same as above
Liu Mingxing	Shareholder Supervisor	Male	59	June 2016 – the same as above
Zhang Lili	Shareholder Supervisor	Female	46	June 2016 – the same as above
Wang Xueqing	Shareholder Supervisor	Male	51	June 2017 – the same as above
Tang Xinyu	External Supervisor	Female	65	June 2014 – the same as above
Xia Zhihua	External Supervisor	Female	64	June 2016 – the same as above
Li Yao	External Supervisor	Male	48	October 2017 – the same as above
Chen Qing	Employee Supervisor	Female	58	November 2004 – the same as above
Du Yarong	Employee Supervisor	Male	55	August 2010 – the same as above
Xu Ming	Employee Supervisor	Male	58	June 2016 – the same as above
Guan Xingshe	Employee Supervisor	Male	53	October 2018 – the same as above

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

Gu Huizhong **Zhao Yuguo** **Liu Mingxing** **Zhang Lili**

Mr. Gu Huizhong, age 62, Shareholder Supervisor. Mr. Gu has been Supervisor of the Bank since August 2010. Mr. Gu held the positions of Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China, Ltd. from August 2008 to January 2017. Mr. Gu was Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant from February 2005. He also served as Deputy Director of Finance Department of Technology and Industry Committee for National Defense from July 1998 to December 1998. Mr. Gu has been Independent Non-executive Director of China Southern Airlines Co., Ltd. since December 2017. Mr. Gu obtained his Master's degree in International Finance from the Peking University of Aeronautics and Astronautics in 2000 and his EMBA's degree from Cheung Kong Graduate School of Business in 2008.

Mr. Zhao Yuguo, age 56, Shareholder Supervisor. Mr. Zhao has been Supervisor of the Bank since June 2016. Mr. Zhao has been General Counsel of China First Automotive Works Group ("FAW Group") Corporation since September 2017. Mr. Zhao served as General Counsel and Minister of Legal Affairs Department of China FAW Group Corporation from April 2015 to September 2017. Mr. Zhao was General Counsel and Head of Legal Affairs Office of FAW Group from December 2007 to April 2015 and Deputy Head of Legal Affairs Office of FAW Group (in charge of overall management) from September 2002 to December 2007. He served as Minister of Planning Department of FAW – Head Daewoo Automotive Engine Company Limited from November 1996 to September 2002 and Head of the Legal Group of Finance and Accounting Department of FAW Group from October 1994 to November 1996. He also served as Deputy Section Chief of Legal Section of Economic Planning Department of FAW Group from October 1992 to October 1994 and member of Legal Section of Economic Planning Department of FAW Group from August 1987 to October 1992. Mr. Zhao obtained his Bachelor's degree in Law from China University of Political Science and Law in 1987.

Mr. Liu Mingxing, age 59, Shareholder Supervisor. Mr. Liu has been Supervisor of the Bank since June 2016. Mr. Liu has been the Head of First Inspection Team of Luneng Group Co., Ltd. (Group Assistant Level) since July 2018. Mr. Liu has been the Assistant to the General Manager and Director of the Key Project Office of Luneng Group Co., Ltd. from June 2017. Mr. Liu was Assistant to the General Manager, Head of Legal and Contract Department and Head of Key Project Office of Luneng Group Co., Ltd. from April 2016 to June 2017. He was Assistant to the General Manager and Head of Key Project Office of Luneng Group Co., Ltd. from January 2016 to April 2016, Deputy Chief Accountant and Head of Finance and Asset Management Department of Luneng Group Co., Ltd. From November 2014 to January 2016 and Head of Finance and Asset Management Department of Luneng Group Co., Ltd. from November 2012 to November 2014. Mr. Liu served as Head of Audit Department of Luneng Group Co., Ltd. From June 2009 to November 2012 and Deputy General Manager (in charge of overall management) and General Manager of Audit Department of Shandong Luneng Group Co., Ltd. from May 2008 to June 2009. He also served as Deputy General Manager of Shandong Luneng Heze Coal Power Development Co., Ltd. from October 2007 to May 2008 and Deputy General Manager and Chief Accountant of Shandong Luneng Heze Coal Power Development Co., Ltd. from January 2004 to October 2007. Furthermore, he was Accountant of Finance Department, Deputy Section Chief of Finance Section, Head of Finance Department, Deputy Chief Accountant and Head of Finance Department of Weifang Electric Power Bureau from July 1986 to January 2004. Mr. Liu obtained his Bachelor's degree in Economic Management from Party School of Central Committee of CPC.

Ms. Zhang Lili, age 46, Shareholder Supervisor. Ms. Zhang has been Supervisor of the Bank since June 2016. Ms. Zhang has been Chief Accountant of Huaneng Capital Service Co., Ltd. since May 2014. She was Chief Accountant and Manager of Planning and Finance Department of Huaneng Capital Service Co., Ltd. from October 2011 to May 2014. Ms. Zhang has been serving as Director in Yongcheng Property Insurance Co., Ltd. since May 2015. Since December 2015, She has been serving as Chairman of the Board of Supervisors in Huaneng Finance Co., Ltd. Ms. Zhang has also been Director of Huaneng Invesco WLR (Beijing) Investing Fund Management Company Ltd. since August 2017. Ms. Zhang obtained her EMBA's degree from Shanghai Jiao Tong University and became Senior Accountant in 2007.

Mr. Wang Xueqing, age 51, Shareholder Supervisor. Mr. Wang has been Supervisor of the Bank since June 2017. Mr. Wang has been Chief Accountant of Daqing Oilfield Co., Ltd. (Daqing Petroleum Administration Bureau) and member of the Party committee of Daqing Oilfield Co. Ltd. since October 2016. Mr. Wang served as Director of Finance Department of Daqing Oilfield Company from October 2009 to February 2018. From July 2008 to October 2009, Mr. Wang was appointed as Director of Financial Assets of the First Department in Daqing Oilfield Company. He was Head of the Accounting Department (Center) of the Financial Assets Department in Daqing Oilfield Company and became Section Chief, First Deputy Director and Director from November 1999 to July 2008. At present, Mr. Wang holds difference positions including Chairman of the Board of Directors of Daqing Petroleum (Hong Kong) Co. Ltd. and Daqing Energy (Hong Kong) Co. Ltd., Director of Qingdao Qingxin Plastic Co. Ltd. and DPS Indonesia Co. Ltd., Chairman of the Board of Supervisors of Daqing Oilfield Lishen Pump Co. Ltd. and PTINDOSPECENERGY and Vice President of the Sixth Council of China Association of Plant Engineering. Mr. Wang graduated from Tianjin University of Finance and Economics with Master's degree in June 2002, majoring in Accounting. He is also a Professorate Senior Accountant.

Ms. Tang Xinyu, age 65, External Supervisor. Ms. Tang is External Supervisor of the Bank since June 2014. Ms. Tang served as President of Enterprise Annuity Council of Bank of China from January 2011 to July 2013, as Chairman of Bank of China International Securities Limited from February 2007 to January 2011, as General Manager of Head office Human Resource Department of Bank of China from October 2004 to September 2006, as Deputy Party Secretary, the Commissioner of Discipline Inspection and Deputy General Manager of Bank of China Beijing Branch from February 2003 to October 2004, as Deputy General Manager of General Internal Audit Office and General Manager of Internal Audit Department of Bank of China from January 1998 to February 2003, as Senior Manager and Associate General Manager successively of Economic Research Department of Hong Kong and Macao Management Office of Bank of China, National Commercial Bank, Hong Kong Branch and Bank of China, Hong Kong Branch from May 1988 to January 1998 as Vice Researcher and Deputy Division Chief (1986) of Information Division Head of International Financial Research Institute of Bank of China from 1981 to May 1988 and as Teaching Assistant in the Western Languages Department of Peking University from 1977 to 1981. Ms. Tang graduated from Western Language Department of Peking University, majoring in English in 1977 and obtained her MBA degree from the Chinese University of Hong Kong in 1996.

Ms. Xia Zhihua, age 64, External Supervisor. Ms. Xia has been External Supervisor of the Bank since June 2016. Ms. Xia served as Chairman of the Board of Supervisors of China Life Insurance Co. Ltd. from March 2006 to July 2015. She was accredited by the State Council to serve as Deputy Head of the General Office of the Board of Supervisors, Supervisor (Deputy Director General Level), Head of the General Office of the Board of Supervisors and Supervisor (Bureau Level) of China Great Wall Asset Management Corporation, China Economic Development Trust and Investment Company, China Life Insurance (Group) Company and China Export & Credit Insurance Corporation successively from July 2000 to December 2005. Moreover, Ms. Xia served as Associate Inspector of National Treasury Bureau of the Ministry of Finance in June 2000. She also served as Deputy Director-General of National Debt Financial Department and Department of National Debt of the Ministry of Finance from July 1997 to June 2000. She successively served as Principal Staff, Deputy Division Chief and Division Chief of State Debt Management Department of the Ministry of Finance from December 1988 to June 1997 and Principal Staff of Financial Department of Cultural and Educational Administrative Affairs from December 1984 to November 1988. Ms. Xia obtained Master's degree in Economics from Xiamen University in 1984. At present, Ms. Xia serves as an International Internal Auditor and a Senior Economist, enjoying the special government allowance awarded by the State Council.

Mr. Li Yao, age 48, External Supervisor. Mr. Li has been External Supervisor of the Bank since October 2017. Mr. Li has been teaching at the School of Finance, Shanghai University of Finance and Economics since April 2000 and has been Vice Professor and Professor successively. He served as Vice President of School of Finance from December 2014 to January 2018. During the period from September 2002 to September 2003, Mr. Li served as Vice Professor in visiting scholar (CCSEP) program for the purpose of governmental exchange between Chinese and Canadian exchange at the University of Toront Rotman. Mr. Li was appointed as Professor in the management buyout and private equity research center of Nottingham University Business School from August 2009 to January 2010. Mr. Li has been serving as Professor in visiting Sino-US Fulbright Scholar Program at Boston College from August 2018 to July 2019. Mr. Li also served as Independent Director of Chongqing Rural Commercial Bank Co. Ltd. from October 2014 to December 2015. Mr. Li majored in International Finance and graduated from East China Normal University with the title of Ph.D. in Economics in July 1998.

Chen Qing **Du Yarong** **Xu Ming** **Guan Xingshe**

Ms. Chen Qing, age 58, Employee Supervisor. Ms. Chen has been Employee Supervisor of the Bank since November 2004. Ms. Chen has been Head of Audit Supervision Bureau of the Bank since July 2016, Committee Member of the Commission for Discipline Inspection of the Bank since April 2016, Head of the Women Commission of the Labor Union of the Bank since June 2015 and Committee Member of the Discipline Inspection Commission of the Bank from November 2013 to December 2017. Ms. Chen served as Head of the General Office for the Board of Supervisors from March 2005 to July 2016. From November 2004, Ms. Chen served as Supervisor at Deputy Director General-Level of the Bank. Ms. Chen was Supervisor at Division Chief Level for the key state-owned financial institution – Agricultural Bank of China from August 2003 to October 2004. Ms. Chen served as Deputy Division Chief, Division Chief and Supervisor at Division Chief Level of Bank of China from July 2000 to August 2003. Ms. Chen served as Deputy Division Chief of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen is Senior Auditor and obtained her Bachelor's degree in Economics from Renmin University of China in 1984 and a MBA degree from Shanghai University of Finance and Economics in 2009. She has been enjoying the special government allowances of the State Council since 2018.

Mr. Du Yarong, age 55, Employee Supervisor. Mr. Du has been Employee Supervisor of the Bank since August 2010 and has been serving as Deputy Secretary of Discipline Inspection Committee, Head (General Manager) of Bureau of Supervision (Anti-fraud Department) of the Bank since January 2015. He served as Deputy Secretary of Discipline Inspection Committee and Head of the Office of Discipline Investigation and Supervision of the Bank from November 2009 to January 2015. He was Deputy General Manager in the Bank's Zhejiang Branch from January 2009 to November 2009 and served as Deputy General Manager in the Bank's Hangzhou Branch from October 2004 to January 2009. Mr. Du was Head of the General Office in the Bank's Hangzhou Branch from April 2004 to October 2004 and was General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004 (among which he took a temporary post in the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004). Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office in the Bank's Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.

Mr. Xu Ming, age 58, Employee Supervisor. Mr. Xu has been Employee Supervisor of the Bank since June 2016. Mr. Xu has been serving as General Manager of Employee Department of the Bank since February 2016 and Executive Vice Chairman of the Bank's Labor Union (since April 2016). He served as Chairman of the Board of Supervisors of BoCommLife Insurance Company Limited from March 2013 to February 2016, as General Manager in East China Credit Authorization Approval Center of the Bank from July 2010 to March 2013, as Person in Charge and General Manager of Jilin (Changchun) Branch from September 2005 to July 2010, as Person in Charge and General Manager of Shaoxing Branch from November 2004 to September 2005 and as Deputy General Manager and General Manager of Jiaxing Branch from October 1994 to November 2004. Mr. Xu graduated from Zhejiang Provincial Party School of the CPC with Master's degree in Economics in July 2002 and obtained his MBA degree from Fudan University in June 2008.

Mr. Guan Xingshe, age 53, Employee Supervisor. Mr. Guan has been Employee Supervisor of the Bank since October 2018 and Director of the Office of the Board of Supervisors since August 2018. From September 2011 to August 2018, Mr. Guan served as General Manager of Department of General Affairs of the Bank. Mr. Guan held various positions from May 2003 to September 2011, including Deputy Manager of Henan Branch (Zhengzhou), Secretary of the Commission for Discipline Inspection (from September 2007 to September 2011), Senior Credit Executive (from May 2006 to June 2008). He also held several positons from December 1994 to May 2003, including Deputy Division Chief of Finance and Accounting Department of Zhengzhou Branch, Deputy Division Chief of Internal Audit Division (in charge of overall work), Deputy Director of Finance and Accounting Department (in charge of overall work), Division Chief of Finance and Accounting Department (during which he took a temporary post in Internal Audit Division of the Head Office from April 2002 to March 2003). From April 1993 to December 1994, Mr. Guan served as Deputy Division Chief of Financial Audit Department of Zhengzhou Audit Bureau. Mr. Guan obtained his Bachelor's Degree in Economics from Zhongnan University of Economics and Law in 1988 and his Master's Degree in Economics from Xiamen University in 1999.

III. PROFILE OF SENIOR MANAGEMENT

The Bank currently has 9 Senior Managers as below:

Name	Position	Gender	Age	Beginning and ending dates of term
Ren Deqi	President	Male	55	August 2018 – August 2021
Hou Weidong	Executive Vice President	Male	59	December 2010 – October 2019
Lyu Jiajin	Executive Vice President	Male	50	January 2019 – January 2022
Wu Wei	Executive Vice President and Chief Financial Officer	Male	49	September 2017 – September 2020
Guo Mang	Executive Vice President	Male	56	July 2018 – July 2021
Gu Sheng	Secretary of the Board of Directors	Male	56	April 2018 – April 2021
Xu Han	Chief Business Officer (Retail and Private Business Sector)	Male	53	September 2018 – September 2021
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	Male	53	September 2018 – September 2021
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	Male	65	March 2013 – March 2019

Notes:
1. Term of office of Senior Management is effective from the approval appointment date by the CBIRC.
2. Term of office of Mr. Ren Deqi refers to his term of office as President of the Bank. Term of office of Mr. Hou Weidong and Mr. Wu Wei refers to their term of office as Executive Vice President of the Bank.
3. Mr. Fu Wanjun has no longer served as Chief Business Officer (Corporate and Institutional Business Sector) since 26 March 2019 due to work adjustment.

Mr. Ren Deqi (Please refer to details in "Profile of Directors")

Mr. Hou Weidong (Please refer to details in "Profile of Directors")

Mr. Lyu Jiajin, age 50, Executive Vice President and Senior Economist. Mr. Lyu has been Executive Vice President of the Bank since January 2019. From May 2016 to January 2019, Mr. Lyu served as Deputy General Manager of China Post Group Corporation (renamed as China Post Group Co., Ltd. in October 2018) and President of Postal Savings Bank of China. From March 2007 to May 2016, Mr. Lyu successively served as Executive Vice President and President of Postal Savings Bank of China. From July 2005 to March 2007, Mr. Lyu served as Deputy Head of China Postal Savings and Remittance Bureau. Mr. Lyu served as Deputy Head of Post Bureau of Liaoning Province from February 2004 to July 2005, as Deputy Head of Post Bureau of Henan Province from March 2001 to February 2004, as Head of Post Bureau of Xinxiang City in Henan Province from October 1999 to March 2001 and successively served as Deputy Head and Head of Postal Savings and Remittance Bureau of Henan Province from May 1998 to October 1999 and worked in the Board of Currency of Postal Savings and Remittance Bureau and Administrative Bureau of Post and Telecommunications from July 1988 to May 1998. Mr. Lyu obtained his Doctoral degree in Economics in Southwestern University of Finance and Economics in 2014.

Mr. Wu Wei (Please refer to details in "Profile of Directors")

Guo Mang **Gu Sheng** **Xu Han**

Mr. Guo Mang, age 56, Executive Vice President and Senior Economist. Mr. Guo has been Executive Vice President of the Bank since July 2018. Mr. Guo served as Chief Business Officer of the Bank from February 2017 to July 2018 and served as General Manager of the Bank's Beijing Branch and Chief Executive Officer of Beijing Administrative Department (Group Customer Department) from December 2016 to June 2018. He was General Manager of the Bank's Shenzhen Branch from January 2010 to December 2016, Deputy General Manager (in charge of overall work) and General Manager of the Bank's Chongqing Branch from September 2004 to January 2010. Moreover, he served as a credit clerk in the Credit and Investment Department and Deputy Section Chief of Shenzhen Branch, Head of Shatoujiao Office, Deputy General Manager (in charge of overall work) of Shatoujiao Sub-branch, Deputy General Manager (in charge of overall work) and General Manager of Hongli Sub-branch, General Manager of the Marketing Department and Deputy General Manager of Shenzhen Branch from May 1991 to September 2004. Mr. Guo worked as Staff Member of PBOC Savings Interest Rate Department from June 1989 to May 1991. Mr. Guo also held various of positions from April 1988 to June 1989, including POBC Baoan Branch, Shenzhen Branch and State Administration of Foreign Exchange Shenzhen Branch. From July 1987 to April 1988, Mr. Guo worked as Staff Member in Reform Office of Comprehensive Planning Department in PBOC. Mr. Guo obtained his Bachelor's degree in Economics from Fudan University in 1987.

Mr. Gu Sheng, age 56, Secretary of the Board of Directors and Senior Economist. Mr. Gu has been Secretary of the Board of Directors and General Manager of Human Resources Department since April 2018. Mr. Gu successively served as General Manager of Human Resources Department from October 2015 to April 2018. Mr. Gu successively served as Deputy General Manager of Hainan Branch (in charge of overall work), Deputy General Manager of Nanjing Branch, General Manager of Suzhou Branch and General Manager of Jiangsu Branch from December 1999 to October 2015. Mr. Gu served as Division Chief of Personnel Department of the Personnel and Education Department of the Bank from March 1999 to December 1999. Mr. Gu held various of positions in the Bank, including Staff Member of Personnel and Education Department of Nanjing Branch, Deputy Section Chief of General Affairs Department, Assistant to the Division Chief of Personnel and Education Department and Section Chief of General Affairs Department, Deputy Division Chief of Personnel and Education Department, Deputy General Manager of Xiaguan Branch, General Manager of Xiaguan Branch from August 1987 to March 1999. Mr. Gu served as clerk of Credit Department of Jiangsu Xinghua County Sub-branch of Agricultural Bank of China from July 1984 to August 1987. Mr. Gu obtained his EMBA's degree from Nanjing University in 2006.

Mr. Xu Han, age 53, Chief Business Officer (Retail and Private Business Sector) and Senior Engineer. Mr. Xu has been Chief Business Officer (Retail and Private Business Sector) and General Manager of Personal Finance Department (Consumer Rights Protection Department) of the Bank since September 2018. From February 2018 to September 2018, Mr. Xu served as General Manager of Personal Finance Department (Consumer Rights Protection Department) and Chief Executive Officer of Internet Center (Online Center). From November 2016 to February 2018, Mr. Xu served as General Manager of Personal Finance Business Department (Consumer Rights Protection Department) and General Manager of Network Channel Department. From March 2016 to November 2016, Mr. Xu served as General Manager of Personal Finance Department (Consumer Rights Protection Department). From September 2015 to March 2016, Mr. Xu served as Secretary of Party Committee and the CEO of Pacific Credit Card Center. From October 2004 to September 2015, Mr. Xu served as Secretary of Party Committee and CEO for Domestic Business of Pacific Credit Card Center. From July 2002 to October 2004, Mr. Xu served as Deputy General Manager of Computer Department of the Bank. From September 1995 to July 2002. Mr. Xu served as Deputy General Manager of IT Department of Hong Kong Branch of the Bank. From April 1991 to September 1995, Mr. Xu also served as clerk of the Computer Department of the Bank. Mr. Xu obtained his Master's Degree in Engineering in Shanghai University of Technology in 1991.

Tu Hong

Ng Siu On

Mr. Tu Hong, age 53, Chief Business Officer (Inter-bank and Market Business Sector). Mr. Tu has been Chief Business Officer (Interbank and Market Business Sector) since September 2018, General Manager of Financial Institution Department of the Bank since August 2018. Mr. Tu served as Chief Executive Officer of Financial Market Business Center of the Bank from July 2014 to November 2018 (during which he concurrently served as Chief Executive Officer of Asset Management Business Center from February 2016 to September 2016). Mr. Tu held various of positions in the Bank from November 2000 to July 2014, including Deputy General Manager of Guangzhou Branch, Deputy General Manager of International Business Department, General Manager of New York Branch, General Manager of Financial Market Department, Chief Executive Officer of Financial Market Business Center/Precious Metals Business Center. Mr. Tu also held various of positions in the Bank from August 1989 to November 2000, including credit clerk of Overseas Business Department of Beijing Branch, Deputy Section Chief and Deputy Manager of Foreign Exchange and Deposit Department, Vice Chairman and Deputy General Manager of the Preparatory Committee of Sanyuan Sub-branch, Deputy Manager of the Foreign Exchange Credit Department and Division Chief of the General Administration of Foreign Exchange Business. Mr. Tu obtained his Bachelor's Degree in Economics from Renmin University of China in 1989 and Master's Degree in Economics from Fudan University in 1998.

Mr. Ng Siu On, age 65, HSBC-BoCom Strategic Cooperation Consultant. Mr. Ng has been HSBC-BoCom Strategic Cooperation Consultant since March 2013. Mr. Ng held various positions in HSBC including Regional Director of the New Territories of HSBC Hong Kong, Associate Vice President and General Manager of the Canadian Toronto Branch Network of HSBC Bank, Deputy General Manager and Director of Branches of HSBC's Area Office China, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates of HSBC's Commercial Banking in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently serves as Honorary Advisor of the Hong Kong Institute of Bankers. Mr. Ng obtained his MBA's degree from the Chinese University of Hong Kong in 1984.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes in Directors and Senior Management

On 1 February 2018, the Board of Directors of the Bank appointed Mr. Peng Chun as Chairman of the Board of Directors of the Bank. On the same day, Mr. Peng Chun resigned as President of the Bank. Before the appointment of the new president by the Board of Directors who should be approved by the CBIRC, Mr. Peng Chun, on behalf, performed the duties of the President. On 13 February 2018, the CBIRC approved Mr. Peng Chun's appointment as Chairman of the Board of Directors of the Bank. On the same day, Mr. Peng Chun has no longer served as Vice Chairman of the Board of Directors of the Bank.

On 29 June 2018, the Annual General Meeting of the Bank elected Mr. Shen Rujun as Executive Director of the Bank. On 3 August 2018, the CBIRC approved Mr. Shen Rujun to serve as Executive Director of the Bank. The qualification of Mr. Shen Rujun as Executive Vice President of the Bank was approved in August 2015.

On 4 January 2019, the Annual General Meeting of the Bank elected Mr. Wu Wei as Executive Director of the Bank. On 31 January 2019, the CBIRC approved Mr. Wu Wei to serve as Executive Director of the Bank. The qualification of Mr. Wu Wei as Executive Vice President and Chief Financial Officer of the Bank was approved respectively in September 2017 and April 2015.

On 31 May 2018, the Board of Directors of the Bank agreed to appoint Mr. Guo Mang as Executive Vice President of the Bank. On 11 July 2018, the CBIRC approved Mr. Guo Mang to serve as Executive Vice President of the Bank. Since 11 July 2018, Mr. Guo Mang has been Executive Vice President and no longer served as Chief Business Officer of the Bank.

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

Name	Position	Change	Beginning and ending dates of term
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	Elected and appointed	Term of Office as Director: August 2018 – date of 2018 Annual General Meeting Term of Office as Senior Management: August 2018 – August 2021
Cai Haoyi	Independent Non-Executive Director	Elected	August 2018 – date of 2018 Annual General Meeting
Guan Xingshe	Employee Supervisor	Elected	October 2018 – date of 2018 Annual General Meeting
Lyu Jiajin	Executive Vice President	Appointed	January 2019 – January 2022
Gu Sheng	Secretary of the Board of Directors	Appointed	April 2018 – April 2021
Fu Wanjun	Chief Business Officer (Corporate and Institutional Business Sector)	Appointed	September 2018 – September 2021
Xu Han	Chief Business Officer (Retail and Private Business Sector)	Appointed	September 2018 – September 2021
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	Appointed	September 2018 – September 2021

(III) Resigned Directors, Supervisors and Senior Management

Name	Ex-position	Change	Beginning and ending dates of term
Niu Ximing	Chairman of the Board of Directors and Executive Director	Resigned (due to work adjustment)	December 2009 – February 2018
Yu Yali	Executive Director and Executive Vice President	Retired (due to retirement)	Term of Office as Director: August 2012 – June 2018 Term of Office as Senior Management: August 2007 – June 2018
Shen Rujun	Executive Director and Executive Vice President	Resigned (due to work adjustment)	Term of Office as Director: August 2018 – October 2018 Term of Office as Senior Management: August 2015 – October 2018
Chen Zhiwu	Independent Non-Executive Director	Resigned (due to election of new session of Independent Non-executive Director)	November 2010 – August 2018
Song Shuguang	Chairman of the Board of Supervisors	Resigned (due to work adjustment)	June 2014-January 2019
Fan Jun	Employee Supervisor	Retired (due to retirement)	June 2013-August 2018
Shou Meisheng	Secretary of Discipline Inspection Committee	Retired (due to retirement)	June 2007-July 2018
Du Jianglong	Secretary of Board of Directors	Resigned (due to personal reasons)	September 2009-April 2018
Fu Wanjun	Chief Business Officer (Corporate and Institutional Business Sector)	Resigned (due to work adjustment)	September 2018-March 2019

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

(I) Directors

Mr. Peter Wong Tung Shun no longer served as Independent Non-executive Director of HSBC Bank (Malaysia) Company Limited, Independent Non-executive Director of Cathay Pacific Airlines Limited and Standing Council Member of the Red Cross Society of China.

Ms. Helen Wong Pik Kuen no longer served as Director of HSBC Canada.

Mr. Luo Mingde no longer served as Deputy Director of Accounting Department of Financial Management and Supervision (Internal Audit) of the National Tobacco Monopoly Bureau. Mr. Luo serves as Deputy Secretary, Deputy Director and Deputy General Manager (in charge of overall work) of the Party Committee of Heilongjiang Tobacco Monopoly Bureau (Company).

Mr. Yu Yongshun no longer served as Independent Non-executive Director of Shengjing Bank Co., Ltd.

Ms. Li Jian no longer served as Deputy Head of Financing Teaching Steering Committee of the Ministry of Education in Major of Economics, Member of China International Finance Society and Independent Non-executive Director of Minmetals Securities Co., Ltd. Ms. Li serves as Standing Council Member of China Society of Market Economy and Independent Non-Executive Director of PICC Life Insurance Company Limited.

Mr. Jason Yeung Chi Wai no longer served as Independent Non-executive Director of AviChina Industry & Technology Company Limited. Mr. Yeung serves as Independent Non-Executive Director of China Telecom Corporation Limited.

Mr. Raymond Woo Chin Wan no longer served as Independent Non-executive Director of Great Wall Pan Asia Holdings Limited. Mr. Woo serves as Independent Non-Executive Director of Lenovo Group Limited.

(II) Supervisors

Mr. Liu Mingxing serves as Head of First Inspection Committee of Luneng Group Co., Ltd (Group Assistant Level).

Mr. Wang Xueqing no longer held the position as Head of Finance Department of Daqing Oilfield Co., Ltd.

Mr. Li Yao serves as Visiting Professor of Sino-US Fulbright Scholar Program at Boston College.

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

(I) Details of Emoluments and Shareholdings

		Total taxable emoluments received during the Reporting Period (in RMB0'000)							
Name	Position	Emoluments	Other benefits	Total	Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Peng Chun	Chairman of the Board of Directors and Executive Director	54.60	17.85	72.45	–	A share	150,000	100,000	250,000
						H share	50,000	0	50,000
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	27.30	10.26	37.56	–	A share	0	0	0
						H share	0	100,000	100,000
Peter Wong Tung Shun	Vice Chairman of the Board of Directors and Non-executive Director	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Hou Weidong	Executive Director and Executive Vice President	49.14	17.40	66.54	–	A share	80,000	0	80,000
						H share	20,000	0	20,000
Wu Wei	Executive Director, Executive Vice President and Chief Financial Officer	49.14	17.40	66.54	–	A share	46,000	50,000	96,000
						H share	20,000	0	20,000
Wang Taiyin	Non-executive Director	67.20	16.95	84.15	–	A share	80,000	0	80,000
						H share	30,000	20,000	50,000
Song Guobin	Non-executive Director	67.20	21.01	88.21	–	A share	0	20,000	20,000
						H share	0	0	0
He Zhaobin	Non-executive Director	67.20	21.01	88.21	–	A share	0	20,000	20,000
						H share	0	0	0
Helen Wong Pik Kuen	Non-executive Director	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Liu Hanxing	Non-executive Director	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Luo Mingde	Non-executive Director	0	0	0	–	A share	0	0	0
						H share	0	0	0
Liu Haoyang	Non-executive Director	0	0	0	–	A share	0	0	0
						H share	0	0	0

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000) Emoluments	Other benefits	Total	Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Yu Yongshun	Independent Non-executive Director	0	0	0	–	A share	0	0	0
						H share	0	0	0
Li Jian	Independent Non-executive Director	25	–	25	–	A share	0	0	0
						H share	0	0	0
Liu Li	Independent Non-executive Director	25	–	25	–	A share	0	0	0
						H share	0	0	0
Jason Yeung Chi Wai	Independent Non-executive Director	25	–	25	–	A share	0	0	0
						H share	0	0	0
Raymond Woo Chin Wan	Independent Non-executive Director	25	–	25	–	A share	0	0	0
						H share	0	0	0
Cai Haoyi	Independent Non-executive Director	0	0	0	–	A share	0	0	0
						H share	0	0	0
Gu Huizhong	Shareholder Supervisor	0	0	0	No	A share	0	0	0
						H share	0	0	0
Zhao Yuguo	Shareholder Supervisor	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Liu Mingxing	Shareholder Supervisor	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Zhang Lili	Shareholder Supervisor	0	0	0	Yes	A share	0	0	0
						H share	0	0	0
Wang Xueqing	Shareholder Supervisor	0	0	0	No	A share	0	0	0
						H share	0	0	0
Tang Xinyu	External Supervisor	0	0	0	–	A share	0	0	0
						H share	0	0	0
Xia Zhihua	External Supervisor	0	0	0	–	A share	0	0	0
						H share	0	0	0
Li Yao	External Supervisor	20	0	20	–	A share	0	0	0
						H share	0	0	0
Chen Qing	Employee Supervisor	85.34	16.05	101.39	–	A share	40,000	0	40,000
						H share	20,000	0	20,000

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000) Emoluments	Other benefits	Total	Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Du Yarong	Employee Supervisor	84.05	16.05	100.10	–	A share	60,000	0	60,000
						H share	20,000	0	20,000
Xu Ming	Employee Supervisor	83.33	16.05	99.38	–	A share	70,000	0	70,000
						H share	0	0	0
Guan Xingshe	Employee Supervisor	13.33	2.76	16.09	–	A share	200	(200)	0
						H share	0	0	0
Lyu Jiajin	Executive Vice President	0	0	0	–	A share	0	0	0
						H share	0	0	0
Guo Mang	Executive Vice President	70.68	21.63	92.30	–	A share	50,000	0	50,000
						H share	0	0	0
Gu Sheng	Secretary of the Board of Directors	66.64	11.57	78.21	–	A share	46,100	20,000	66,100
						H share	0	0	0
Xu Han	Chief Business Officer (Retail and Private Business Sector)	24.99	4.37	29.36	–	A share	50,000	0	50,000
						H share	30,000	0	30,000
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	24.99	4.37	29.36	–	A share	0	0	0
						H share	50,000	0	50,000
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	0	0	0	Yes	A share	0	0	0
						H share	30,000	0	30,000

Name	Position	Total taxable emoluments received during the Reporting Period (in RMB0'000) Emoluments	Other benefits	Total	Emoluments received from related parties or not	Class of shares	Number of shares held at the beginning of the Reporting Period (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Directors, Supervisors, Senior Management resigned/retired									
Niu Ximing	Former Chairman of the Board of Directors and Executive Director	31.20	19.54	50.74	–	A share	210,000	0	210,000
						H share	180,000	0	180,000
Yu Yali	Former Executive Director and Executive Vice President	32.76	11.40	44.16	–	A share	80,000	0	80,000
						H share	20,000	0	20,000
Shen Rujun	Former Executive Director and Executive Vice President	40.95	15.77	56.72	–	A share	0	0	0
						H share	20,000	20,000	40,000
Chen Zhiwu	Former Independent Non-executive Director	14.58	0	14.58	–	A share	0	0	0
						H share	0	0	0
Song Shuguang	Former Chairman of the Board of Supervisors	54.60	19.54	74.14	–	A share	130,000	0	130,000
						H share	50,000	0	50,000
Fan Jun	Former Employee Supervisor	48.34	9.13	57.47	–	A share	40,000	0	40,000
						H share	20,000	0	20,000
Shou Meisheng	Former Secretary of Discipline Inspection Committee	32.76	11.40	44.16	–	A share	79,100	0	79,100
						H share	20,000	0	20,000
Du Jianglong	Former Secretary of the Board of Directors	28.00	6.77	34.77	–	A share	80,000	0	80,000
						H share	0	0	0
Fu Wanjun	Former Chief Business Officer (Corporate and Institutional Business Sector)	24.99	4.37	29.36	–	A share	71,300	0	71,300
						H share	0	0	0

Notes:

1. In 2018, the remuneration of Directors, Supervisors and Senior Management governed by the Central Committee was strictly determined in accordance with specifications of central financial enterprise remuneration measurement for person in charge. According to related regulations, the final remuneration of them in 2018 are now subjected to be confirmed and the rest of which will be disclosed when confirmed.
2. Mr. Ren Deqi has served as Deputy Secretary of the Party Committee of the Bank since 5 June 2018 and has served as President, Vice Chairman of the Board of Directors and Executive Director of the Bank since 6 August 2018. The figure in the table refers to the remuneration he received from the Bank during the Reporting Period.
3. Mr. Lyu Jiajin has served as Executive Vice President of the Bank. He did not receive the remuneration from the Bank in 2018.
4. Mr. Gu Sheng has served as Secretary of the Board of Directors of the Bank since 12 April 2018. The figure in the table refers to the remuneration he received from the Bank as Secretary of the Board of Directors during the Reporting Period.
5. Mr. Xu Han and Mr. Tu Hong have served as Chief Business Officers of the Bank since 25 September 2018. The figures in the table refer to the remuneration they received from the Bank as Chief Business Officers during the Reporting Period.
6. Mr. Guan Xingshe has served as Employee Supervisor of the Bank since 8 October 2018. The figure in the table refers to the remuneration he received from the Bank as an employee in his position during the period that he served as Employee Supervisor during the Reporting Period.
7. Mr. Niu Ximing has no longer served as Chairman of the Board of Directors and the Executive Director of the Bank since 1 February 2018. The figure in the table refers to the remuneration he received from the Bank during the Reporting Period.
8. Ms. Yu Yali has no longer served as Executive Director and Executive Vice President of the Bank since 1 June 2018. The figure in the table refers to the remuneration she received from the Bank during the Reporting Period.
9. Mr. Shen Rujun has no longer served as Executive Director and Executive Vice President of the Bank since 23 October 2018. The figure in the table refers to the remuneration he received from the Bank as Executive Director and Executive Vice President during the Reporting Period.
10. Mr. Song Shuguang has no longer served as Chairman of the Board of Supervisors of the Bank since 7 January 2019. The figure in the table refers to the remuneration he received from the Bank as Chairman of the Board of Supervisors during the Reporting Period.
11. Mr. Fan Jun has served as Employee Supervisor of the Bank since 1 August 2018. The figure in the table refers to the remuneration he received from the Bank as an employee in his position during the period that he served as Employee Supervisor during the Reporting Period.
12. Mr. Shou Meisheng has no longer served as Secretary of Discipline Inspection Committee of the Bank since 27 July 2018. The figure in the table refers to the remuneration he received from the Bank during the Reporting Period.
13. Mr. Du Jianglong has no longer served as Secretary of the Board of Directors of the Bank since 12 April 2018. The figure in the table refers to the remuneration he received from the Bank during the Reporting Period.
14. Mr. Fu Wanjun served as Chief Business Officer of the Bank from 25 September 2018 to 26 March 2019. The figure in the table refers to the remuneration he received from the Bank as Chief Business Officer during the Reporting Period.
15. The Bank's Employee Supervisors received their remuneration as employees in their positions and did not receive any remuneration as Employee Supervisors.
16. The above equity changes are all buy-ins or sell-outs in the secondary market.
17. As the table above illustrating during the Reporting Period, total taxable emoluments received by the Directors, Supervisors and Senior Management (excluding those who resigned or retired) was RMB11.6985 million.

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

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

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

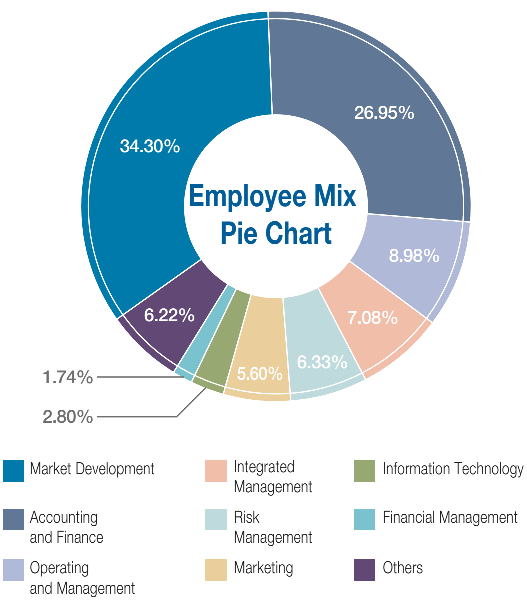
The annual performance-based remuneration for Directors, Supervisors and Senior Management is determined in accordance with relevant requirements of government and the Bank's performance measurement. For the Bank's Directors, Supervisors and Senior Management personnel managed by central government,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

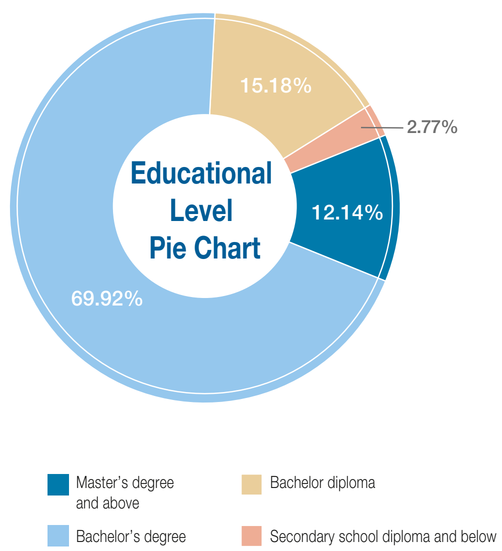
VII. HUMAN RESOURCE MANAGEMENT

(I) Basic Information of Employees and Institutions

As at the end of the Reporting Period, the Bank had a total of 89,542 domestic and overseas employees, of which 87,090 employees were based domestically and 2,452 were local employees in overseas branches. There were 3,204 employees in the Bank's major subsidiaries. For employees in domestic institutions, 30,776 employees hold professional and technical qualifications, of which 572 employees held senior professional and technical qualifications, accounting for approximately 0.66%. 16,038 employees held intermediate professional and technical qualifications, accounting for approximately 18.42%. 14,166 employees held junior professional and technical qualifications, accounting for approximately 16.27%.

As at the end of the Reporting Period, the number of retired employees that the Bank had obligation to bear the cost to was 2,575.





	31 December 2018					
	Assets (in millions of RMB)	**Proportion (%)**	**Number of institutions**	**Proportion (%)**	**Number of employees**	**Proportion (%)**
Northern China	1,157,867	12.15	503	15.21	11,218	12.53
North Eastern China	339,827	3.57	390	11.79	8,960	10.01
Eastern China	2,669,816	28.01	1,161	35.11	36,341	40.59
Central and Southern China	1,434,255	15.05	699	21.14	17,918	20.01
Western China	688,096	7.22	487	14.73	9,817	10.96
Overseas	1,006,195	10.56	66	2.00	2,452	2.74
Head Office	4,224,506	44.32	1	0.03	2,836	3.17
Offsetting and unallocated assets	(1,989,391)	(20.88)				
Total	9,531,171	100.00	3,307	100.00	89,542	100.00

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

(II) Remuneration Policy

Under the requirement of deepening reform by the State, the Bank actively carried out the assessment of employment, remuneration and performance under the remuneration management system which is "based on positions, as well as integrating position value and performance value", adhered to give priority to efficiency and give consideration to fairness, optimized the allocation of remuneration resources, improved the efficiency of resource allocation. The Bank insisted on the guidance of responsibility, grass-root and performance, focused on the precise motivation of key groups and stimulated innovation and vitality of grass-roots units. Based on the risk accountability system, the Bank continued to improve the deferred payment system for the performance based incentives of the employees in key positions on corporate governance and risk management for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits such as annuity.

(III) Performance Management

In response to the deepening reform in employment, remuneration and performance measurement and for the objectives of strategic development, the Bank further optimized the performance evaluation system and assessment procedures. The Bank focused on profit oriented performance measurement principle, enhanced synergy of performance measurement among business units, guided management departments to strengthen service support and implemented an integrated performance measurement system across operating units of the Group. The Group continuously expanded the range of reform and promotion of professional managers, improved assessment of professional manager and emphasized on more restricted incentives for the key position staff. Based on product profitability and electronic performance measurement platform and strategy, the Group clearly recorded and showed the employees' performance, which fully motivated the employees.

(IV) Training Management

The Group properly implemented the educational training requirements of the Party and the Party Committee of the Head Office and followed by Xi Jinping Thought on Socialism with Chinese Characteristics for a new era and the spirit of the 19th National Congress of the Communist Party of China and closely focused on the new interpretation of "BoCom Strategy". In accordance with the goal of building a high-quality and professional talent team, the Bank carried out political theory education, party spirit education and professional ability training to lay a solid foundation, enhance abilities, grasp innovations and create brands. The education and training of the Bank achieved new results and reached a new level.

The Group had emphasis on the lead of politics and provided the training of theory of politics and Party education. The Group held a series of trainings to learn Xi Jinping Thought on Socialism with Chinese Characteristics for a new era and the Spirit of the 19th National Congress of the Communist Party of China. Special courses were offered to those in charge of Bank's institutions, Grade D deputy heads and middle-aged cadres. The Bank also held "Studies of the 19th National Congress of the Communist Party of China" via online Party School to strengthen cadres spirits.

The Group focused on the development strategy and organized professional ability training. The Bank held different trainings including leadership improvement to those in charge of Bank's institutions, HSBC special management trainings, "Talent Plan" and Youth Innovation Incubation Laboratory Training. The Bank held a series of trainings for experts from business lines such as personal banking, inclusive finance, assets and liabilities, as well as financial budget. The Bank held face-to-face and network special training for company and personal banking for client managers, "home" training for employees working in overseas branches and subsidiaries, training on improving efficiency of middle and back office in Head Office. The Bank also held trainings on new products, new technologies, new businesses and new systems, held qualification exams for employees' position. The Bank constantly provided advanced trainings of simulation banks for new employees and carried out knowledge and skills competition for new employees to enhance their duty-performing abilities effectively.

The 2018 Employee Sports Meeting in Guangdong Branch.

The Bank focused on "Happy Home" construction and created "the old, the middle, the young and the juvenile" characteristic training brand. The Bank held a training program named "Yin Song Plan" for retired cadres, "Elite Plan" for the improvement of comprehensive ability of young employees at grass-root level for the first time. The Bank also held trainings for BoCom cadres and local cadres in charge of poverty alleviation and fulfilled the poverty alleviation responsibility of a state-owned enterprise effectively. The Bank made great contribution to poverty alleviation. The Bank held Interbank Cooperation Training Program to support the expansion of business interbank market.

During the Reporting Period, the Bank organized cadre trainings for nearly 1.1 million staffs, including off-job trainings for over 0.3 million staffs and online trainings for over 0.8 million staffs. The Group had 2,316 certified part-time trainers, over 300 core courses and over 5,700 online courses. Staff satisfaction rate of major project courses was 97.4%. The construction of training system was further deepened and the capacity construction of teachers, courses and bases were further enhanced. The work of education and training achieved high-quality development.

(V) Talent Training and Reserve

The Group continued to carry out the cultivation of expert talents. The Group formulated the *Administrative Measures for Grading of Experts in Bank of Communications*. According to this regulation, the Group optimized the grading of experts, enabled to switch between expert grading and management grading and built a system of "vertical promotion, horizontal transferring, different positions at the same time" for the development of talents. The Bank carried out evaluation of the first-level and second-level experts for the first time. The bank built a multi-dimensional evaluation model of "ability, performance and contribution", established an expert evaluation database and 60 persons obtained the expert qualifications under group review, judges' agreement and the Party Committee approval. The Bank implemented the requirement of "delegation, regulation, service", published and issued evaluation and employment opinion of C-level experts in provincial branches and authorized provincial branches to independently carry out the work of expert evaluation and employment. More than 30 business organizations formulated detailed rules for the implementation of expert evaluation and employment for their own unit, which greatly promoted the work of independent appraisal employment.

The 2018 Employee Sports Meeting in Guangdong Branch.

The Group continuously reinforced to develop talent cultivation and reserve for overseas institutions. Under the strategy of internationalization and BoCom Talent Reserve Five-Year Plan for Overseas Institutions and taking the overseas business development layout into consideration, the Group continued to enhance the team building of Grade C/B in overseas institutions and international talents in order to strengthen the cultivation of talents who are specialized in risk compliance and minority language. The Group also optimized the structure of international talent team and met the demand for talents in overseas institutions at all levels and internationalization. The Group completed the selection and training for more than 180 international talents and delivered about 60 professionals and talents with minority dialects to overseas institutions from 2016 to 2018.

(VI) Employee Pension Scheme

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

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year 2018.

I PRINCIPLE ACTIVITIES

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

Please refer to the section of "Management Discussion and Analysis" for a true and fair review of the Group's business and analysis using financial key performance indicators, a description of the key risks and uncertainties faced by the Group and discussion of potential future development in the Group's business. Please refer to the section of "Significant Events" for the important events of the Group that occurred since the end of the Reporting Period.

II SUMMARY OF FINANCIAL INFORMATION

Please refer to the section of "Financial Highlights" for the summary of the operating performance, assets and liabilities for the last five years.

III RESULTS AND PROFIT DISTRIBUTION

1. Please refer to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 183 for the operating performance of the Group during the Reporting Period.
2. Please refer to Note 34 of the Consolidated Financial Statements for the details of the Group's undistributed profits as at the end of the Reporting Period.
3. Pursuant to the *Administrative Measures for Securities Issuance and Underwriting*, in the situation that the proposals of profit distribution and capital contribution from reserve have not been submitted for the approval from shareholders' general meeting or approved but not yet executed, listed companies shall issue securities after the execution of aforementioned proposals. The Bank is in the progress of the public issuance of A share convertible corporate bonds and has not formulated the profit distribution proposal for the year of 2018, which the Bank will formulate and submit for the approval from the Board of Directors and shareholders' general meeting of the year of 2018 at earliest. There was no plan of the Bank regarding bonus shares and conversion of capital reserve to share capital in years of 2017 and 2016. Details of ordinary share cash dividend distributions are as follows:

(in millions of RMB unless otherwise stated)

Year of dividend distribution	Cash dividends per 10 shares (before tax, RMB)	Amount of cash dividends (before tax)	Net profit distributable to shareholders of the Bank	Proportion in net profit distributable to shareholders of the Bank (%)
2017	2.856	21,209	70,223	30.20
2016	2.715	20,162	67,210	30.00

4. Please refer to the section of "Dividend Distributions of Preference Shares" for the result of preference share dividend distributions.
5. The formulation, implementation or adjustment of the cash dividend policy

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

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

IV CAPITAL RESERVE

Please refer to Page 186 in the Consolidated Statement of Changes in Equity for the details on the movements of capital reserve of the Group during the Reporting Period.

V CHARITABLE DONATIONS

Charitable donations made by the Group during the Reporting Period amounted to RMB35.0662 million[1].

VI FIXED ASSETS

Please refer to Note 23 to the Consolidated Financial Statements for the details of changes in the Group's fixed assets during the Reporting Period.

VII PUBLIC FLOAT

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

VIII DIRECTORS' AND SUPERVISIONS' SERVICE CONTRACTS

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

[1] Including personal donations of employees.

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

Other than the results disclosed in the section of "Continuing Connected Transactions" in the report of the Board of Directors, during the Reporting Period or as at the end of the Reporting Period, neither the Bank's Directors or Supervisors, nor their connected entities had any direct or indirect material interests in any transactions, arrangements or contracts of significance set up by the Bank or any of its subsidiaries.

X MANAGEMENT CONTRACT

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

XI INTERESTS OF DIRECTORS IN COMPETING BUSINESS OF THE BANK

Except as disclosed in the section of "Directors, Supervisors, Senior Management and Human Resource Management", none of the Directors of the Bank held any interests among the businesses that directly or indirectly competed or were likely to compete with the Bank.

XII REMUNERATION POLICY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to the section of "Remuneration Decision-making Process and the Deciding Factors" on page 120.

XIII RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIROR MANAGEMENT

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

XIV PURCHASE, SALE OR REPURCHASE OF THE BANK'S LISTED SECURITIES

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

XV PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

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

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

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

XVII MAJOR CUSTOMERS

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

XVIII CONTINUING CONNECTED TRANSACTIONS

(I) The Interbank Transactions Master Agreement (hereinafter referred to as "the Agreement")

HSBC is a substantial shareholder of the Bank. Therefore, HSBC together with its subsidiaries are all connected persons of the Bank. The Group regularly engaged in various transactions in the normal course of banking businesses with HSBC Group, including but not limited to the interbank loan and borrowing transactions, the transactions of bonds, money market, foreign currency and swaps and options. To regulate the continuing transactions mentioned above, the Bank entered into the Agreement with HSBC in 2005, which was subsequently renewed in 2008, 2011, 2014 and 2017, respectively.

The Bank and HSBC renewed the Agreement on 28 April 2017 for the period of three years from 1 June 2017 to 31 May 2020. There was no fixed price or rate for the transactions under the Agreement. However, the parties agreed that when conducting transactions in accordance with the Agreement, if there were applicable laws and regulations, or provisions and notices issued by regulatory authorities fixing the prices or rates, such fixed price or rate shall be adopted. If there was no fixed price or rate, reference will be made to the prevailing market prices and it shall be determined on an arm's length basis and on normal commercial terms for open market transactions. For other types of transactions, it shall be determined, on an arm's length basis and on normal commercial terms. With reference to the prices or rates the parties would quote to each other or to independent counterparties with equivalent credit worthiness with respect to the particular type of transaction concerned (if applicable) and the risk management policies of both parties with respect to the transactions concerned.

During the Reporting Period, the continuing connected transactions under the Agreement did not exceed their respective caps: 1. all the realized gains and losses and the unrealized gains and losses (depending on the situation) arising from the non-exempt continuing connected transactions did not exceed RMB9.703 billion. 2. the fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (regardless whether recorded as assets or liabilities) did not exceed RMB19.700 billion.

(II) During the Reporting Period, the Balance of Transactions between the Group and HSBC Group are as follows:

1. As at the end of the Reporting Period, the aggregated balance of deposits placed with loans made to the HSBC Group by the Group were RMB2.250 billion. The aggregated balance of bond investments were RMB5.954 billion. The interest income arising from these deposits, loans and bond investments were RMB0.162 billion in 2018. The aggregated balance of deposits placed with, loans and precious metal made to the Group by the HSBC Group were RMB19.226 billion. The interest expenses arising from deposits, loans and precious metal were RMB0.384 billion.

2. As at the end of the Reporting Period, the Group recorded the derivative transactions in nominal principle with HSBC Group off-balance sheet amounted to RMB138.544 billion. The balances of the derivative assets and derivative liabilities were RMB1.592 billion and RMB0.760 billion, respectively. The net loss arising from the derivative transactions were RMB0.984 billion in 2018.

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

(III) Independent Non-Executive Directors' Annual Review of the Non-Exempt Continuing Connected Transactions

Upon detailed review of the continuing connected transactions in 2018, all of the Independent Non-executive Directors of the Bank considered that the continuing connected transactions are as follows: 1. In the ordinary course of businesses of the Group, 2. Under normal or more favorable commercial terms, and 3. In accordance with the Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

(IV) Auditors' Annual Review of the Non-Exempt Continuing Connected Transactions

The auditors issued a letter to the Board of Directors in respect of the continuing connected transactions in 2018 confirming the follows: 1. The non-exempt continuing connected transactions were approved by the Board of Directors, 2. The non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank, 3. The non-exempt continuing connected transactions were conducted in accordance with the terms of the Agreement, 4. The actual transaction amount of the non-exempt continuing connected transactions in 2018 did not exceed their respective caps.

(V) The Bank confirmed that the specific agreements under the continuing connected transactions during the Reporting Period were entered into and executed in accordance with the pricing principles of such continuing connected transactions.

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

XIX ISSUANCE OF SHARES AND DEBT SECURITIES

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

XX PERMITTED INDEMNITY PROVISION

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

XXI ENVIRONMENT POLICIES AND PERFORMANCE

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

XXII COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

XXIII RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

XXIV LIST OF DIRECTORS

Please refer to "Members of the Board of Directors" in the section of "Directors, Supervisors, Senior Management and Human Resource Management" for the list of Directors during the Reporting Period and as at the date of this Annual Report (unless otherwise stated).

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

By order of the Board of Directors
Chairman
Peng Chun

29 March 2019

REPORT OF THE BOARD OF SUPERVISORS

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

I. MAIN RESPONSIBILITIES OF THE BOARD OF SUPERVISORS.

(I) Effectively Fulfilled the Duties of the Board of Supervisors and Improved the Operation of the Supervision System

1. Held and attended important meetings. The Board of Supervisors held 6 meetings throughout the year. The attendance rate of Supervisors was 94.05%. The number and attendance rate of the meetings both met the regulatory requirements and the provisions of the *Articles of Association*. The Board of Supervisors discussed 23 resolutions and 7 reports with specific topics, highlighting the supervision of strategic and overall work. Three Special Committees under the Board of Supervisors held 8 meetings to provide good support for the discussion of the Board of Supervisors meetings. The Board of Supervisors attended 3 shareholder meetings (A Shareholders Class Meeting and H Shareholders Class Meeting held together), attended the meetings of the Board of Directors, meetings of special committees, as well as important meetings of the whole Bank, followed up on major decision-making and deployments in time and thoroughly understood the progress of work in key areas.

2. Continuously deepened the work of "four in one" supervision work. Firstly, the Board of Supervisors conducted interviews for supervision, deeply analyzed the achievements and challenges of key business areas, business organizations and key management around strategic transformation and risk internal control management and evaluated the progress of business management objectives. Secondly, the Board of Supervision deepened special supervision, involving in the fields of the business environment, the impact of regulatory changes, resource allocation, risk measurement, etc. Thirdly, the Board of Supervisors carried out dynamic supervision quarterly, followed up the important matters and potential issues in real time, analyzed the changing trend and studied further supervision measures. Fourthly, the Board of Supervisors held the Supervisory and Coordinating Committee quarterly to coordinate supervision and planning, strengthen information sharing, integrate supervisory resources, form supervisory synergies and achieve effective improvement of supervisory effectiveness.

3. Further improved the quality and effectiveness of performance supervision and evaluation. The Board of Supervision strengthened the process supervision of Directors and Senior Management in performing their duties, timely controlled the implementation of the whole year's decision-making deployment and working progress, integrated internal and external information to form performance evaluation reports for the Board of Directors, Senior Management and individuals. As of the evaluation date, according to the three levels of "competent", "basically competent" and "incompetent", including 19 Directors and Senior Management serving for more than half a year, all were evaluated as "competent". The Board of Supervisors conscientiously carried out the self-evaluation work of the Board of Supervisors and its members in performing their duties, completed the evaluation reports and submitted it to the supervisory authorities.

4. Actively cooperated with the supervision and inspection departments. The Board of Supervisors actively cooperated with the People's Bank of China and the CBIRC in inspecting the work of the Board of Supervisors, truthfully reported on the performance of its duties and properly rectified them in accordance with the supervision opinions.

(II) Highlighted the Focus of Supervision and Strengthened Supervision in Key Areas.

1. Deeply executed strategic supervision. The Board of Supervisors focused on the changes of business environment, supervised the pressure and strategic transformation faced by key businesses such as corporate business and international business, branches and subsidiaries during the transformation period, as well as the customer expansion and credit management policies of inclusive finance and private enterprises. The Board of Supervision focused on the impact of the new regulations on financial services and the development of subsidiaries as well as the adjustment measures. Focusing on the problems in the strategic advancement of the whole Bank, the Board of Supervisions focused on the operation of the strategic supporting system, the implementation of asset and liability allocation, the role of performance appraisal and channel transformation and the support of data management for business management.

2. Promoted capital and financial supervision. Combined with the adjustments of MPA index system, the Board of Supervisors paid attention to the capital management of the whole Bank and suggested to further improve the capital management to well perform stress testing of capital adequacy ratio and contingency plans. The Board of Supervisors followed up the formulation and implementation of major financial decisions and rectification of key areas of financial management, analyzed and supervised periodic reports.

3. Focused on strengthening risk monitoring. The Board of Supervisors deeply studied the impact of changes in business environment on the whole Bank's, such as Sino-US trade frictions, economic restructuring and financial market volatility. The Board of Supervisors earnestly analyzed the risks that may arise from the imbalance of business structure, focused on the impact of customer risk exposure in diversified clusters, as well as the impact of the proportion of interbank liabilities, interest rate and exchange rate positions on the market and liquidity. The Board of Supervisors kept a close eye on internal management, including business development and internal management of operating institutions, risk management structure and mode of key businesses, risk monitoring and risk measurement tools and consolidation management and put forward supervision suggestions.

4. Strengthened internal controls and compliance supervision. The Board of Supervisors made in-depth analysis on the operation of the compliance management system of the whole Bank, came up with suggestion for strengthening the sharing of compliance information, took the advantage of compliance management and closely followed up the trend of domestic and overseas supervision as well as the anti-money laundering management. The Board of Supervisors understood the internal and external audit situation in a timely manner, coordinated with the promotion of rectification, closely monitored the disposal of impaired loans and accountability and further improved the disposal process control. The Board of Supervisors effectively implemented supervision for information disclosure and maintained the good social reputation of the Bank.

(III) Improved Infrastructure Construction and Enhanced Supervision Capacity

1. Improved the system construction and enhanced the standardization of supervision. In accordance with the *Articles of Association*, the Board of Supervisors further revised the regulations of different committees, formulated supervision measures in strategic supervision, internal control and compliance supervision, risk supervision and other key areas, further clarified the supervision content and focus, supervision methods, supervision evaluation and reporting and initially formed the system of the Board of Supervisors.

2. Strengthened self-construction and improved the level of supervision specialization. All Supervisors continuously improved their abilities to perform their duties and participated in training such as "Interpretation and Impact Analysis of New Management Regulations". The Board of Supervisors conducted in-depth research in the operating institutions and substratum on the implementation of the strategic objectives and risk management policies, focused on the changes of international and domestic environment and regulatory requirements, understood the significant events of the Bank's operational management, strengthened interbank exchanges and improved the abilities by constant learning.

3. Developed the construction of information and data platform to enhance the support of data-based supervision. In order to effectively carry out supervision work, the Board of Supervisors explored the construction of information and data platform to systematically collect, organize and analyze operational management data.

(IV) Innovated the Ways of Supervision and Improved the Quality and Effectiveness of Supervision.

1. Based on supervision positioning, systematically supervised potential risks. The Board of Supervisors strictly implemented the requirements of the central government and regulatory supervision, kept a close eye on important businesses and significant issues that may affect the sound operation of the Bank, considered the potential risks induced by external environment, business structure, internal management and other factors and their interactions, and timely cleared up and evaluated the findings.

2. Improved the feedback mechanism to achieve the development of supervision results. The Board of Supervisors formed a multi-level and three-dimensional feedback system to promote rectification and implementation of supervision. The Board of Supervisors put forward the feedback of the opinions and suggestions by the Board of Supervisors and its members during the daily supervision work in a timely manner to prompt the Board of Directors and Senior Management to pay attention to them, gave regular feedback on the meeting of the Board of Supervisors to promote relevant departments to properly implement the opinions of the Board of Supervisors, gave feedback on the overall and strategic key supervisory matters from time to time, prompting the work that needed to be focused on and gave feedback timely about the interviews for supervision to promote relevant institutions and departments to further improve the quality and effectiveness of their work. The Board of Supervisors incorporated supervisory matters and comments into the personal performance evaluation of Directors and Senior Management and gave feedback to Directors and Senior Management to implement supervisory results.

3. Strengthened supervision follow-up to promote the implementation of key rectification issues. The Board of Supervisors focused on the implementation of the previous supervisory opinions when interviewing for supervision, which was required to be specially reported to the Board of Supervisors and closely monitored the implementation of prior year feedback in performance evaluation, which was an important part of the evaluation in that year. The Supervisory and Coordinating Committee focused on coordinating and promoting the rectifications of problems.

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

(I) Compliance with Applicable Laws

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

(II) Truthfulness of the Financial Statements.

The financial statements truly and fairly presented the financial position and financial performance of the Group. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers respectively issued unqualified auditor's report on the Group's financial statements for the year of 2018 and the Board of Supervisors has no objection to the report.

(III) Use of Proceeds Raised.

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

(IV) Acquisition and Disposal of Assets by the Bank.

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

(V) Related Party Transactions.

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

(VI) Implementation of Information Disclosure.

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

(VII) Related Proposals.

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

The Bank was committed to the development and improvement of its internal control system. The Board of Supervisors had no objection to the *Internal Controls Self-Appraisal Report for 2018* of the Bank.

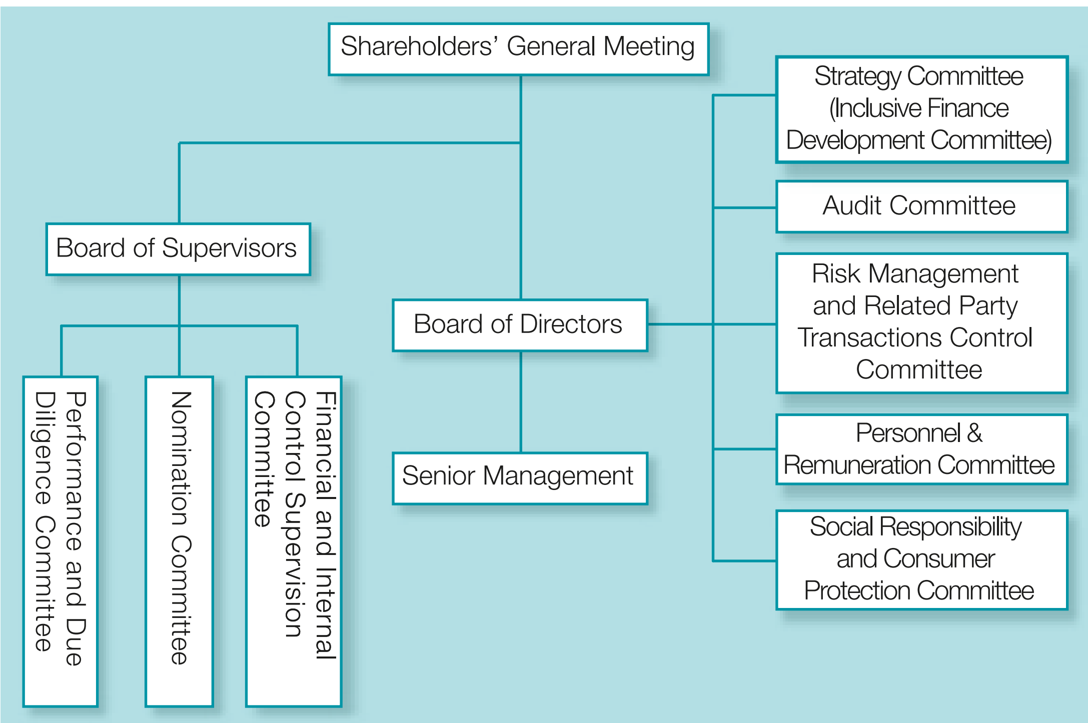
The Bank vigorously performed its corporate social responsibility. The Board of Supervisors had no objection to the *Corporate Social Responsibility Report for 2018* of the Bank.

CORPORATE GOVERNANCE REPORT

Sound corporate governance is the system guarantee and key basis of prudent operation and sustainable development. Under the goal of becoming the "best bank in corporate governance", the Bank always adheres to the key initiatives of enhancing the standardization and efficiency of its corporate governance in order to strengthen core competitiveness and promote strategy implementation. During the Report Period, the Bank successfully completed the decision-making process of corporate governance for adding the Party building into the Articles of Association and continuously improved the corporate governance mechanisms based on "the core leadership by the Party Committees, strategic decision-making by the Board of Directors, the legal supervision by the Board of Supervisors and the authorized operation of Senior Management" for large-scale commercial bank with Chinese characteristics. The bank promoted the work in key areas such as strategic management, overall risk management, restricted incentives, capital management and internal control, which focused on three major tasks of serving the real economy, preventing financial risks and deepening financial reforms, to achieve the Bank's development of high-quality and protect the legitimate rights and interests of shareholders and other stakeholders. The corporate governance of the Bank strictly abides by the *Company Law*, the *Securities Law* and the requirements stipulated by the CSRC.

I. CORPORATE GOVERNANCE STRUCTURE

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



II. POLICY AND MECHANISM OF CORPORATE GOVERNANCE

During the Reporting Period, the Board of Directors and Strategic Committee (Inclusive Finance Development Commission) of the Board of Directors actively fulfilled the responsibilities of corporate governance, inspected and evaluated the execution of corporate governance in due course and improved the establishment of the corporate governance policy and mechanism. During the Reporting Period, the revision of the *Articles of Association* approved by regulatory commissions clarified the legal status of the Party organizations in corporate governance structure. With the objective of more standardized corporate governance system, the Board of Directors approved a series of rules and regulations of the corporate governance, including the *Anti-money Laundering Management Measures*, the *Management Policies of Interest Rate Risk of Bank Accounts*, the *Concentration Risk and Large-amount Risk Exposure Management Policy*, revised the *Administrative Measures for Related Party Transactions*, the *Liquidity Risk Management Policy* and the *Consolidated Statements Management Policy* and strengthened the ultimate responsibilities of the Board of Directors in the areas of anti-money laundering and anti-terrorism financing, related party transactions management, total risk management and incentives constraint mechanisms, etc., which contributed to further development and expansion of the effectiveness and comprehensiveness of the corporate governance system.

During the Reporting Period, the Board of Supervisors of the Bank actively performed the functions of corporate governance supervision and effectively promoted the construction of the supervision system. According to the revised *Articles of Association*, the working regulations of the Due Diligence Supervising Committee, Supervising Committee for Finance and Internal Controls and Nominating Committee were further revised to clarify the compositions, responsibilities and powers, rules of review of the committees, so as to ensure that the committees perform their duties in accordance with the law. At the same time, in order to strengthen and standardize the supervisory work of the Board of Supervisors and improve the efficiency and quality of supervisory work in professional fields, the Bank formulated the *Implementation Measures of Strategic Supervision (2018 Edition), Implementation Measures of Internal Controls and Compliance Supervision (2018 Edition)* and *Implementation Measures of Risk Supervision (2018 Edition)* of the Board of Supervisors, which further clarified the supervision content and focus, the main supervision methods, supervision evaluation and report in various fields.

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

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

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

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

The Bank held the 2017 Annual General Meeting, the 2018 First A Shareholders Class Meeting and the 2018 First H Shareholders Class Meeting in Shanghai on 29 June 2018. The 2017 Annual General Meeting reviewed and approved 16 proposals including the *2017 Work Report of Board of Directors*, the *2017 Report of Supervisory Committee* and the *Public Issuance Plan of A-Share Convertible Corporate Bonds*. Besides, the 2018 First A Shareholders Class Meeting and the 2018 First H Shareholders Class Meeting reviewed and approved the proposal of the *Public Issuance Plan of A-Share Convertible Corporate Bonds* respectively. The Bank reported the *2017 Management Results of Related Transactions* and the *2017 Performance Results of Independent Non-executive Directors* to the whole of shareholders. The resolutions passed at general meetings were fully executed. The resolution announcements for all Shareholders' General Meetings were disclosed on the websites of the SSE, Hong Kong Stock Exchange and the Bank and published in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*.

Summary of Shareholders' General Meetings

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2017 Annual General Meeting	29 June 2018	16 proposals including *the 2017 Work Report of Board of Directors*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.
2018 First A Shareholders Class Meeting	29 June 2018	*The Proposal on the Public Issuance of the A Share Convertible Corporate Bonds*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.
2018 First H Shareholders Class Meeting	29 June 2018	*The Proposal on the Public Issuance of the H Share Convertible Corporate Bonds*	Passed	Disclosed on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

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

(I) Composition of the Board of Directors

The Bank understands and recognizes the importance of diversification of members of the Board of Directors, which the Bank regards as a key supporting factor for improving the corporate governance and achieving the sustainable development of the Bank. During the process of selecting and appointing members of the Board of Directors, adequate consideration should be given to diversity and a comprehensive assessment of the capabilities, skills, experience and background of the candidates is required to make an objective evaluation of their contributions to the Bank, to ensure the Board of Directors diversified points of views in strategic decision-making processes, resulting in the best matching between the members of the Board of Directors and the strategic development of the Bank. The term of office of the directors of the Bank is 3 years. Directors can be re-elected upon expiry of the term of office and Independent Non-executive Directors' accumulated tenure in the Bank can not exceed 6 years.

As at the end of the Reporting Period, the Board of Directors comprised 17 members, including 3 Executive Directors, namely Mr. Peng Chun, Mr. Ren Deqi and Mr. Hou Weidong, 8 Non-executive Directors, namely Mr. Peter Wong Tung Shun, Mr. Wang Taiyin, Mr. Song Guobin, Mr. He Zhaobin, Ms. Helen Wong Pik Kuen, Mr. Liu Hanxing, Mr. Luo Mingde and Mr. Liu Haoyang, 6 Independent Non-executive Directors, namely Mr. Yu Yongshun, Ms. Li Jian, Mr. Liu Li, Mr. Jason Yeung Chi Wai, Mr. Raymond Woo Chin Wan and Mr. Cai Haoyi. The number of the Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the regulations.

On 1 February 2018, the Bank announced that Mr. Niu Ximing resigned as the Chairman, Executive Director and Chairman of the Strategic Committee (Inclusive Finance Development Commission) due to work adjustment, which was effective since 1 February 2018. On the same day, the 12th meeting of the 8th Board of Directors examined and approved the *Proposal on Election of Mr. Peng Chun as the Chairman of Bank of Communications Co., Ltd.* and the *Proposal on Election of Mr. Peng Chun as the Chairman of the Strategic Committee (Inclusive Finance Development Commission) of Board of Directors* agreed to elect Mr. Peng Chun as the Chairman of the Board of Directors and the Chairman of the Strategic Committee (Inclusive Finance Development Commission). It was approved by the CBIRC on 13 February 2018.

On 31 May 2018, the Bank announced that Ms. Yu Yali stepped down as the Executive Director, the Executive Vice President, the Member of the Strategic Committee (Inclusive Finance Development Commission) of Board of Directors and the Member and the Authorized Representative of the Social Responsibility and Consumer Protection Committee of Board of Directors as the retirement started from 1 June 2018.

On 29 June 2018, the 2017 Annual General Meeting of the Bank approved the election of Mr. Ren Deqi as the Executive Director, the election of Mr. Shen Rujun as the Executive Director and the election of Mr. Cai Haoyi as the Independent Non-executive Director. The qualifications of Mr. Shen Rujun and Mr. Cai Haoyi were approved by the CBIRC on 3 August and the qualification of Mr. Ren Deqi was approved by the CBIRC on 6 August. After the approval of Mr. Cai Haoyi's qualification, Mr. Chen Zhiwu stepped down as the Independent Non-executive Director of the Bank.

On 23 October 2018, the Bank announced that Mr. Shen Rujun resigned as Executive Director, the Member of the Strategic Committee (Inclusive Finance Development Commission) of Board of Directors, the Member of the Social Responsibility and Consumer Protection Committee of Board of Directors and the Executive Vice President due to work adjustment, which was effective from 23 October 2018.

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

(II) Responsibilities of the Board of Directors

The Board of Directors is the strategic decision-making body of the Bank and responsible for the Shareholders' General Meeting. The Board of Directors exercises powers and performs duties within the terms of reference as stipulated under the laws, regulations and the *Articles of Association* and as authorized by the Shareholders' General Meetings to protect the legitimate interests of the Bank and its shareholders. The main responsibilities include convening and reporting to Shareholders' General Meetings, executing resolutions of Shareholders' General Meetings, determining the Bank's business plans and investment proposals, listening to reports from the President and monitoring the performance of Senior Management. During the Reporting Period, the Board of Directors properly implemented the spirit of the 19th National Congress of the Communist Party of China, the Central Economic Work Conference and the National Financial Work Conference. The Board of Directors elevated the Bank's high-quality development to a new level and maintained the stable returns for shareholders under the support and supervision of Shareholders, Regulators and the Board of Supervisors. Serving the real economy was the foundation, preventing and controlling risks were the guarantee and deepening reforms were the driving force.

The Board of Directors carried out five major tasks: firstly, properly implemented the three tasks of "serving the real economy, preventing and controlling financial risks and deepening financial reforms" to maintain the steady development of the Bank. Secondly, adhered to a blueprint but reacted to the changes and development of the situation to give the new meaning to the "BoCom Strategy". Thirdly, explored and improved the governance mechanism of large commercial banks with Chinese characteristics, also, deepened strategic cooperation with HSBC. Fourthly, put every effort in market communication and information disclosure to continuously standardize and strengthen the management of its market value. Fifthly, vigorously promoted targeted poverty alleviation, consumer rights protection and construction of the Bank's happiness homing, also, actively performed the corporate social responsibilities.

(III) Meetings of the Board of Directors

The Bank formulated *Rules of Procedures for the Board of Directors Meetings*, which specified stringent requirements regarding the convening manner, notice, procedures, agendas and minutes of Board's meetings. During the Reporting Period, 11 Board's meetings were held to discuss and approve 72 resolutions and reports, such as the Board of Directors' Annual Report, President's report, financial reports and profit appropriation plan. In addition, 28 meetings were held by the five special committees under the Board of Director and 82 resolutions and reports were discussed. All of the above meetings were held in accordance with the requirements of *the Articles of Association, Rules of Procedures for Board of Directors Meetings and the Code of Corporate Governance*.

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

	Number of attendance/Number of meetings should be attended						
			Special Committees under the Board of Directors				
	Shareholders' General Meetings	The Board of Directors	Strategy Committee (Inclusive Finance Development Commission)	Audit Committee	Risk Management and Related Party Transactions Control Committee	Personnel & Remuneration Committee	Social Responsibility and Consumer Protection Committee
Executive Directors							
Peng Chun	3/3	10/11	8/8	–	–	–	1/1
Ren Deqi	–	3/3	3/3	–	–	–	–
Hou Weidong	0/3	10/11	8/8				
Non-executive Directors							
Peter Wong Tung Shun	0/3	5/11	–	–	–	–	1/1
Wang Taiyin	3/3	11/11	–	5/5	–	8/8	–
Song Guobin	3/3	11/11	–	–	6/6	–	1/1
He Zhaobin	3/3	11/11	–	5/5	–	–	1/1
Helen Wong Pik Kuen	0/3	8/11	–	–	–	8/8	–
Liu Hanxing	0/3	9/11	8/8	–	6/6	–	–
Luo Mingde	0/3	10/11	8/8	5/5	–	–	–
Liu Haoyang	3/3	10/11	8/8	–	6/6	3/3	–
Independent Non-executive Directors							
Yu Yongshun	3/3	11/11	–	5/5	6/6	–	–
Li Jian	0/3	11/11	–	5/5	6/6	–	–
Liu Li	3/3	11/11	–	5/5	–	5/5	–
Jason Yeung Chi Wai	0/3	9/11	8/8	5/5	–	–	–
Raymond Woo Chin Wan	3/3	8/11	–	–	6/6	8/8	–
Cai Haoyi	–	3/3	–	–	2/2	–	–
Directors resigned							
Niu Ximing	–	–	1/1	–	–	–	–
Yu Yali	–	4/5	4/4	–	–	–	1/1
Shen Rujun	–	1/1	1/1	–	–	–	–
Chen Zhiwu	0/3	6/8	–	–	4/4	5/5	–

Note: Please refer to the chapter "Directors, Supervisors, Senior Management and Human Resources Management" (same below) for the specific changes of the Bank's Directors in this Annual Report.

(IV) Special Committees under the Board of Directors

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

1. Strategy Committee (Inclusive Finance Development Commission). Strategy Committee is primarily responsible for formulating the operations and management objectives and long-term development plans of the Bank, regularly analyzes and evaluates the results of BoCom's capital management, conducts research and makes recommendations on the Bank's major equity investment plans. The committee supervises and inspects the implementation of the annual business plan and investment plan, inspects and assesses the implementation of corporate governance system and makes recommendations for improving the corporate governance policies and system. Furthermore, it formulates and reviews the strategic plans for the development of inclusive financial business, operating plan, fundamental policies and procedures, risk strategy plans and evaluation measures, in order to evaluate the effectiveness of development of inclusive finance, etc.

As at the end of the Reporting Period, Strategy Committee (Inclusive Finance Development Commission) under the Board of Directors comprised 7 members including Mr. Peng Chun, Ms. Ren Deqi, Mr. Hou Weidong, Mr. Liu Hanxing, Mr. Luo Mingde, Mr. Liu Haoyang and Mr. Jason Yeung Chi Wai. Mr. Peng Chun is the Chairman of the Committee. During the Reporting Period, Strategy Committee (Inclusive Finance Development Commission) held 8 meetings, reviewed and approved 18 proposals and reports including the *Implementation of 2017 Annual Business Plan* and the *2018-2020 Plan of Asset Management* and presented the recommendations to the Board of Directors.

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

As at the end of the Reporting Period, Audit Committee under the Board of Directors comprised 7 members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. He Zhaobin, Mr. Luo Mingde, Mr. Yu Yongshun, Ms. Li Jian and Mr. Jason Yeung Chi Wai, with Mr. Liu Li, an Independent Non-executive Director, serving as the Chairman. During the Reporting Period, Audit Committee held 5 meetings, reviewed and approved 21 proposals and reports, including 2017 Annual Performance Announcement, 2018 Quarterly and Interim Performance Announcement, 2017 Financial Report and 2017 Profit Distribution Plan. In the process of review, the Committee strictly complied with the Listing Rules and Accounting Standards to express opinions on the authenticity, completeness and accuracy of the Bank's financial information and presented the recommendations to the Board of Directors.

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

As at the end of the Reporting Period, Risk Management and Related Party Transactions Control Committee of the Bank comprised 7 members, including Ms. Li Jian, Mr. Song Guobin, Mr. Liu Hanxing, Mr. Liu Haoyang, Mr. Yu Yongshun, Mr. Raymond Woo Chin Wan and Mr. Cai Haoyi, with Ms. Li Jian, an Independent Non-executive Director, serving as Chairman. During the Reporting Period, the Risk Management and Related Party Transactions Control Committee held 6 meetings, reviewed and approved 22 proposals and reports, including the 2017 Assessment Report of Comprehensive Risk Management and the 2018 Risk Preference and Risk Policies and presented the recommendations to the Board of Directors.

4. Personnel & Remuneration Committee. Personnel & Remuneration Committee is primarily responsible for making recommendations to the Board of Directors on its scale and structure according to the Bank's operation results, the scale of assets and the structure of shareholding, approving and amending the policies on diversification of members of the Board of Directors, making recommendations to the Board of Directors on developing the criteria and procedures for election and assessment of Directors and Senior Management formulating the selection procedures and assessment criteria for the Bank's Directors and senior management personnel and reviewing the basic systems and policies of the Bank's compensation management. Personnel & Remuneration Committee performed the functions of both a nomination Committee and a remuneration Committee to optimize the Bank's corporate governance structure and improve the effectiveness of the Bank's operations.

The nomination procedures for the Directors and Senior Managers of the Bank's Personnel & Remuneration Committee are as follows: Firstly, timely understanding and having a good command of the Bank's demands for Directors and Senior Management. Secondly, extensively searching for Directors within and outside the Bank according to the results of demands. Thirdly, after determining the initial candidates, collecting and sorting out the curriculum vitae of the initial candidates then forming written documents by the Board of Directors Office. Fourthly, seeking for the agreements of the initial candidates who otherwise cannot be nominated as the candidates of the Directors and Senior Managers. Fifthly, convening the meetings for the Personnel & Remuneration Committee to conduct examinations for the qualification of the initial candidates according to the requirements of the Directors and Senior Managers of the Bank. Sixth, proposing to the Board of Directors for the election of new Directors and the appointment of new Senior Managers, also, providing related materials. Seventh, implementing follow-up work based on decisions and feedback of the Board of Directors. In addition, the Bank's *Articles of Association* stipulates the general procedures for the nomination and election of Directors.

As at the end of Reporting Period, Personnel & Remuneration Committee comprised 4 members, including Mr. Cai Haoyi, Mr. Wang Taiyin, Ms. Helen Wong Pik Kuen and Mr. Raymond Woo Chin Wan. Mr. Cai Haoyi, an Independent Non-executive Director, served as chairman. During the Reporting Period, the Personnel & Remuneration Committee held 8 meetings and reviewed and approved 15 proposals including the nomination of Mr. Cai Haoyi as the Independent Non-executive Director and Mr. Gu Sheng as the Secretary of the Board of Directors and presented recommendations to the Board of Directors.

5. Social Responsibility and Consumer Protection Committee. The Committee is primarily responsible for formulating the Bank's social responsibility strategies and policies, reviewing the strategies, policies and goals on protecting the consumers' rights, monitoring, inspecting and evaluating the fulfilment of the Bank's social responsibility as well as strategies, policies, plans, measures for consumer rights protection and approving external donations according to the authorization of the Board of Directors, etc.

As at the end of Reporting Period, Social Responsibility and Consumer Protection Committee of the Bank comprised 4 members, including Mr. Ren Deqi, Mr. Peter Wong Tung Shun, Mr. Song Guobin and Mr. He Zhaobin, with Mr. Ren Deqi, the Executive Vice President, serving as chairman. During the Reporting Period, Social Responsibility and Consumer Protection Committee held 1 meeting and considered 6 proposals and reports, including 2017 working report on "Green Credit Policy" and 2017 report on protecting the consumers' rights and presented recommendations to the Board of Directors.

During the Reporting Period, the meeting procedure, voting methods and proposals consideration of all the above meetings of the Special Committees under the Board of Directors were in compliance with the requirements of relevant laws, regulations, the *Articles of Association* and working guidance of the committees.

(V) Independent Non-Executive Directors

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

During the Reporting Period, the time that each Independent Non-executive Directors devoted to the work of the Bank was in compliance with the requirements of the *Working Practice of Independent Directors* of the Bank. Currently, 3 of the special committees under the Board of Directors, namely Audit Committee, Risk Management and Related Party Transactions Control Committee and Personnel & Remuneration Committee, were all chaired by Independent Non-executive Directors. These Independent Non-executive Directors actively participated in discussions during the meetings of the Board of Directors and demonstrated the objectivity in decision-making process of the Board of Directors. The Board of Directors paid great attention to comments or suggestions proposed by Independent Non-executive Directors and required Senior Management to study them. In addition to attending meetings, each Independent Non-executive Director communicated with Senior

Management regularly through various channels including on-site research and discussion sessions. During the Reporting Period, the Independent Non-executive Directors gave independent opinions on profit distribution, significant matters, including connected transactions, nomination of Directors and appointment of Senior Management and presented the resolutions and reports of the Board of Directors and any other matters.

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

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

During the Reporting Period, main training and research projects participated by Directors included: 1. Mr. Wang Taiyin, Non-executive Director, participated in "the third issue of 2018 listed company chairman, general manager seminar" organized by China Association for Public Companies. 2. Mr. Wang Taiyin, Mr. Song Guobin and Mr. He Zhaobin, Non-executive Directors, Mr. Liu Li and Mr. Jason Yeung Chi Wai, Independent Non-executive Directors, participated in "the first issue of 2018 Shanghai Directors and Supervisor of Listed Companies Training Courses" held by the Shanghai Listed Companies Association. 3. Mr. Wang Taiyin, Mr. Song Guobin and Mr. He Zhaobin, Non-executive Directors, participated in trainings organized by The Hong Kong Institute of Chartered Secretaries. 4. Mr. Cai Haoyi, Independent Non-executive Director, participated in the "Sixtth Independent Director Qualifications Training" organized by Shanghai Stock Exchange. 5. Mr. Wang Taiyin, Mr. Song Guobin and Mr. He Zhaobin, Non-executive Directors, conducted research on fiscal business, performance management, recessive debts of local government, market-oriented debt-to-equity swap, operation and management of branches and social responsibilities, etc. 6. Mr. Liu Hanxing, Non-executive Director, conducted research on risk management, development of transformation and the impact of new regulations on capital management of branches. 7. Mr. Yu Yongshun, Mr. Liu Li and Ms. Li Jian, Independent Non-executive Directors, conducted research on deepening reforms, risk management and internal controls of branches. 8. Mr. Liu Li, Mr. Jason Yeung Chi Wai and Mr. Raymond Woo Chin Wan, Independent Non-executive Directors, conducted research on the implementation of developing strategies, compliance management and internal controls of branches and subsidiaries.

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

The Directors are responsible for monitoring the preparation of annual financial statements to give a true and fair view of the Group's financial condition, operating results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2018, the Group selected and consistently applied appropriate accounting policies and made reasonable and prudent accounting judgements and estimates. The Directors acknowledged their responsibility for the preparation of financial statements and the auditor's statement of reporting responsibility for their report is set out in the Auditor's Report on page 181 of the Annual Report.

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

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

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

The Board of Supervisors is the supervisory body of the Bank and is responsible for the Shareholders' meeting. In accordance with the requirements of laws and regulations, the responsibilities of the Board of Supervisors include strategic and operational supervision, capital and financial supervision, internal controls and compliance supervision, risk supervision, supervision of information disclosure and performance, of which strategic and operational supervision serve as a direction while supervisions on capital and finance, internal controls and compliance and risk serve as the foundation. The supervision of information disclosure plays an important role in corporate governance, while performance supervision comprehensively reflects the results of the above-mentioned supervisions. The above 6 aspects of supervision can be achieved by means of routine supervision, dynamic supervision, special supervision, supervision and coordination committee, etc..

During the Reporting Period, there are 13 members on the Board of Supervisors, including the Chairman, 5 Shareholder Supervisors, 3 External Supervisors and 4 Employee Supervisors. 5 Shareholder Supervisors are Senior Management of large-scale state-owned companies. There are 3 External Supervisors, including 2 responsible personnel of relevant financial institutions before retirement and 1 professor of finance in institutions of higher education.4 Employee Supervisors are the responsible personnel of audit department, inspection department, employee work department and the Board of Supervisors Office. The Board of Supervisors has three Special Committees. The Due Diligence Supervising Committee has 5 members including the Chairman of the Board of Supervisors as the Chairman, 3 External Supervisors and 1 Employee Supervisor. They are responsible for the supervision of the performance of the Board of Directors, the Board of Supervisors, Senior Management and its members and made integrated review and reported to the Board of Supervisors. The Nominating Committee has 7 members including the External Supervisor as the Chairman, 3 Shareholder Supervisors, 1 External Supervisor and 2 Employee Supervisors. They are responsible for drafting the procedures and standards for the selection of Supervisors, conducting preliminary examination of the qualifications of supervisor candidates and making recommendations to the Board of Supervisors. They are also responsible for supervising the selection procedures of Directors and other important personnel and supervising the scientific and rationality of the Bank's performance appraisal system, remuneration, management system and policies and remuneration of Senior Management. Supervising Committee for Finance and Internal Controls has 7 members, including the External Supervisor as the Chairman, 2 Shareholder Supervisors, 2 External Supervisor and 2 Employee Supervisors. They are responsible for drawing up plans for the supervision of the Bank's financial activities and information disclosure, implementing related inspections, supervising capital and financial management, internal controls, risk management and compliance management of the Bank.

During the Reporting Period, in accordance with the requirements of relevant laws and regulations of the State, the regulatory requirements and the Articles of Association, the Board of Supervisors complied with regulations and performed objective and impartial, scientific and efficient supervision duties. All the Supervisors faithfully and diligently fulfilled their duties, fully exercised the independent role of the Board of Supervisors in corporate governance. During the Reporting Period, the personal attendance of supervisors of the Bank at the meetings of the Board of Supervisors is set out as follows:

Supervisors	Position	Attendance at Meetings in Person	Attendance in Person Percentage (%)
Song Shuguang	Chairman of the Board of Supervisors	6/6	100
Gu Huizhong	Shareholder Supervisor	6/6	100
Zhao Yuguo	Shareholder Supervisor	6/6	100
Liu Mingxing	Shareholder Supervisor	6/6	100
Zhang Lili	Shareholder Supervisor	4/6	66.7
Wang Xueqing	Shareholder Supervisor	5/6	83.3
Tang Xiuyu	External Supervisor	6/6	100
Xia Zhihua	External Supervisor	6/6	100
Li Yao	External Supervisor	6/6	100
Chen Qing	Employee Supervisor	6/6	100
Du Yarong	Employee Supervisor	5/6	83.3
Xu Ming	Employee Supervisor	5/6	83.3
Guan Xingshe	Employee Supervisor	1/1	100
Supervisors resigned			
Fan Jun	Employee Supervisor	4/4	100
Average attendance in person percentage			94.05

Note: Mr. Song Shuguang resigned as chairman of the Board of Supervisors of the Bank from 7 January 2019. Mr. Fan Jun resigned as Supervisor of the Bank from 1 August 2018. Mr. Guan Xingshe served as Supervisor of the Bank since 8 October 2018.

VI. SENIOR MANAGEMENT

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

During the Reporting Period, Senior Management conducted business operations within the scope authorized by the *Articles of Association* and the Board of Directors, carefully implemented resolutions of the Shareholders' General Meeting and Board of Directors and successfully achieved the annual business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the work of Senior Management for the year 2018.

VII. RISK MANAGEMENT

The Group built a risk governance framework with sound organization structure and clear responsibility and defined roles and responsibilities among the Board of Directors, the Board of Supervisors, Senior Management, operating departments, Risk Management Department and Internal Audit Department, which made mechanism of risk governance work in a cooperative and balanced way at different levels.

The Board of Directors, the highest decision-making authority of the Bank, has the ultimate responsibility, takes the full responsibility of total risk management and monitors and evaluates the bank-wide risk management matters through Risk Management and Related Party Transactions Control Committee. The Board of Supervisors monitors the total risk management work, is mainly responsible for the inspection and monitoring of the accountability of the Board of Directors and Senior Management. Senior Management are responsible for the implementation of total risk management, setting up a core of Risk Management Committee for daily risk decision making process, mainly including the setup of feasible risk management framework, risk appetite, risk management plan formulated by the Board of Directors, the implementation of risk management requirements in accordance with the requirements of "Going Horizontal to the Edges, Going Vertical to the Bottom and Covering all Aspects".

The procedures of risk identification and evaluation are as follows: Firstly, with the consideration of changes of external economic and financial situation and regulatory requirements, the Bank evaluates the risks faced in daily operations and management and determines the risks for evaluation. Secondly, considering the risk environment, the Bank evaluates the possibility and degree of risks and determines the nature of the risks. Thirdly, the Bank evaluates the risk management ability and effectiveness in aspects of management framework, process and management mechanism to ensure the risk management mechanism is able to effectively identify, monitor and manage the relevant risks. Regarding the primary risks, besides establishing the overall framework and detailed procedures of risk management, the Bank provides sufficient allowance on specific basis for the unexpected loss. Please refer to the "Risk Management" under "Management Discussion and Analysis" section in this Annual Report for the Group's risk management.

During the Reporting Period, facing a complex economic and financial situations at home and abroad, the Group proactively dealt with the changing market, adhered to prudent risk preference and continued putting risk management at top priority. The Board approved the *Anti-money Laundering Management Measures*, the *Management Policies of Interest Rate Risk of Bank Accounts*, the *Concentration Risk and Large-amount Risk Exposure Management Policy* and revised the *Administrative Measures for Related Party Transactions*, the *Liquidity Risk Management Policy* and the *Consolidated Statements Management Policy* to continue improving the risk management framework. The Risk Management and Related Party Transactions Control Committee of the Board of Directors listened the Senior Management four reports of comprehensive risk management including the 2017 Annual Report, the 2018 Interim Report, 2018 Q1 Report and Q3 Report and made recommendations to the Board of Directors. By strengthening the periodic evaluation of total risk management, the Board of Directors had a good control of the Banks' credit risk, market risk, liquidity risk, operation risk, country risk, interest rate risk of banking book, reputation risk, technology and information risk, consolidated-statement management risk and other risks timely and comprehensively and provided different recommendations on achieving the results such as moving forward the threshold of risk control in the system mechanism, improving the level of thoughtful and precise risk management with big data, strengthening the risk control of subsidiaries and adopting differentiated risk management strategies.

The Group was able to identify, measure, evaluate, monitor, control and report risk by effective risk management system. The Group effectively managed the risk of the operation objectives to ensure efficient and effective operations and reasonably ensured the true and reliability of financial reports and compliance of legal and regulatory requirements and the stable asset quality. The Board of Directors confirmed the risk management system of the Bank and its subsidiaries was stable and effective.

VIII. INTERNAL CONTROLS

(I) Statement of the Board of Directors on Internal Controls Responsibility

Pursuant to the provisions of the *Guidelines on Internal Controls for Commercial Banks* issued by the CBIRC, *the Basic Standard for Enterprise Internal Controls* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal controls, it is the Board of Directors' responsibility to establish, improve and effectively implement internal controls, assess the effectiveness of internal controls and truthfully disclose the internal controls assessment report. The Board of Supervisors supervises the establishment and implementation of internal controls by the Board of Directors. Senior Management is responsible for organizing and leading the day-to-day operation of internal controls within the enterprise. The Board of Directors set up Audit Committee and Risk Management and Related Transactions Control Committee to perform the corresponding internal controls functions. Senior Management set up Internal Controls Management Committee to take charge of work including coordination of planning, formulation of basic polices, organization of implementation, review and assessment of the internal controls system.

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

(II) Statement of Effectiveness of Internal Controls

With a focus on its internal controls objectives, the Bank established a stringent internal controls system for financial reporting pursuant to the *Guidelines on Internal Controls for Commercial Banks* issued by the CBIRC and the *Basic Standard for Enterprise Internal Controls* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal controls. During the Reporting Period, the Board of Directors reviewed the risk management and internal controls systems of the Bank and its subsidiaries on many important aspects including financial monitoring, operation monitoring and compliance monitoring, etc and found them stable and effective. Besides, the Board of Directors ensured the adequacy of resources, staff qualifications and experience as well as the adequacy of training courses and related budgets to achieve the Group's accounting and financial reporting function.

(III) Organization Structure and Main Duties of Audit Supervision

The Bank's audit work was led by the Board of Directors and supervised by the Chairman of the Board of Directors, ensuring the independence of audit. The Bank set up a 3-level audit supervision system of Head Office Audit Supervision Bureau, regional Sub-bureaus of Audit Supervision (Audit Departments of overseas branches and subsidiaries) and Audit Departments of provincial and directly-managed branches, carried out vertical and unified management. The internal audit work of the Bank was risk-oriented, took risks and internal control hidden dangers as the main line of audit supervision and key points of inspection and conducted audit and assessments around internal control.

(IV) Self-Assessment Report on Internal Controls and Audit's Report on Internal Controls

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

The Board of Directors conducted assessment on the effectiveness of internal controls of the Bank as at 31 December 2018 (as the date of the assessment report on internal controls) in accordance with the *Guidelines on Internal Controls for Commercial Banks*, the *Basic Standard for Enterprise Internal Controls* and relevant guidelines, as well as other regulatory requirements on internal controls. Based on the Bank's standard criteria for evaluating deficiencies of internal controls over financial reporting, there were no material weakness or significant deficiencies of internal controls over financial reporting as at the base date of the assessment report on internal controls. The Bank maintained effective internal controls over financial reporting in all material respects. In accordance with the Bank's internal controls on the identification of non-financial reporting deficiencies, no significant deficiencies were identified in the internal controls of non-financial reporting. When significant deficiencies were identified according to the Bank's internal controls on the identification of non-financial reporting deficiencies by the Internal Controls Supervision Committee of Master Branch, The committee timely held meetings to discuss solutions, monitored the relevant operating and management departments to implement the rectification and reported the solutions and results of rectification to the Senior Management timely. The Bank proactively put efforts in improving and monitoring items with rooms for improvement, which did not pose any substantial impacts on the soundness and effectiveness of internal controls and reliability of financial reporting.

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

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

In 2018, the Bank maintained the overall stability and effectiveness of its internal controls system. In 2019, the Bank will continue to prudently operate in compliance with laws and regulations and constantly continue to enhance the standards of the requirements of internal controls.

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

The Bank was devoted to enhancing the quality of its annual report by improving its disclosure. During the Reporting Period, the Bank strictly complied with the *Administrative Measures for Suspension and Exemption of Information Disclosure*, the *Administrative Measures of Information Disclosure*, the *Administrative Measures for Report* with *Major Information* and the *Administrative Measures for Subsidiaries' Report with Major Information*, clarified internal control points of information disclosure in aspects of information reporting, preparing and review, improved position responsibilities and implemented accountabilities for errors. Besides, the Bank sorted out the main regulatory regulations including the *Management Measures for Information Disclosure of Listed Companies, the Listing Rules of Shanghai Stock Exchange* and the listing rules of Hong Kong Stock Exchange and further clarified the boundaries of the legal information and content disclosure and effectively prevent the material mistakes. During the Reporting Period, there was no material mistake in information disclosure.

X. MANAGEMENT OF INSIDE INFORMATION

The Bank put great emphasis on the management of inside information and insiders, thereby the Bank adopted various ways to prevent insider trading. The Bank strictly adhered to BoCom's policies, such as *Insider Registration Policy* and *Administrative Measures for the Confidentiality of Insider Information*, to establish a system for registration and administration of people with access to the insider information and ensure the confidentiality of the insider information. In addition, the Bank strictly controlled the range of persons with access to inside information with a timely registration system, especially in the periods of performance announcements and other significant events. During the Reporting Period, there was no leakages of inside information. For the details of the Bank's *Insider Registration Policy*, please refer to the Bank's website at www.bankcomm.com, the SSE website at www.sse.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

XI. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank required that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares* issued by the CSRC and the *Model Code for Directors of Listed Companies* to Conduct Securities Exchanges contained in Appendix X of the Securities Listing Rules of the Hong Kong Stock Exchange. The Bank adopted a set of standards not less strict than those mentioned above for the securities transactions of the Directors, Supervisors and Senior Management. According to the checking results, all the Directors, Supervisors and Senior Management of the Bank confirmed that the securities transactions conducted by them are in compliance with the above rules during the Reporting Period.

XII. CHAIRMAN AND PRESIDENT

According to the *Articles of Association* of the Bank, the Chairman and President shall be separated. The Chairman of the Board of Directors shall be elected by the Board of Directors with a majority of Directors. The President shall be appointed by the Board of Directors. On 1 February 2018, the Board of Directors of the Bank elected Mr. Peng Chun as the Chairman of the Bank. On the same day, Mr. Peng Chun resigned as the President of the Bank. Mr. Peng Chun would, on behalf, perform the duties of the President until the appointment of the new President by the Board of Directors was approved by the CBIRC. On 12 June 2018, the Board of Directors of the Bank appointed Mr. Ren Deqi as the President of the Bank. On 6 August 2018, the CBIRC approved Mr. Ren Deqi as the President of the Bank. Mr Peng Chun would no longer perform the duties of the President. During the Reporting Period, Mr. Peng Chun served as the Chairman of the Bank and the legal representative of the Bank, responsible for organizing the Board of Directors to study and determine the Bank's business development strategy and other issues. Mr. Ren Deqi serves as the President of the Bank and is responsible for the routine management of the Bank. As above mentioned, the Board of Directors of the Bank confirmed that it complied with the principles and provisions of the *Model Code of Corporate Governance* contained in Appendix XIV of the Securities Listing Rules of the Hong Kong Stock Exchange at all times during the year ended 31 December 2018 and also complied with majority of the best suggested practices.

XIII. REVISION OF ARTICLES OF ASSOCIATION

Please refer to the section of "Significant Events" in this report for the revision of the Articles of Association of the Bank during the Reporting Period.

XIV. AUDITOR'S REMUNERATION

The Audit Commission of the Board of Directors of the Bank expressed its satisfaction on the work, independence and objectivity of PricewaterhouseCoopers and its network member firms. The Bank's Annual General Meeting approved resolution in relation to the appointment of auditors for the Year of 2018. PricewaterhouseCoopers Zhong Tian LLP was appointed by the Bank to perform the audit for financial statements under CAS, internal controls of the Bank and other related professional services. PricewaterhouseCoopers was appointed by the Bank to perform the audit for financial statements under IFRSs and other related professional services. Both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers provided audit services for the Bank for 5 consecutive years.

In 2018, PricewaterhouseCoopers and its network member firms were engaged to provide services to the Group (including the Group's subsidiaries and overseas branches) with a total audit fee of approximately RMB59.10 million, which included financial statement audit fees of RMB56.87 million and internal controls audit fees of RMB2.23 million.

During the Reporting Period, the non-audit services provided by PricewaterhouseCoopers and its network member firms to the Group mainly included assurance services for the report on corporate social responsibilities and translation services. The Bank paid fees of approximately RMB10.287 million in total for such non-audit services. The Audit Committee satisfied that such services did not impair the independence of PricewaterhouseCoopers and its network member firms.

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

The performance assessment of the Bank's Senior Management is conducted in accordance with relevant national requirements and the Bank's assessment methods for annual business performance of Senior Management.

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

XVI. INVESTOR RELATIONS

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

(I) The Bank Adhered to the Legal Compliance and Actively Carried out Information Disclosure.

To comply with the principle of "True, Accurate, Complete, Timely and Fair" to carry out statutory information disclosure. A total of 4 regular reports, 52 extraordinary announcements of A shares and 48 extraordinary announcements of H shares were issued during the year. The Bank successfully completed information disclosure of the examination and approval of corporate governance, supervision and approval of issuance and process of issuance for convertible bonds. The Bank took the best disclosure level of listed companies as its benchmark. The quality of disclosure was widely recognized by regulatory agencies and investors. It was rated as a Class A company for information disclosure by the SSE for five consecutive years.

The Bank insisted on active disclosure of information and continuously disclosed the results of fulfilling social responsibilities and targeted poverty alleviation in its regular reports. It also gave a special introduction on the innovation and application of financial science and technology generally noticed by investors, the trinity channel construction of "artificial outlets, electronic banks and customer managers", the international layout, comprehensive operation, the concept of great service, measures and effects.

(II) Through a Wide Range of Communication Channels, the Bank Deepened Communication and Exchanges with Investors and Enhanced the Recognition of the Investment Value of the Bank from Capital Market.

— Through regular performance announcements, analysts' meetings and performance roadshows around the world, extensive and in-depth communication with investors and analysts worldwide were conducted to propagate and promote operating performance highlights and respond to hot issues to continuously increase the transparency.

— Through combining the policies of "Bringing In" with "Going Global", the Bank maintained high-density and high-frequency communication with investors and maintained a close interaction with the market. During the Reporting Period, the Bank's investor relations team participated in 15 forums held by domestic and foreign investment banks and brokers, received more than 50 batches of visitors for research and held special reverse roadshows for credit card business as well as wealth management business to improve the investors' awareness, in the capital market, of deepening reforms as well as the transformation and development of the Bank. A series of publicity and promotion achieved positive results. The characteristic highlights and investment value of the Bank were recognized by the market.

— Making full use of online platforms such as investor mailboxes, investor hotlines, IR official website, the SSE e-platform and WeChat public account, the Bank actively participated in the reception day held by the SSE Roadshow Center for listed company investors, especially for the majority of small and medium investors, to create convenient communication conditions with the Bank.

(III) The Bank Paid High Attention to Safeguard the Rights and Interests of Investors and Strived to Create Value for Investors.

— The Bank insisted on a stable cash dividend mechanism. The proportion of ordinary share cash dividends in 2017 kept over 30% and the cash dividend ratio was ranked the first among major listed banks with a total dividend of RMB21.209 billion. Dividends from overseas preference shares was USD122.5 million. Dividends from domestic preference shares was RMB1.755billion, so that investors can timely share the development results.

— The Bank regulated and convened Shareholders' General Meetings, used online voting, small and medium investors voting on major events with independent vote counting and other means to ensure the equality and fairness of legal rights of large and small shareholders.

CORPORATE SOCIAL RESPONSIBILITIES

Based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society", the Bank seriously put the State's macro-economic policies into practice, continuously upheld the "BoCom Strategy" to support the real economy, proactively fulfilled its corporate social responsibilities and strived for the coordination of economic, environmental and social benefits under the new normal economic development.

I. ENHANCEMENT ON RESPONSIBILITY MANAGEMENT

The Bank was the first listed domestic company to establish the "Corporate Social Responsibility Committee" (now named as "Social Responsibility and Consumer Protection Committee") under the Board of Directors. The Bank gradually established a sound social responsibility management system, incorporated social responsibility into the entire development strategy and operations of the Bank, proactively fulfilled its social responsibilities and contributed positively to the sustainable development of the State's economy and society. For the responsibility and work for the Social Responsibility and Consumer Protection Committee, please refer to the chapter of "Corporate Governance Report". During the Reporting Period, the Bank organized each department of master branch to hold core communication meetings on social responsibility report, taking the *Environmental, Social and Governance Reporting Guidelines* and the *GRI Sustainability Reporting Standards* as main training contents, implanted the concept of Social Responsibility in each department and promoted to integrate social responsibility into core businesses of the company.

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

During the Reporting Period, social contribution value per share of the Bank reached up to RMB4.72, which increased by 11.32% on a year-on-year basis.

II. EXECUTION ON TARGETED POVERTY ALLEVIATION

(I) The Five-year Plan of Targeted Poverty Alleviation

The Bank formulated the guidance of *2016-2020 Poverty Alleviation Plan of BoCom*, promoting the Bank to carry out poverty alleviation work orderly. The Bank issued *2018 Poverty Alleviation Plan of BoCom* in early 2018 to further strengthen the supporting responsibility and contribute to speed up the pace of alleviating poverty and achieving prosperity. In 2018, the Bank held 2 poverty alleviation leading-group conferences to learn the central government's spirit of poverty alleviation, analyzed the situation against poverty, conducted research on working plans, summed up working experience and promoted working implementation.

(II) Overview of 2018 Targeted Poverty Alleviation

The Bank thoroughly implemented the strategic plans of the 19th National Party Congress regarding the poverty alleviation and the important spirit of the General Secretary Xi Jinping's speeches on the series of poverty alleviation and implemented the *Decision of the State Council on Poverty Alleviation* and the *Poverty Alleviation Plan for the 13th Five-Year Plan*, to effectively increase political position and firmly move forward the work of poverty alleviation.

1. Developed the work of targeted poverty alleviation

During the Reporting Period, the Bank continued to firmly promote the poverty alleviation work of the State Council Leading Group Office of Poverty Alleviation and Development in the designated regions (Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province) through several measures such as strengthening organizational leadership, selecting and sending personnel and supervising and inspecting. The Bank promoted communication and cooperation with government departments at all levels in the 3 targeted poverty alleviation regions and carried out supporting work with intentions, dedication and hard work through lots of activities including thoroughly conducting research, implementing project, introducing technology, giving counsel planning and visiting condolences, which were well recognized by the local people. Based on the reality of poor counties, the Bank aimed to improve the production and living conditions in the poor regions and increase the income of poor households, actively exercised the professional advantage of finance and continuously strengthened poverty alleviation work to ensure the recognition, leadership, guidance, policies and funds were in place, resulting in great achievement in the targeted poverty alleviation work. In 2018, the Bank contributed a total of RMB21.169 million to the three targeted poverty alleviation regions.

Peng Chun, Chairman of the Board of Directors, investigated the work of targeted poverty alleviation in Litang County, Sichuan Province.

2. Innovated the model of poverty alleviation

During the Reporting Period, the Bank fully exercised the professional advantage of the financial industry, precisely positioned, allocated by demand, set up innovatively and firmly promoted the works of poverty alleviation funds. The Bank focused on urban infrastructure construction, energy conservation and environmental protection, underground pipe network, transportation, water conservancy, tourism, covering many provinces such as Guizhou, Henan, Shaanxi and Xinjiang, which made a contribution to improving the people's livelihood, serving the real economy and striving for poverty alleviation. In addition, the Bank considered rural e-commerce as an important platform of targeted poverty alleviation, developed rural e-commerce and improved the income of poor households via e-commerce.

(III) Achievements of Targeted Poverty Alleviation

Summary of Targeted Poverty Alleviation Work in 2018

(in ten thousands of RMB unless otherwise stated)

Indicators	Quantity and Status
I. Overview	
Including: 1. Capital	2,815.79
II. Sub-investment	
1. Social poverty alleviation	
Including: 1.1 Amount of loans to targeted poverty alleviation	1,585
1.2 Number of the poor people supported by the Bank to be recorded	252
2. Other projects	
Including: 2.1 Number of projects	119
2.2 Amount of investment	372.77
2.3 Description of other projects	Poverty alleviation projects carried out by other ways such as employees' donations
III. Awards	
The Bank was honored "the Award of the Most Socially Responsible Financial Institution of the Year" issued by the China Banking Association.	

In addition to poverty alleviation donation for regional targeted poverty alleviation, the Bank actively took the professional advantage as a financial enterprise to conduct financial poverty alleviation. As at the end of the Reporting Period, the Bank's balance of loans (including the amounts of those already out of poverty alleviation) on targeted financial poverty alleviation was RMB27.743 billion.

(IV) Subsequent Plan of Targeted Poverty Alleviation

In 2019, in accordance with *2016-2020 Poverty Alleviation Plan of BoCom*, the Bank will put every effort to facilitate all targeted poverty alleviation projects and help Tianzhu County in Gansu Province, Hunyuan County in Shanxi Province and Litang County in Sichuan Province, which were assigned by the State Council to the Bank, to timely complete the goal of alleviating poverty.

III. RESPONDS TO NATIONAL STRATEGIES

Guided by the "BoCom Strategy", taken both effectiveness and scale into consideration, the Bank actively serviced for "Going Global" Chinese enterprises, met the requirements of the governments and enterprises along the "Belt and Road" for infrastructure, foreign trade and cross-border finance and continuously enhanced the capabilities of operation and services across borders, industries and markets. The Bank positively seized significant strategic opportunities in the Beijing-Tianjin-Hebei, Yangtze River Delta, Xiong'an New Area, Guangdong-Hong Kong-Macau Greater Bay Area, etc. The Bank promoted connectively between regional coordination and group integration, improved connectivity mechanism, resource allocation and effectiveness of major projects to support regional economic development. Besides, the Bank followed the *Guidelines of "13th Five-Year Plan" for National Strategic Emerging Industries* and focus on developing railway and rail transportation equipments, aerospace equipments and other key strategic manufacturing industries in China and preferentially supported advanced manufacturing fields such as advanced high-end Computer Numerical Control, industrial robots, nuclear power equipments, high-end transmission and distribution, biomedicine, communication system equipments, high-performance medical equipments, etc., which contributed to building a "manufacturing powerhouse".

IV. SUPPORT TO THE REAL ECONOMY

The Bank resolutely implemented the decision-making arrangements of the Party Central Committee and the State Council, closely focused on serving for the essence of the economic entities, fully took responsibilities of state-owned bank to meet the demands for the development of the real economy and support economic structure transformation and upgrading. Besides, the Bank issued the *Guidelines of BoCom on Further Strengthening Financial Services for Private Enterprises* to optimize business processes, made exclusive financial service plans and established professional service teams, which would accurately meet the financial requirements of private enterprises. The Bank actively responded to the supply-side reforms, strictly implemented the 5 major tasks of "decapacity, de-stocking, de-leverage, cost reduction and weakness strengthening", formulated and issued the *BoCom Credit and Risk Policy Outline 2018* and *Guidelines of Industry (Region) of Bank of Communications 2018* and combined macroeconomic and financial policies with the Bank's business practices to lead operating departments to scientifically seize the investment in assets businesses. On the basis of the total capacity management of industries with severe overcapacity, the Bank preferred to develop credit cooperation with high-quality enterprises that had advantages in resources, scale, cost and technology and that had abilities of cross-cycle management and reached the standards of environmental protection, safety and technology. Meanwhile, the Bank actively served for seven emerging strategic industries such as biomedical industry, high-end equipment manufacturing industry, optoelectronic information industry and software industry, etc., to support industries and companies enjoying national policy priorities.

V. ASSISTANCE IN INCLUSIVE FINANCE

The Bank continuously optimized the mechanism of inclusive financial system, set up the Inclusive Finance Department at Head Office and provincial branches and established the Inclusive Finance Department at Tier-2 branches. Furthermore, the Bank formulated and issued *Notice on Implementing Supervision Requirements to Further Strengthen Inclusive Financial Services* and *Notice on Further Strengthening Financial Services of Small and Micro Enterprises* to take specific promoting measures from aspects of business expansion, product innovation, channel construction and resource allocation to reduce small and micro enterprises' financing costs, innovate products and service patterns. The Bank actively reduced costs and profits, simplified processes as well as opened up the "last mile" of financial resources to support small and micro enterprises. Taking financial innovation as a breakthrough, the Bank took the lead in putting forward the general idea of "setting up franchised institutions and specializing in serving for small and micro enterprises of science and technology" in large banks, actively promoted innovation in policy-making, institution building and product services and put every effort to support the development of small and micro enterprises of science and technology innovation. In addition, regarding good financial services for the work concerning agriculture, the rural areas and farmers as the important way to narrow the gap between the rich and the poor, the Bank supported the development of rural financial markets and characteristic agricultural industries and increased the coverage of financial resources in rural areas.

(In 100 millions of RMB)

	Year end of 2018	Year end of 2017	Year end of 2016
Loan Balance of Central and western China	**13,279.09**	12,018.36	11,053.40
Loan Balance of Medium, small and micro enterprises	**14,167.74**	13,389.94	12,768.70
Loan Balance of Agriculture-related enterprises	**5,811.47**	6,536.18	6,247.68

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

VI. CONTRIBUTION TO IMPROVE PEOPLE'S LIVELIHOOD

The Bank actively responded to the national policies for ensuring and enhancing the people's living standards and built an internet financial service platform for industrial applications. The Bank focused on areas generally concerned by public such as education, medicare, housing, social security through cross-industry cooperation to put "Internet + Industry +Finance" into practice and developed it, which made it more convenient to people's life. Besides, the Bank continuously improved the product "Bank-Connected-Hospital" to strengthen the intervention of community hospitals and established a kind of intensive expansion pattern, for community hospitals, which was controlled by regional government management institutions, supported by medical associations and featured as QR code scanning. Furthermore, the Bank actively supported the residents' demand for ordinary self-occupied housing loans, made the suitable loan policy for the development of local indemnificatory housing, supported mortgage business of individual government-subsidized housing to ensure the living and teaching conditions for the rehousing residents and schools, improved the surroundings of the projects and promoted harmonious development for the region. In addition, the Bank created an exclusive brand named "Financial Campus" and opened it to the public to provide online-and-offline charges, account management, fund supervision and other services for all types of public schools, private schools and formal training institutions.

(in 100 millions of RMB)

	Year end of 2018	Year end of 2017	Year end of 2016
Loans balance of security housing projects	**737.63**	499.11	426.10
Loans balance of sciences, education, culture and public health sectors	**894.36**	827.80	805.97
Loans balance of individuals	**16,356.27**	14,098.82	11,861.87

VII. IMPLEMENTATIONS OF GREEN FINANCE

The Bank actively implemented the green credit development strategy and monitored the green credit business indicators of the whole Bank in accordance with relevant regulatory policies, regulations and operational procedures. During the Reporting Period, the Bank adhered to the concept of green development, formulated and issued the *Notice on Implementing Supervision Requirements to Continue Green Credit Work From BoCom Office [2018] 109* and adopt the "Three-color and Seven-category" environmental label classification to categorize and manage the loaned customers at the environmental and social risk levels, which further improved the green credit policy system, comprehensively deepened the green credit work, increased investments in green credit and guided financial resources toward the green environmental protection industry to increase the efficiency of resources allocation and promote the harmonized development of economy and the environment.

(in 100 millions of RMB unless otherwise stated)

	Year end of 2018	Year end of 2017	Year end of 2016
Proportion of "green" customers (%)	**99.61**	99.76	99.66
Proportion of loan balance made to "green" customers (%)	**99.79**	99.94	99.84
Loans balance of energy-saving and emission reduction sectors	**2,830.54**	2,771.08	2,411.99

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

VIII. DEVELOPMENT OF GREEN SERVICES

The Bank integrated the concept of green and low-carbon into financial services, actively innovated green products, improved service quality and reduced waste of resources and negative environmental impacts. During the Reporting Period, the channel diversion rate of BoCom's e-banking services increased significantly to 96.59%, which led a reduction of carbon dioxide emission by nearly 19,238.88 tons to the environment.

During the Reporting Period, the ratio of "Self-service Bank" to traditional outlets reached 1.80:1. The ratio of off-bank self-service machines and non-characteristic artificial outlets reached 1.02:1. The diversion effect of the Bank's intelligent machines and new service pattern on the traditional savings business was further enhanced. As at the end of the Reporting Period, the diversion rate of "Smart Communication" service reached 48.3%, which was 13.3% higher than that at the end of the previous year.

	2018	2017	2016
Channel diversion rate of e-banking services (%)	**96.59**	94.54	91.42

IX. PRACTICES GREEN OPERATIONS

During the Reporting Period, the Bank actively improved the rules and regulations of green procurement and strengthened management in the supply chain. The Bank updated and launched the *Centralized Procurement Management Measures of Bank of Communications (The 2018 Edition)*. It was clear that, in the process of centralized procurement, the Bank preferred energy-saving and environment-friendly products and selected suppliers with environmental management system certification and their products with environmental labeling. The Bank scored the suppliers' energy-saving and environmental protection in the bidding documents to encourage suppliers to develop environment-friendly businesses. The Bank adopted electronic purchasing documents to reduce the waste of resource and energy. The Bank actively responded to the requirements of *Notice on Promoting the Decomposition of Energy Consumption and Intensive "Double Control" Target* issued by the Shanghai Municipal Government, built a property management information system in the process of operating and promoted it comprehensively. The Bank put lots of efforts in garbage classification system and reduced pollution emission. The Bank entrusted professional institutions to carry out environmental examination every year to ensure the environmental indicators of the buildings (parks) of Master Branch to be met the standard. The Bank adhered to electronic and paperless office, strengthened the management and recycling of physical assets and reduced energy consumption in business to reduce cost and increase efficiency. During the Reporting Period, total annual energy consumption of buildings (parks) is equivalent to 30,300.08 tons which met the annual target of "Double Control".

X. OPTIMIZATION OF CUSTOMER SERVICE

The Bank adhered to costumer-centered and continued to improve its service management system, constantly improved its services through reforms and innovations, connected customers with financial resources and improved the availability and convenience of financial resources. The Bank was committed to providing the best service in the financial industry. On the basis of intelligent machinery service, the Bank introduced advanced technologies and services like biological recognition, integrated marketing strategy and online-offline collaboration to maximum the advantages of comprehensive services and enhance the level of intelligence service. The success rate of robot service was over 99% and the robots were able to deal with 40 thousand customers' problems every day. The Bank optimized the regulation, system, process, equipment and staff arrangements to reduce long waiting time of customers in the outlets. The average waiting time of the Bank was 7.45 minutes which was 46.9% lower than that over the end of the previous year. Therefore, the experience and feelings of customers to the Bank was greatly enhanced. The Bank set up convenient service area in the outlets and provided customers with different services including braille and sign language services, disabled access, keyboard for the blind and presbyopic glasses. In the "Selection of Top 1000 Demonstration Outlets with Civilized and Standardized Services in Chinese Banking Industry in 2018" held by China Bank Association, 135 outlets of the Bank were selected as the "Top 1000 Demonstration Outlets", which ranked first in the industry in terms of the number.

XI. CARES ABOUT EMPLOYEES

The Bank paid attention to the protection of basic rights and interests of employees, enhanced the employees' happiness by creating a respectful, diverse and harmonious working environment and atmosphere. As at the end of the Reporting Period, the Bank had 89,542 domestic and overseas employees, of which 53.28% were female, 2.73% were overseas employees, 4.64% were ethnic minority employees and 0.14% were disabled employees. The employee turnover rate was 4.67% with a decrease of 0.8% on a year-on-year basis.

Mr. Peng Chun, Chairman of the Board of Directors, expressed his kindness to the employees of the sales department of Gansu Branch.

	2018	2017	2016
Total number of domestic and overseas employees	**89,542**	91,240	92,556
Number of female employees served as medium-to-top management	**2,809**	2,678	2,512
Number of ethnic minority employees	**4,042**	3,976	3,832
Employee happiness index	**73.52**	71.81	68.93

Followed the guideline of Happy BoCom, the Bank cared for the physical and mental health of employees, expressed kindness to employees with difficulty, promoted the construction of "family culture" and enhanced the sense of belonging of employees. During the Reporting Period, the Bank issued *the Opinions on Further Strengthening the Construction of a Happy and Harmonious Homeland* to systematically promote the construction of a happy BoCom home. The Bank developed the concept of "co-creation, co-prosperity, co-sharing and co-development" for staff development and devoted to create a common home for employees' career and growth. The Bank improved the system of "Headquarter, branches, sub-branches" three-level workers' congress, formulated the *Regulations on BoCom Letters and calls* and improved the transparency and proposal management to ensure that employees had rights to know, express, participate and monitor. During the Reporting Period, the Bank continued to improve the employee health protection plan for "pre-treatment, care and post-illness protection", strengthened the double-line assurance for "Endowment Insurance + Enterprise Annuity" and held various cultural and sports activities to build employee welfare systems in a new era. Above all, the Bank was dedicated to solving practical problems for employees and providing timely support to employees' needs and caring them. In 2018, *BoCom Mutual Aid Management Measures* further optimized the management and process of the Mutual Aid Association and provided RMB7.99 million to 2,500 employees of grass-root level with serious illness.

XII. DEVOTION TO PUBLIC WELFARE

The Bank was dedicated to public charity work. In 2018, the Bank continued to promote the standardization of public charity management, issued a public charity brand named “Blue Balloon” and unified management and promotion of the Bank’s voluntary activities in poverty alleviation, disability assistance, special education and disaster relief under its brand to further develop the normalization, projectization and institutionalized management of public charity work. In 2016, the Bank funded the “BoCom and HSBC Shanghai Yile Action Plan” with HSBC to appeal to government, enterprises, social associations, community organizations and residents to participate in the exploration of a new pattern of Shanghai’s aging community service. As at the end of the Reporting Period, the “BoCom and HSBC Shanghai Yile Action Plan” established community-based service funds for 10 old-aged streets in Shanghai, covering 165 neighborhood committees and benefiting 0.079 million people with governments’ matching subsidies of RMB1.2389 million and governments’ matching service fees of RMB1.49 million. “Gateway to Tomorrow – Academic Grant for Disabled Teenagers”, which the Bank started cooperating with its partners since 2007, was successfully completed. In the past eleven years of project execution, the Bank collectively allocated RMB0.104 billion in donations. Totally more than 36 thousand disabled students and 126 special education schools were subsidized, 1600 excellent special education teachers and 223 outstanding disabled college students were recognized and 5,280 special education teachers benefited from the training supported by the project. The Macao Branch of the Bank and the Association of the Chinese New Youth co-organized the “BoCom’ s Mainland Education Funding Scheme” to encourage outstanding youths from Macao to attend the mainland higher education institutions for bachelor’s degrees, learn professional knowledge and have a better understanding of the culture, history, traditions and future of China, which contributed to cultivating talents for our country and society. In 2018, this project supported 20 youths in 2018 with scholarships of MOP0.221 million.

Bank of Communications provided donations and financial aid in poverty alleviation for the South Yulin School, Shenyuan County, Shanxi Province and the students laced Mr. Peng Chun, Chairman of the Board of Directors, a red scarf.

(in ten thousands of RMB unless otherwise stated)

Items		Donation Amount
The amount of Public Welfare projects in 2018		225
The amount of donations in 2018	Total	3,506.62
	Poverty Alleviation	2,815.79
	Disaster Relief	174.3
	Helping the Disabled	207.46
	Others	309.07

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

During the Reporting Period, the Bank was not involved in any material litigation and arbitration, or issues frequently questioned by the media. As at the end of the Reporting Period, the Bank was involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB3.156 billion. The Bank is of the view that these litigations will not have any material effect on the financial position of the Bank.

II. COMMITMENTS

On 29 June 2018, the Bank's 2017 Annual General Meeting of Shareholders approved the Proposal in Relation to the *Remedial Measures and Dilution of the Public Issuance of A Share Convertible Corporate Bonds by Bank of Communications Co., Ltd* and promised to strengthen the management of raised funds, give full play to the benefits raised funds could bring, improve the capital constraint mechanism, enhance the efficiency of capital allocation, optimize the asset structure, promote the transformation of business development model, focus on shareholder return and implement a consistent and stable profit distribution policy to remedy that the financial indicators such as the earnings per share may decrease because of the public offering of convertible bond. At the same time, according to the relevant regulations of the CSRC, the Directors and Senior Management of the Bank also made a commitment regarding the remedies. During the commitment period, the Bank and its Directors and Senior Management strictly fulfilled their commitments.

III. PUNISHMENT

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

IV. INTEGRITY

During the Reporting Period, the Group did not exist the situations either of refusing the execution of court orders nor unsettling significant due debts.

V. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Group and its related parties were the monetary transactions conducted during the ordinary course of business. No significant related party transaction occurred during the Reporting Period. As at the end of the Reporting Period, details of continuing related party transactions of the Group are disclosed in Note 43 to the Consolidated Financial Statements set out in this Annual Report.

VI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(I) Material Trust, Sub-Contract and Lease

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

(II) Material Guarantees

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

(III) Other Material Contracts

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

VII. REVISION ON THE ARTICLES OF ASSOCIATION

On 12 April 2018, the Bank received the *Approval from the China Banking and Insurance Regulatory Commission Concerning the Amendments to the Article of Association of the Bank of Communications Co., Ltd* ([2018] No.14 Replied by the CBIRC), the amended Articles of Association was approved and came into effect on 8 April 2018. The amendments mainly added terms of Party building, improved the procedures for shareholders to pledge their own shares and added the corporate governance procedures for shareholders who initially hold 1% to 5% or accumulatively hold exceeding 5%.

VIII. OTHER SIGNIFICANT ISSUES

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

(II) In February 2018, the Board of Directors of the Bank approved the Bank's wholly-owned subsidiary, BoCom Leasing, to use RMB7.0 billion of its own funds to increase the capital of BoCom Aviation and Shipping. In May 2018, Shanghai Banking Regulatory Bureau. approved the increase of registered capital of BoCom Aviation and Shipping from RMB1.5 billion to RMB8.5 billion. In June 2018, BoCom Aviation and Shipping completed the industrial and commercial registration for the change of registered capital. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 1 February, 23 May and 7 June 2018.

(III) In February 2018, BoCom Financial Asset Investment Co., Ltd., a wholly-owned subsidiary of the Bank, officially started its business. It has registered capital of RMB10.0 billion and mainly engaged in debt-to-equity conversion and related supporting services. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 19 January, 26 September, 28 December 2017 and 5 February 2018.

(IV) In April 2018, the Board of Directors of the Bank approved the public issuance of A share convertible corporate bonds with a total amount of no more than RMB60.0 billion (including RMB60.0 billion). The proposal was approved by the Bank's 2017 Annual General Meeting, the 2018 First A Shareholders Class Meeting and the 2018 First H Shareholders Class Meeting. The CBIRC and the CSRC approved the proposal in October 2018 and December 2018, respectively. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 27 April, 3 May, 13 June, 29 June, 16 October, 29 November, 18 December and 27 December 2018.

(V) In May 2018, the Board of Directors of the Bank approved to set up BoCom Asset Management Co., Ltd. The Bank intended to invest the capital of not exceeding RMB8.0 billion and the capital contribution ratio was 100%. In January 2019, the Bank was approved to set up the subsidiary. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018 and 7 January 2019.

(VI) In May 2018, the Board of Directors of the Bank approved to invest RMB3.0 billion in the China National Investment & Guaranty Co., Ltd, which would be paid in 4 annual installments from 2018. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 31 May 2018.

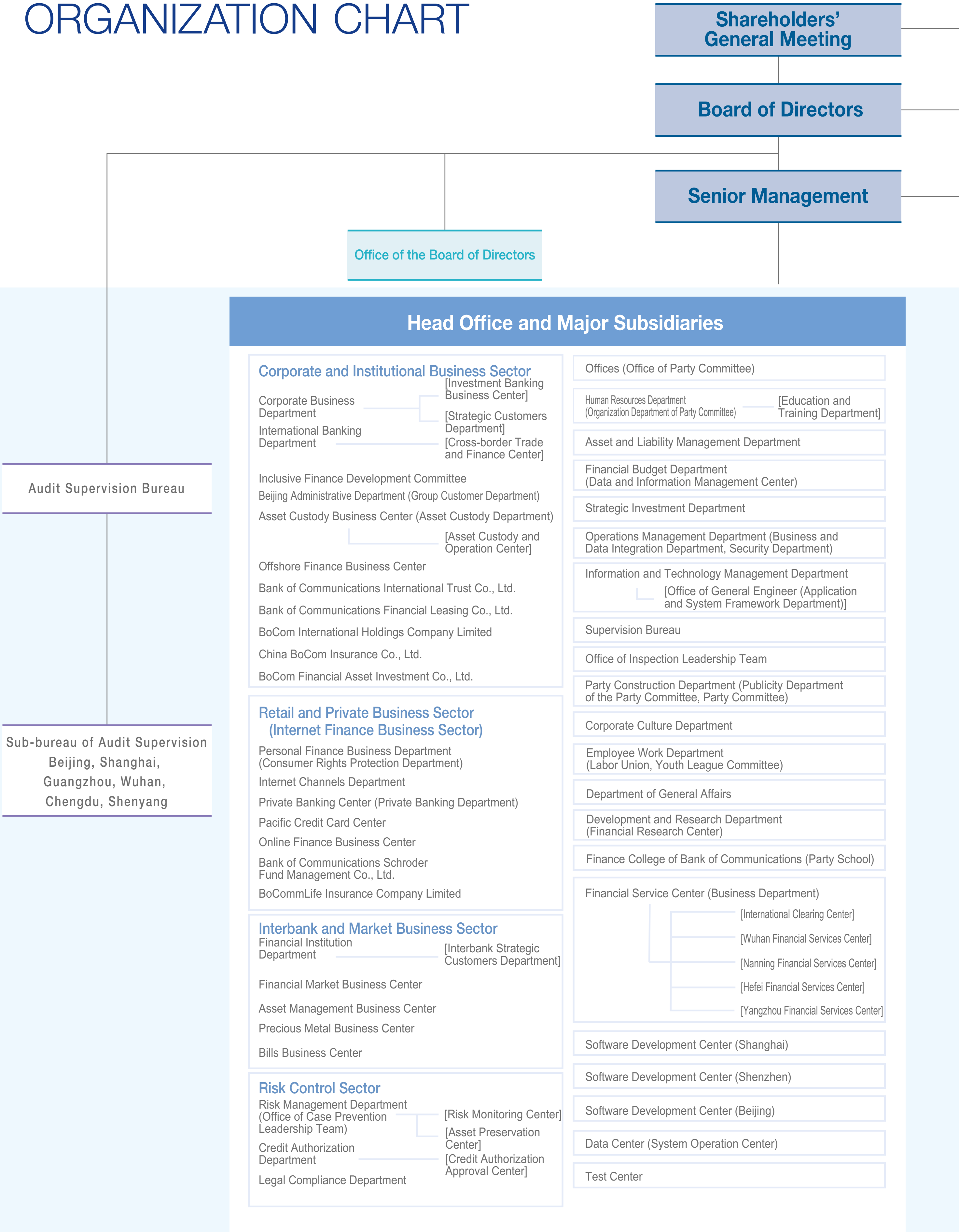
(VII) In June 2018, the CBIRC approved the Bank to increase the capital of not exceeding HKD10.0 billion to the Bank of Communications (Hong Kong) Limited. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 27 October 2017 and 29 June 2018.

(VIII) In March 2019, the Board of Directors of the Bank approved the issuance of write-down non-fixed-term capital bonds with a total amount of no more than RMB40.0 billion or equivalent foreign currencies. The matter still requirements to be submitted to the Shareholders' General Meeting for approval. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 29 March 2019.

(IX) In March 2019, the Board of Directors of the Bank approved the issuance of ordinary financial bonds with a total amount not exceeding RMB90.0 billion. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 29 March 2019.

(X) In March 2019, the Board of Directors of the Bank approved to increase the capital of not exceeding RMB5.5 billion to BoCom Leasing, a wholly-owned subsidiary of the Bank and approved BoCom Leasing to increase the capital of RMB5.5 billion to its wholly-owned subsidiary, BoCom Aviation and Shipping. The matters is still waiting for the approval of related regulatory authorities. For related details, please refer to the announcements of the Bank published on the website of the SSE (www.sse.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 29 March 2019.

ORGANIZATION CHART



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

Board of Supervisors

Office of the Board of Supervisors

Domestic Branches

- 37 Provincial and Directly-managed branches
  - 201 Branches Managed by Provincial Branches
  - 3241 Banking outlets

Overseas Branches and Subsidiaries

- Hong Kong Branch (Bank of Communications (Hong Kong) Limited)
- New York Branch
  - San Francisco Branch
- Tokyo Branch
- Singapore Branch
- Seoul Branch
- Frankfurt Branch
- Macau Branch
- Ho Chi Minh City Branch
- Sydney Branch
  - Brisbane Branch
  - Melbourne Branch
- Taipei Branch
- London Branch (Bank of Communications (UK) Limited)
- Toronto Representative Office
- Bank of Communications (Luxembourg) Limited (Luxembourg Branch)
- Bank of Communications (Luxembourg) S.A. Paris Branch
- Bank of Communications (Luxembourg) S.A. Rome Branch
- Bank of Communications (Brazil) Co., Ltd.

Rural Banks

- Dayi BoCom Xingmin Rural Bank
- Zhejiang Anji BoCom Rural Bank
- Xinjiang Shihezi BoCom Rural Bank
- QingDao Laoshan BoCom Rural Bank

LIST OF DOMESTIC AND OVERSEAS BRANCHES AND MAJOR SUBSIDIARIES

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

No.	Name	Address
1	Beijing Branch	No. 22 Financial Street, Xicheng District, Beijing
2	Tianjin Branch	No. 7 Youyi Road, Hexi District, Tianjin City
3	Hebei Provincial Branch	No. 26 Ziqiang Road, Qiaoxi District, Shijiazhuang City, Hebei Province
4	Shanxi Provincial Branch	No. 5 Qingnian Road, Yingze District, Taiyuan City, Shanxi Province
5	Inner Mongolia Autonomous Region Branch	No. 18 Xinhua East Street, Saihan District, Hohhot, Inner Mongolia Autonomous Region
6	Liaoning Provincial Branch	No. 258-1 Shifu Road, Shenhe District, Shenyang City, Liaoning Province
7	Dalian Branch	No. 6 Zhongshan Square, Zhongshan District, Dalian City, Liaoning Province
8	Jilin Provincial Branch	No. 3515 Renmin Street, Chaoyang District, Changchun City, Jilin Province
9	Heilongjiang Provincial Branch	No. 428 Youyi Road, Daoli District, Harbin City, Heilongjiang Province
10	Shanghai Branch	No. 200 Jiangxi Middle Road, Huangpu District, Shanghai
11	Jiangsu Provincial Branch	No. 218 Lushan Road, Jianye District, Nanjing City, Jiangsu Province
12	Suzhou Branch	No. 28 Suhui Road, Suzhou Industrial Park, Suzhou City, Jiangsu Province
13	Wuxi Branch	No. 8 Second Jinrong Street, Binhu District, Wuxi City, Jiangsu Province
14	Zhejiang Provincial Branch	No. 1-39 Juyuan Road, Jianggan District, Hangzhou City, Zhejiang Province
15	Ningbo Branch	No. 455 Haiyan North Road, Yinzhou District, Ningbo City, Zhejiang Province
16	Anhui Provincial Branch	No. 38 Huayuan Street, Luyang District, Hefei City, Anhui Province
17	Fujian Provincial Branch	No. 116 Hudong Road, Gulou District, Fuzhou City, Fujian Province
18	Xiamen Branch	No. 9 Hubin Middle Road, Siming District, Xiamen City, Fujian Province
19	Jiangxi Provincial Branch	No. 199 Huizhan Road, Honggutan New District, Nanchang City, Jiangxi Province
20	Shandong Provincial Branch	No. 98 Gongqingtuan Road, Shizhong District, Jinan City, Shandong Province
21	Qingdao Branch	No. 6 Zhongshan Road, Shinan District, Qingdao City, Shandong Province

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

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

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

List of Overseas Banking Institutions

No.	Name	Address
1	Hong Kong Branch/Bank of Communications (Hong Kong) Limited	20 Pedder Street, Central, Hong Kong
2	New York Branch	ONE EXCHANGE PLAZA 55 BROADWAY, 31ST & 32ND FLOOR, NEW YORK NY 10006-3008, U.S.A.
	San Francisco Branch	575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105 U.S.A.
3	Tokyo Branch	SANYO Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
4	Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower
5	Seoul Branch	6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea
6	Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
7	Macau Branch	16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau
8	Ho Chi Minh City Branch	17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN
9	Sydney Branch	Level 27, 363 George Street Sydney NSW 2000 Australia
	Brisbane Branch	Level 35, 71 Eagle Street, Brisbane, Australia
	Melbourne Branch	Level 34, 525 Collins Street, Melbourne, Australia
10	Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, Taipei (101 Tower), Taiwan
11	London Branch/Bank of Communications (UK) Limited	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
12	Luxemburg Branch/Bank of Communications (Luxemburg) Limited	7 Ruede la Chapelle, Luxembourg, L–1325
13	Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3
14	Bank of Communications (Luxemburg) S.A. Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
15	Bank of Communications (Luxemburg) S.A. Rome Branch	3rd floor, Piazza Barberini 52, Rome, 00187
16	Bank of Communications (Brazil) Co., Ltd.	Praca Pio X, 98. 7 andar 20091 040 Rio de Janeiro RJ, Brazil

List of Major Subsidiaries

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


交通银行

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 187 to 344, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

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

1. Expected credit impairment allowance of loans and advance to customers, financial investments – debt instruments measured at amortised cost and financial guarantees and loan commitments

2. Consolidation assessment of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter

Expected credit impairment allowance of loans and advance to customers, financial investments – debt instruments measured at amortised cost and financial guarantees and loan commitments

Refer to Notes 2.4, 2.31(a), 3.1.1(a), 3.1.1(b), 3.1.1(c), 3.1.1(e), 3.1.2, 3.1.3.1, 19 and 20. to the Group's consolidated financial statements.

As at 31 December 2018, the Group's gross loans and advances to customers amounted to RMB4,868,423 million, and a loss allowance of RMB126,051 million was recognized in the Group's consolidated statement of financial position; the amount of debt instruments measured at amortised cost was RMB2,003,874 million and a loss allowance of RMB3,369 million was recognized; the exposure of loan commitments and financial guarantees was RMB1,456,218 million, for which a provision of RMB5,081 million was recognized.

The balances of loss allowances for loans and advances to customers, and debt instruments measured at amortised cost and provision for financial guarantees and loan commitments represent the management's best estimates at the balance sheet date of expected credit losses under International Financial Reporting Standard 9: Financial Instruments expected credit losses models ("ECL Models").

The Group assesses whether the credit risk of loans and advances to customers and debt instruments measured at amortised cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances classified into stages 1 and 2, and those in stage 3 without using discounted cash flow model ("DCF") to calculate ECL, all personal loans and advances, and financial guarantees and loan commitments, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans in stage 3 using DCF, the management assesses loss allowance by estimating the cash flows from the loans.

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, debt instruments measured at amortised cost and financial guarantees and loan commitments, primarily including:

(1) Management over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on going monitoring and optimization of the models;

(2) Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, or of defaults or credit-impaired, forward-looking and management overlay adjustments;

(3) Internal controls over the accuracy and completeness of key inputs used by the models;

(4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances in stage 3;

(5) Internal controls over the information systems for model-based measurement.

The substantive procedures we preformed, primarily including:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of loans and advance to customers, financial investments – debt instruments measured at amortised cost and financial guarantees and loan commitments (Continued)	
The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (4) Management overlay adjustments due to significant uncertain factors not covered in the models; (5) The estimated future cash flows for corporate loans and advances in stage 3. The Group established controls for the measurement of expected credit losses. For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, financial guarantees and exposures of loan commitments and debt instruments measured at amortised costs, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations. We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. For corporate loans and advances in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and financial guarantees and advances to customers, loan commitments and debt instruments measured at amortised cost, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation assessment of structured entities	
Refer to Notes 2.2, 2.31(d), 40 and 41 to the Group's consolidated financial statements. The Group has managed or invested in a number of structured entities. As at 31 December 2018, total assets of the consolidated structured entities and the carrying amount of unconsolidated structured entities invested by the Group included in the consolidated statement of financial position amounted to RMB138,366 million and RMB388,415 million, respectively. In addition, as at 31 December 2018, unconsolidated structured entities sponsored and managed by the Group amounted to RMB2,256,578 million. Management performed assessment on each of the three elements of control (power to direct relevant activities of structured entities, exposure to variable returns and the Group's ability to use its power to affect its variable returns from the structured entities) in determining whether structured entities managed or invested in by the Group should be consolidated or not. In performing the assessment, significant judgment was involved to determine the role of the Group in the arrangement as either a principal or an agent. If the Group acts as a principal, the structured entities should be consolidated. We focused on this area because the amount of the Group's structured entities was significant and the consolidation assessment of these structured entities involved significant judgments.	We understood, evaluated and validated the design and operating effectiveness of relevant controls over management's assessment of consolidation of structured entities. In addition, we selected a sample of the structured entities that the Group invested in or managed, and performed the following procedures on management's assessment of consolidation of structured entities: (1) Analysed the transaction structures, inspected related contract terms, and evaluated whether the Group had the power to direct the relevant activities of these structured entities; (2) Inspected contract terms related to the Group's variable returns from these selected structured entities, including management fee, expected investment returns and returns from liquidity support, and agreed this information to the corresponding inputs used in management's assessment; (3) Recalculated the magnitude and variability of the variable returns to the Group from these structured entities based on contract terms; (4) We assessed the Group's role in these structured entities as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which the Group was entitled for its management services provided to the structured entities, its exposure to variability of returns from other interests that it holds in them, and the rights held by other parties, and compared our assessment results with management's assessment outcomes. Based on the work undertaken above, we found the overall consolidation assessment of structured entities performed by management acceptable.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Kwok Wai, Jimmy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Notes	Year ended 31 December 2018	2017
Interest income		348,864	314,200
Interest expense		(217,956)	(189,327)
Net interest income	4	130,908	124,873
Fee and commission income	5	44,673	44,060
Fee and commission expense	6	(3,436)	(3,509)
Net fee and commission income		41,237	40,551
Net gains arising from trading activities	7	17,099	2,096
Net gains arising from financial investments		290	3,084
Net gains/(losses) on derecognition of financial assets measured at amortised cost		*(132)*	*N.A.*
Share of profits of associates and joint venture		227	132
Insurance business income		7,481	12,968
Other operating income	8	15,813	12,816
Assets impairment losses	9	N.A.	(31,469)
Credit impairment losses	9	(43,454)	N.A.
Other assets impairment losses	9	(60)	N.A.
Insurance business expense		(6,722)	(12,211)
Other operating expenses	10	(76,752)	(69,575)
Profit before tax		86,067	83,265
Income tax	13	(11,902)	(12,574)
Net profit for the year		74,165	70,691
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers – carried at FVOCI			
Net gains recorded in equity		*102*	*N.A.*
Net gains reclassified from equity to profit or loss		*–*	*N.A.*
Debt instruments at fair value through other comprehensive income			
Net gains recorded in equity		*2,086*	*N.A.*
Net gains reclassified from equity to profit or loss		*(171)*	*N.A.*
Available-for-sale financial assets			
Changes in fair value recorded in equity		*N.A.*	*(2,317)*
Changes in fair value reclassified from equity to profit or loss		*N.A.*	*(2,111)*
Net gains/(losses) arising from cash flow hedge			
Changes in fair value recorded in equity		*110*	*18*
Changes in fair value reclassified from equity to profit or loss		*(93)*	*103*
Others		18	(9)
Translation difference on foreign operations		1,998	(1,592)
		4,050	(5,908)

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

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

	Notes	Year ended 31 December 2018	2017
Items that will not be reclassified subsequently to profit or loss:			
Net gains on equity investments designated at fair value through other comprehensive income		61	N.A.
Actuarial gains/(losses) on pension benefits		(25)	31
Change in fair value attributable to change in the credit risk of financial liability designated at FVPL		(14)	N.A.
Other comprehensive income for the year	38	4,072	(5,877)
Comprehensive income for the year		78,237	64,814
Net profit attributable to:			
Shareholders of the Bank		73,630	70,223
Non-controlling interests		535	468
		74,165	70,691
Total comprehensive income attributable to:			
Shareholders of the Bank		77,461	64,585
Non-controlling interests		776	229
		78,237	64,814
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	0.96	0.91

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 31 December 2018	As at 31 December 2017
ASSETS			
Cash and balances with central banks	15	840,171	938,571
Due from banks and other financial institutions	16	848,067	782,468
Derivative financial assets	18	30,730	34,007
Loans and advances to customers	19	4,742,372	4,473,255
Financial investments – financial assets at fair value through profit or loss	17	376,386	227,030
Financial investments – debt instruments at amortised cost	20	2,000,505	N.A.
Financial investments – debt instruments at fair value through other comprehensive income	20	437,630	N.A.
Financial investments – equity investments at fair value through other comprehensive income	20	7,388	N.A.
Financial investments – available-for-sale	20	N.A.	402,138
Financial investments – loans and receivables	20	N.A.	387,733
Financial investments – held-to-maturity	20	N.A.	1,511,375
Investments in associates and joint venture	22	3,653	3,357
Property and equipment	23	153,286	132,492
Deferred income tax assets	24	21,975	16,456
Other assets	25	69,008	129,372
Total assets		9,531,171	9,038,254
LIABILITIES			
Due to banks and other financial institutions	26	2,162,293	2,106,192
Financial liabilities at fair value through profit or loss	27	23,109	26,964
Derivative financial liabilities	18	28,105	33,344
Due to customers	28	5,793,324	5,545,366
Certificates of deposits issued	29	366,753	150,482
Current tax liabilities		2,279	7,943
Deferred income tax liabilities	24	598	520
Debt securities issued	30	317,688	287,662
Other liabilities	31	131,714	203,510
Total liabilities		8,825,863	8,361,983
EQUITY			
Share capital	32	74,263	74,263
Preference shares	33	59,876	59,876
Capital surplus	32	113,663	113,663
Other reserves		321,442	298,827
Retained earnings		129,161	124,514
Equity attributable to shareholders of the bank		698,405	671,143
Non-controlling interests		6,903	5,128
Total equity		705,308	676,271
Total equity and liabilities		9,531,171	9,038,254

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 29 March 2019 and signed on its behalf by:

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

				Other reserves												
	Share capital Note 32	Preference shares Note 33	Capital surplus Note 32	Statutory reserve Note 34	Discretionary reserve Note 34	Statutory general reserve Note 34	Revaluation reserve for Financial assets at FVOCI/ Available-for-sale financial assets Note 34	Revaluation reserve for the changes in credit risk of the financial liabilities measured designated at FVPL Note 34	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 34,35	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 31 December 2017	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	N.A.	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact on adoption of IFRS 9 (see Note 2.1.2)	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
Balance at 1 January 2018 (restated)	74,263	59,876	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	73,630	73,630	535	74,165
Other comprehensive income	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	-	3,831	241	4,072
Total comprehensive income	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	73,630	77,461	776	78,237
Capital contribution by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(72)	(21,281)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	7,055	29	9,811	-	-	-	-	-	-	(16,895)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	4	-	-	-	-	-	(4)	-	-	-
Balance at 31 December 2018	74,263	59,876	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	N.A.	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the year	–	–	–	–	–	–	–	N.A.	–	–	–	–	70,223	70,223	468	70,691
Other comprehensive income	–	–	–	–	–	–	(4,197)	N.A.	121	(1,584)	31	(9)	–	(5,638)	(239)	(5,877)
Total comprehensive income	–	–	–	–	–	–	(4,197)	N.A.	121	(1,584)	31	(9)	70,223	64,585	229	64,814
Capital contribution by non-controlling shareholders	–	–	277	–	–	–	–	N.A.	–	–	–	–	–	277	1,667	1,944
Dividends paid to ordinary shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(20,162)	(20,162)	(33)	(20,195)
Dividends paid to preference shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(2,693)	(2,693)	–	(2,693)
Transfer to reserves	–	–	–	6,811	3	16,738	–	N.A.	–	–	–	–	(23,552)	–	–	–
Others	–	–	(6)	–	–	–	–	N.A.	–	–	–	–	–	(6)	–	(6)
Balance at 31 December 2017	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	N.A.	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	Year ended 31 December 2018	2017
Cash flows from operating activities:			
Net profit before tax:		86,067	83,265
Adjustments for:			
Provision for/(reversal of) ECL allowance of loans and advances to customers		43,623	30,161
Provision for/(reversal of) ECL allowance of due from banks and other financial institutions		(43)	–
Provision for/(reversal of) ECL allowance of financial investments		(97)	221
Provision for/(reversal of) ECL allowance of other receivables		1,075	991
Provision for/(reversal of) ECL allowance of others		(1,104)	11
Provision for/(reversal of) impairment allowance of property and equipment		33	80
Provision for/(reversal of) impairment allowance of foreclosed assets		27	6
Provision for/(reversal of) impairment allowance on repossessed assets		–	(1)
Provision for/(reversal of) insurance contracts reserve		1,393	8,916
Depreciation and amortisation		10,250	9,315
Provision for/(reversal of) outstanding litigation and unsettled obligation		549	110
Net profit on the disposal of fixed and foreclosed assets		(15)	(123)
Interest income from financial investments		(85,449)	(79,895)
Unwind of discount on allowances during the year		(1,618)	(1,812)
Fair value losses/(gains)		(6,527)	5,756
Share of profit of associates and joint venture		(227)	(132)
Net gains arising from financial investments		(290)	(3,084)
Interest expense on debt securities issued		11,992	10,068
Operating cash flows before movements in operating assets and liabilities		59,639	63,853
Net decrease/(increase) in mandatory reserve deposits		106,039	(29,838)
Net increase in due from banks and other financial institutions		(52,257)	(71,456)
Net increase in financial assets at fair value through profit or loss		(88,330)	(56,908)
Net increase in loans and advances to customers		(326,960)	(379,286)
Net decrease/(increase) in other assets		4,266	(34,951)
Net increase in due to banks and other financial institutions		238,717	151,684
Net decrease in financial liabilities at fair value through profit or loss		(5,013)	(17,823)
Net increase in due to customers		393,174	369,296
Net increase/(decrease) in other liabilities		(191,806)	28,803
Net increase/(decrease) in value-added tax and surcharge payable		576	(590)
Income tax paid		(14,153)	(12,057)
Net cash flows from operating activities		123,892	10,727

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

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

	Notes	Year ended 31 December 2018	2017
Cash flows from investing activities:			
Purchase of financial investments		**(694,169)**	(530,249)
Disposal or redemption of financial investments		**542,954**	355,053
Dividends received		**379**	420
Interest received from financial investments		**81,294**	79,977
Acquisition of intangible assets and other assets		**(694)**	(1,535)
Disposal of intangible assets and other assets		**124**	34
Purchase and construction of property and equipment		**(30,649)**	(27,736)
Disposal of property and equipment		**621**	1,077
Net cash flows from investing activities		**(100,140)**	(122,959)
Cash flows from financing activities:			
Cash received on debt securities issued		**41,846**	90,028
Cash payments for distribution of dividends, profits or interest expenses		**(36,043)**	(32,062)
Capital contribution by non-controlling interests		**1,125**	1,944
Repayment of principals of debt securities issued		**(20,332)**	(29,395)
Dividends paid to non-controlling interests		**(72)**	(33)
Net cash flows from financing activities		**(13,476)**	30,482
Effect of exchange rate changes on cash and cash equivalents		**4,297**	(5,727)
Net increase/(decrease) in cash and cash equivalents		**14,573**	(87,477)
Cash and cash equivalents at the beginning of the year		**228,919**	316,396
Cash and cash equivalents at the end of the year	39	**243,492**	228,919
Net cash flows from operating activities include:			
Interest received		**281,793**	243,096
Interest paid		**(193,279)**	(167,796)

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

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

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 238 branches in Mainland China and 22 branches (sub-branches), subsidiary banks and representative offices overseas. The Bank's A shares are listed on Shanghai Stock Exchange and H shares on Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") include corporate and personal banking services, treasury business, asset management, trustees, insurance, finance lease, debt-to-equity swap and other financial services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.31.

2.1.1 New and revised IFRSs effective by 1 January 2018 applied by the Group

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

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendments to IAS 40	Transfer of investment property
Amendments to IAS 28	Annual Improvements to IFRSs 2014 – 2016 cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Share-based payment transactions
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts

IFRS 9

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and revised IFRSs effective by 1 January 2018 applied by the Group *(Continued)*

IFRS 9 (Continued)

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

Disclosures relating to the impact of the adoption of IFRS 9 on the Group are listed in 2.1.2. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are listed in 2.4 and 2.32.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings process to an asset-liability approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

Amendments to IAS 40

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IAS 28

The IASB Annual Improvements 2014 – 2016 Cycle include the amendments to IAS 28 – Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

International Financial Reporting Interpretations Committee ("IFRIC") 22

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and revised IFRSs effective by 1 January 2018 applied by the Group *(Continued)*

Amendments to IFRS 2

On 20 June 2016, the IASB issued amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions, which provide guidance on three matters regarding classification and measurement. These amendments provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

Amendments to IFRS 4

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Except the above mentioned impact of IFRS 9 the adoption of the above new IFRSs and amendments to IFRSs issued has no material effects on the Group's operating results, financial position or other comprehensive income.

2.1.2 Changes in accounting policies

(a) Classification and measurement of financial instruments

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

	31 December 2017	Reclassifications	Remeasurements	1 January 2018 (Restated)
Financial assets				
Cash and balances with central banks	938,571	–	–	938,571
Due from banks and other financial institutions	782,468	–	(1,717)	780,751
Financial investments – financial assets at fair value through profit or loss	227,030	44,423	(151)	271,302
Derivative financial assets	34,007	–	–	34,007
Loans and advances to customers	4,473,255	–	(25,882)	4,447,373
Financial investments – debt instruments at fair value through other comprehensive income	N.A.	369,318	–	369,318
Financial investments – equity investments at fair value through other comprehensive income	N.A.	3,311	–	3,311
Financial investments – available-for-sale	402,138	(402,138)	–	N.A.
Financial investments – debt instruments at amortised cost	N.A.	1,884,194	(736)	1,883,458
Financial investments – loans and receivables	387,733	(387,733)	–	N.A.
Financial investments – held-to-maturity	1,511,375	(1,511,375)	–	N.A.
Other financial assets	96,097	–	(1,239)	94,858
Subtotal	8,852,674	–	(29,725)	8,822,949

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies (Continued)

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

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

At amortised Cost	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Cash and balances with central banks				
Opening balance under IAS 39 and closing balance under IFRS 9	938,571			938,571
Due from banks and other financial institutions				
Opening balance under IAS 39	782,468			
Remeasurement: ECL allowance			(1,717)	
Closing balance under IFRS 9				780,751
Other financial assets				
Opening balance under IAS 39	96,097			
Remeasurement: ECL allowance			(1,239)	
Closing balance under IFRS 9				94,858
Loans and advances to customers				
Opening balance under IAS 39	4,473,255			
Subtraction: To FVOCI		(163,962)		
Remeasurement: ECL allowance for loans and advances to customers			(25,925)	
Closing balance under IFRS 9				4,283,368
Financial investments – loans and receivables				
Opening balance under IAS 39	387,733			
Subtraction: To financial investment – amortised cost		(375,078)		
Subtraction: To financial assets at fair value through profit or loss		(12,655)		
Closing balance under IFRS 9				N.A.
Financial investments – held-to-maturity				
Opening balance under IAS 39	1,511,375			
Subtraction: To financial investment – amortised cost		(1,509,116)		
Subtraction: To financial assets at fair value through profit or loss		(2,259)		
Closing balance under IFRS 9				N.A.
Financial investments – at amortised cost				
Opening balance under IAS 39	N.A.			
Addition: From financial investment – loans and receivables (IAS 39)		375,078		
Addition: From financial investment – held-to-maturity (IAS 39)		1,509,116		
Remeasurement: ECL allowance			(736)	
Closing balance under IFRS 9				1,883,458
Total Financial assets at amortised cost	8,189,499	(178,876)	(29,617)	7,981,006

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

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

At fair value through profit or loss	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Financial investments – Financial assets at fair value through profit and loss				
Opening balance under IAS 39	227,030			
Addition: From financial investment – loans and receivables		12,655		
Addition: From financial investments – held-to-maturity		2,259		
Remeasurement: From amortised cost to fair value			(151)	
Addition: From financial instruments-available-for-sale financial assets-debt instruments (IAS 39)		24,430		
Addition: From financial instruments-available-for-sale financial assets – fund investments (IAS 39)		2,583		
Addition: From financial instruments-available-for-sale financial assets – equity instruments (IAS 39)		2,496		
Closing balance under IFRS 9				271,302
At fair value through profit or loss (derivatives)				
Opening balance under IAS 39 and closing balance under IFRS 9	34,007			34,007
Total financial assets measured at fair value through profit or loss	261,037	44,423	(151)	305,309

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

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

Fair value through other comprehensive income (FVOCI)	31 December 2017 IAS 39 carrying amount	Reclassifications	Remeasurements	1 January 2018 IFRS 9 carrying amount
Financial investments – available-for-sale				
Opening balance under IAS 39	402,138			
Subtraction: To financial assets at fair value through profit and loss – debt instruments		(24,430)		
Subtraction: To financial assets at fair value through profit and loss – fund investments		(2,583)		
Subtraction: To financial assets at fair value through profit and loss – equity instruments		(2,496)		
Subtraction: To financial investment – FVOCI – debt instruments		(369,318)		
Subtraction: To financial investment – FVOCI – equity instruments		(3,311)		
Closing balance under IFRS 9				N.A.
Financial investments – debt instruments at fair value through other comprehensive income				
Opening balance under IAS 39	N.A.			
Addition: From financial investments – available-for-sale financial assets-debt instruments		369,318		
Closing balance under IFRS 9				369,318
Financial investments – equity investments at fair value through other comprehensive income				
Opening balance under IAS 39	N.A.			
Addition: From financial investments – available-for-sale financial assets-equity instruments		3,311		
Closing balance under IFRS 9				3,311
Loans and advances to customers				
Opening balance under IAS 39	N.A.			
Addition: From loans and advances to customers (IAS 39)		163,962		
Remeasurement: From amortised cost to fair value			43	
Closing balance under IFRS 9				164,005
Total financial assets measured at FVOCI	402,138	134,453	43	536,634
Total financial assets	8,852,674	–	(29,725)	8,822,949

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

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

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

Measurement category	Impairment allowance under IAS 39/Provision under IAS 37	Reclassification	ECL	ECL Allowance under IFRS 9
Amortised cost				
Loans and advances to customers	106,001	(807)	25,925	131,119
Due from banks and other financial institutions			1,717	1,717
Financial investments – loans and receivables	2,608	(2,608)		
Financial investments – held-to-maturity	355	(355)		
Financial investments – debt instruments at amortised cost		2,963	736	3,699
Other assets	1,907		1,239	3,146
Subtotal	110,871	(807)	29,617	139,681
FVOCI				
Loans and advances to customers		807	1,189	1,996
Financial investments – available-for-sale	1,537	(1,537)		
Financial investments – at FVOCI		454	438	892
Total	112,408	(1,083)	31,244	142,569

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
IFRIC 23	Uncertainty over Income Tax	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019

Amendments to IFRS 10 and IAS 28
The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

IFRIC 23
The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

IFRS 16
IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standards improve the identification, breakdown and merger of leases and require lessees to recognize leases in balance sheets. For lessees, the new leasing standards will recognize all the leases in balance sheets as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognize the right-of-use assets and leasing liabilities, and exemptions applied only to short-term and low-value leases. Meanwhile, the new standards improve the also improve the accounting treatment of the lessee on subsequent measurement and leasing changes. The new standards have not undergone substantial changes in the accounting of lessors.

The Group will adopt the standards for annual periods beginning on or after 1 January 2019 and intends to use the simple transition methods stated in the standards to restate the comparative amount for the previous year impacted by the first adoption. On the first day of implementation, the Group will measure the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets for the leases of inventory using the new standards as from the beginning of the lease period. For short-term and low-value leases, the Group is subject to the recognition exemptions.

The Group expects that the first adoption of the new standards will reduce retained earnings for the beginning balance of 2019, but will not have a significant impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19, 'Employee Benefits', in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

Except the above mentioned impact of IFRS 16 and IFRS 17, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Consolidation

2.2.1 Subsidiary undertakings

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.2.2 Transactions with non-controlling interests

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.3 Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 40 and 41.

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

At each period end, the Group assesses whether these is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments

Initial recognition and measurement

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

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

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

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

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

The method of determining fair value

Fair value refers to the price that a market participant may have to pay to sell an asset to receive or transfer a liability in an orderly transaction that occurs on a measurement date. For financial instruments with active markets, the Group uses quotations from active markets to determine their fair value, and for financial instruments where there is no active market, the Group uses valuation techniques to determine its fair value. Valuation techniques include references to prices used in recent market transactions by parties familiar with the situation and voluntary transactions, the current fair value of other financial instruments with reference to the same substantially, the discounted cash flow method and the option pricing model.

Measurement methods

Amortised cost and effective interest rate

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets

Classification and subsequent measurement

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

(ii) The cash flow characteristics of the asset.

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

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured from these financial assets. According to the business category, these financial assets are presented as 'cash and balances with central banks', 'due from banks and other financial institutions', 'loans to customers' and 'financial investments – debt instruments at amortised cost' respectively. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. According to the business category, respectively, listed as 'Loans and advances to customers' and 'Financial investments – Financial assets at fair value through investments'. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net gains arising from trading activities' in the period in which it arises. The period loss or profit reckoned with of these assets is recorded as 'Net gains arising from trading activities'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Classification and subsequent measurement (Continued)

Debt instruments *(Continued)*

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

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

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

Equity instruments

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Impairment

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Regarding these judgment and estimates, please refer to note 20.

Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change in the interest rate.

- Change in the currency the loan is denominated in.

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Derecognition other than on a modification

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

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

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

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

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

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

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

Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.1 Financial assets *(Continued)*

Asset securitisation (Continued)

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.4.2 Financial liabilities

Classification and subsequent measurement

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

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

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies, see note 2.31(e); and

- Financial guarantee contracts and loan commitments (refer to Note 2.27).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.2 *Financial liabilities* *(Continued)*

Derecognition

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

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

2.4.3 *Derivatives and hedging activities*

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.3 Derivatives and hedging activities *(Continued)*

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

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

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

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

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

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

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

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

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

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Financial instruments *(Continued)*

2.4.4 Offsetting financial assets and financial liabilities

When the Group has a statutory right to offset recognized financial assets and financial liabilities and is currently enforceable, and the Group plans to settle the financial assets in net or at the same time and liquidate the financial liability, the amounts of financial assets and financial liabilities are set out in the balance sheet on a mutually offset period. In addition, financial assets and financial liabilities are shown separately in the balance sheet and are not offset against each other.

2.5 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method (See Note 2.4).

2.6 Fee and commission income

Fee and commission income is recognised in the consolidated statement of profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan or anticipating will not, the fee is recognised as revenue on expiry.

2.7 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.8 Assets transferred under repurchase agreements

(a) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “due to banks and other financial institutions” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(b) Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “due from banks and other financial institutions” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

2.9 Precious metals

Precious metals that are not related to the Group’s trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group’s trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Property and equipment

The Group's property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the shorter of the economic useful lives and remaining lease terms		

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated useful lives range from 5 to 25 years.

2.11 Foreclosed assets

Foreclosed assets are initially recognised at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.13 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecongnised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecongnised.

2.14 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.15 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

2.17 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.18 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

2.21 Dividend

(a) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

(b) Dividends on preference shares

Preference share dividend distribution is recognised as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the Board of Directors of the Bank.

2.22 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2.23 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits *(Continued)*

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

2.24 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiary choose its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from non-monetary items at fair value through other comprehensive income (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of monetary items at fair value through other comprehensive income are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.26 Insurance contracts

(a) Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to a reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

(b) Insurance income recognition

Premiums from long-term life insurance contracts are recognised as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognised when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortised on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognises them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

(c) Insurance contract reserves

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Financial guarantee contracts and credit related commitments

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

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

- The amount of the loss allowance (calculated as described in Note 3.1.2); and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 3.1.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance is recognised as an Provision.

2.28 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and does not provide funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.29 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment. Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.30 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Note 3.1 Specifies the parameters, assumptions and estimation techniques used in the measurement of expected credit loss and also discloses the sensitivity of expected credit losses to changes in these factors.

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

- Segmentation of business operations having similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- Management overlay adjustments due to significant uncertain factors not covered in the models; and
- The estimated future cash flows for corporate loans and advances in stage 3.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.1.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) Income taxes

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Critical accounting estimates and judgments in applying accounting policies *(Continued)*

(d) Consolidation of structured entities

As the Group acts as the asset manager in a structured entity, the Group will evaluate whether, in the case of the structured entity, the Group exercises decision-making power as the principal or agent. The Group exercises decision-making power primarily on behalf of other parties (other investors in the structured entity) if it is merely agent and therefore does not have control over the structured entity. However, if the Group is recognized to be primarily representing its own exercise of decision-making power, it is the primary principal and thus does have control over the structured entity. In the evaluation, the Group comprehensively takes into account a wide range of factors, such as the scope of the decision-making power of the asset manager, the rights held by other parties, the remuneration level received by the Group for management service, and the risk exposure to variable returns arising from any other arrangement (such as direct investments).

(e) Derecognition of financial assets

In judging whether the transaction in which a loan transfer through packaging and asset securitization is consistent with the termination confirmation of a financial asset, the Group needs to assess whether the Group meets the criteria for the transfer of financial assets and whether almost all risks and rewards in the ownership of the loan are transferred. If there is neither a transfer nor a retention of almost all the risks and rewards on the ownership of the transferred loan, the Group will further assess whether control over the transferred loan has been retained. In assessing and judging, the Group has taken into account a wide range of factors, such as whether trading arrangements are accompanied by repurchase clauses. The Group sets situational assumptions and uses the future cash flow discount model for risk and compensation transfer testing. The Group de-recognised the loan only if the loan has been transferred and almost all risks and benefits in ownership have been transferred to another subject. If the Group retains almost all the risks and rewards associated with the ownership of the transferred loan, it shall continue to confirm the loan and at the same time recognize the proceeds received as a financial liability. If the Group has neither transferred nor retained almost all of the risks and rewards in the ownership of the loan and has not waived its control over the loan, the financial assets concerned are recognized to the extent that the loan continues to be involved and the relevant liability is recognized accordingly.

2.32 Accounting policies for financial instruments guidelines during the comparative period

2.32.1 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.1 Hedge accounting *(Continued)*

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect the profit or loss.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "capital reserve". The ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are reclassified to the profit or loss in the same periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the profit or loss when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the profit or loss.

2.32.2 Financial assets

The Group's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract(asset or liability) to be designated at financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.2 ***Financial assets*** *(Continued)*

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other is comprehensive income accumulated at which time in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognised in profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

(e) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.2 Financial assets *(Continued)*

(f) Asset securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part or all of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained over.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

(1) The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

(2) The financial asset continues to be recognised when the Group retains substantially all the risks and rewards of ownership of the financial asset.

(3) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

(4) When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.32.3 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.3 Impairment of financial assets *(Continued)*

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor.

(2) A breach of contract, such as a default or delinquency in interest or principal payments.

(3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(5) The disappearance of an active market for that financial asset because of financial difficulties.

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group.

(7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered.

(8) A significant or prolonged decline in the fair value of equity instrument investments; and

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

(a) Impairment of financial assets carried at amortised cost

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.3 *Impairment of financial assets* *(Continued)*

(b) Impairment of available-for-sale financial assets

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss. The cumulative loss reclassified is the balance of the initial acquisition cost of the asset deducted by the recovered principal, amortised amount, the current fair value, and the impairment loss that has been previously recorded in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

(c) Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

2.32.4 *Financial liabilities/Equity instruments*

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.4 ***Financial liabilities/Equity instruments*** *(Continued)*

(a) Financial liabilities at fair value through profit or loss (Continued)

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) It forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognised in profit or loss.

(b) Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from derecognition or amortisation recognised in profit or loss.

(c) Derecognition of financial liabilities

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

(d) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Accounting policies for financial instruments guidelines during the comparative period *(Continued)*

2.32.4 ***Financial liabilities/Equity instruments*** *(Continued)*

(e) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

3 FINANCIAL RISK MANAGEMENT

Overview

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk

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

3.1.1 Credit risk management

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 ***Credit risk management*** *(Continued)*

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

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

(b) Treasury business

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

For debt investments, internal and external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk exposed to debt investments and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available funding sources. The bond issuers involved with the Group are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

Other financial assets classified as debt instruments at amortised cost include a fund trust scheme and an asset management plan set up by a banking financial institution. The Group implements a rating access system for cooperating trust companies, securities companies and fund companies, sets the credit limit for the repurchase party of trust income right and the final financier of the targeted asset management plan, and carries out follow-up risk management on a regular basis.

As for derivative instruments, the Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Group manages the credit quality of due from and placements with banks and other financial institutions, and balances arising from transactions for precious metals, by considering the size, financial position and the external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

(c) Credit-related commitments

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 ***Credit risk management*** *(Continued)*

(d) Credit risk quality

In accordance with the Guideline for Loan Credit Risk Classification issued by the China Banking and Insurance Regulatory Commission ("CBIRC"), the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss, of which substandard, doubtful and loss loans are regarded as non-performing loans.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.

Loss: Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

(e) Credit risk measurement

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

Probability of default is the probability of occurrence of default event in a given period of time in future.

Exposure at default represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.

Loss given default represents the percentage of amount of loss to be occurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.

The Group summarised a series of financial and other related factors to build the internal credit rating model to measure the probability of default and the loss given default, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients/debts before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default and the loss given default, and then matches the probability of default and the loss given default with relevant rank of default risk which is used for determination of the borrower's credit ranking within the internal rating system. In order to improve the model's accuracy and stability, the Group performs evaluation of the model at least every six months and monitors the results by performing back testing and comparing the results from model using the default/loss data from customers. In practice, the monitoring and back testing has been performed quarterly.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 *Credit risk management* *(Continued)*

(e) Credit risk measurement (Continued)

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

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

3.1.2 *Expected Credit losses*

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

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

The Group has developed impairment models as to calculate ECL. The Group has established regression models through a top down approach to analyse the linkage between risk parameters and macro-economic indicators including national account, price index, foreign trade, fixed asset investment, money supply, and interest and measures ECLs under the above multiple scenarios through impairment models.

Stage classification

A significant increase in credit risk

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:

(1) Principal or interest is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on the Group's internal rating results, and a significant increase in credit risk is determined when internal rating during the reporting period is below the Group's credit access standard or significant downgrading occurs as compared with initially recognized internal rating, such as low risk financial instruments are downgraded by 3 to 6 grades, medium risk financial instruments are downgraded 1 to 4 grades, and high risk financial instruments are downgraded by 1 grade;

(3) Key financial indicators of obligor deteriorate;

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

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

The Group has also conducted Sensitivity Test regarding the significant increase in credit risk. As at December 31 2018, given that credit risk had no significant change after initial recognition, resulting in the financial instruments downgraded to stage 2 within the current year had moved back to stage 1, the decrease of expected credit losses recognized in Financial Position does not exceed 5.5% of the loan loss provision.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected Risk Losses *(Continued)*

Stage classification (Continued)

Default and Credit-impaired

When financial instruments are credit-impaired, the Group defines them as in default, in general, the financial instruments that are more than 90 days past due are identified as in default.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

(1) Principal (including advances, applies to below) or interest is more than 90 days past due;

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

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

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

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

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

Establishment of impairment model

The Group has established macro-economic conductive forecast model driven by Gross Domestic Product growth rate to periodically forecast macro-economic indicators in multiple categories including national account, price index, foreign trade, fixed asset investment, money supply, and interest under three economic scenarios (i.e., Optimistic scenario, Basic scenario, and Pessimistic scenario). The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the assets impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better or worse than basic scenario respectively, and can also become a source of sensitivity test.

The impairment models are under a top down approach through grouping of models. The models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as national account, price index, foreign trade, fixed asset investment, money supply, and interest) and risk parameters. The result of macro-economic indicators forecasts will form the basis for impairment calculation and represent “forward looking” elements of credit risk allowance in different scenarios.

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

Management also overlays adjustments to asset portfolios whose non-linear risk characteristics cannot be adequately reflected through impairment models, such as group assets with risk infectivity and proper disposition of corporate debt cutting overcapacity. These adjustments do not have a significant effect on net profit in current year.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected Risk Losses *(Continued)*

Establishment of impairment model *(Continued)*

Grouping of instruments with similar risk characteristics

To calculate the relevance between expected credit loss provisions modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Corporate loans and financial investments

- Industry
- Guarantee mode

Retail loans

- Type of loans (such as mortgage, consumer loans, and credit cards)
- Method of repayments
- Interval of credit quota usage rate
- Interval of collateral rate (loan balance/collateral value)

Economic scenarios and weightings

The significant assumptions used to estimate expected credit losses are presented as three economic scenarios, including "Optimistic scenario", "Basic scenario", and "Pessimistic scenario", which are applicable to all groups. The weighting of "Basic scenario" adopted by the Group overweights the aggregated weightings of non-"Basic scenario".

Sensitivity tests

As at December 31, 2018, the probability-weighted impairment allowance increased by the following amount compared with basic scenario impairment allowance:

	As at 31 December 2018
Corporate Loans	277
Individual Loans	88
Financial Investments	1

If the Optimistic and Pessimistic scenario weights are arised 10%, the impairment allowance of loans and advances will increase 304 million, and the impairment allowance of financial investment will increase 2 million.

3.1.3Maximum exposure to credit risk

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

The Group categorizes asset risk characteristics based on the quality of the assets, differentiating financial instruments included in expected credit losses calculation as "Low risk", "Medium risk", "High risk" and "Impaired". "Low risk" refers to counterparty with strong repayment ability, low probability of impairment in the future, and minor effect of adverse external factors; "Medium risk" refers to counterparty with certain repayment ability, but continuously unstable and worsening business, finance, and economic conditions will potentially cause its repayment ability to descend; "High risk" refers to counterparty with existence of adverse factors having significant effect on repayment ability or high probability of impairment in the future; and "Impaired" refers to the assets met the Group's definition of credit-impaired.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

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

The table below analyses exposure to credit risk of financial instruments included in expected credit losses assessment. The balance of financial instruments below is the maximum exposure to credit risk of these instruments in the Group.

As at 31 December 2018	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance	Group carrying amount	As at 31 December 2017 Group carrying amount
On-balance sheet item										
Cash and balances with central banks (Stage 1)	788,578	-	-	-	788,578	36,928	825,506	-	825,506	921,948
Loans and advances to customers (Corporate)										
–at amortised cost	1,564,859	795,780	99,424	54,097	2,514,160	519,763	3,033,923	(102,403)	2,931,520	3,082,206
Stage 1	1,564,318	769,859	2,895	–	2,337,072	511,884	2,848,956	(23,323)	2,825,633	
Stage 2	541	25,921	96,529	–	122,991	4,829	127,820	(42,503)	85,317	
Stage 3	–	–	–	54,097	54,097	3,050	57,147	(36,577)	20,570	
–FVOCI	77,049	95,053	13,310	258	185,670	193	185,863	(1,679)	184,184	N.A.
Stage 1	77,049	93,312	8,320	–	178,681	193	178,874	(1,163)	177,711	
Stage 2	–	1,741	4,990	–	6,731	–	6,731	(283)	6,448	
Stage 3	–	–	–	258	258	–	258	(283)	25	
Loans and advances to customers (Individuals)										
–at amortised cost	1,122,016	442,840	22,873	15,126	1,602,855	32,772	1,635,627	(21,458)	1,614,169	1,391,049
Stage 1	1,121,826	442,131	15,987	–	1,579,944	32,471	1,612,415	(7,710)	1,604,705	
Stage 2	190	709	6,886	–	7,785	87	7,872	(2,302)	5,570	
Stage 3	–	–	–	15,126	15,126	214	15,340	(11,446)	3,894	
Due from banks and other financial institutions (Stage 1)	525,378	79,241	–	–	604,619	245,202	849,821	(1,754)	848,067	782,468
Financial investments – debt instruments at amortised cost	1,916,918	45,663	–	1,085	1,963,666	40,208	2,003,874	(3,369)	2,000,505	N.A.
Stage 1	1,916,918	45,663	–	–	1,962,581	40,208	2,002,789	(2,884)	1,999,905	
Stage 2	–	–	–	–	–		–	–	–	
Stage 3	–	–	–	1,085	1,085	–	1,085	(485)	600	
Financial investments – loans and receivables									N.A.	387,733
Financial investments – held-to-maturity									N.A.	1,511,375
Financial investments – fair value through other comprehensive income	95,469	1,921	–	467	97,857	340,958	438,815	(1,185)	437,630	N.A.
Stage 1	95,469	1,921	–	–	97,390	340,958	438,348	(718)	437,630	
Stage 2	–	–	–	–	–		–		–	
Stage 3	–	–	–	467	467	–	467	(467)	–	

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

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

As at 31 December 2018	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance	Group carrying amount	As at 31 December 2017 Group carrying amount
Financial investments – available-for-sale									N.A.	393,748
Other financial assets – amortised cost	1	13,259	188	1,265	14,713	13,479	28,192	(2,354)	25,838	96,726
Stage 1	–	13,252	–	–	13,252	13,479	26,731	(1,480)	25,251	
Stage 2	1	7	188	–	196	–	196	(65)	131	
Stage 3	–	–	–	1,265	1,265	–	1,265	(809)	456	
On-balance sheet total	6,090,268	1,473,757	135,795	72,298	7,772,118	1,229,503	9,001,621	(134,202)	8,867,419	8,567,253
Financial guarantees and credit related commitments										
Stage 1	1,060,191	306,885	1,115	–	1,368,191	83,375	1,451,566	(4,742)	1,446,824	
Stage 2	–	1,729	2,655	–	4,384	268	4,652	(339)	4,313	
Off-balance sheet total	1,060,191	308,614	3,770	–	1,372,575	83,643	1,456,218	(5,081)	1,451,137	1,412,703
Total	7,150,459	1,782,371	139,565	72,298	9,144,693	1,313,146	10,457,839	(139,283)	10,318,556	9,979,956

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

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

	Maximum exposure to credit risk As at 31 December 2018	As at 31 December 2017
Financial assets at fair value through profit or loss		
Loans and advances to customers	**494**	–
Derivative financial instruments	**30,730**	34,007
Debt securities	**132,875**	88,930
Fund investment and other asset management scheme	**187,554**	83,872
Precious metal contracts	**37,232**	41,198
Loans to banks and other financial institutions	**8,393**	12,730
Total	**397,278**	260,737

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements

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

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

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

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

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

(a) Collaterals

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

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

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

3.1.3.3 Collaterals and other credit enhancements *(Continued)*

(a) Collaterals *(Continued)*

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

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

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	57,172	(36,577)	20,595	17,484
Loans to individuals	15,340	(11,446)	3,894	10,865
Financial investments	1,552	(925)	600	1,041

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement affects credit risk.

3.1.4 Derivative instruments

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

Credit risk-weighted amounts

	As at 31 December 2018	As at 31 December 2017
Counterparty credit risk-weighted amount	26,895	26,223

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers

	As at 31 December 2017	
	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	4,477,651	782,468
Past due but not impaired	33,099	–
Impaired	68,506	–
Gross	4,579,256	782,468
Less: Allowances for impairment losses	(106,001)	–
Net	4,473,255	782,468

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

As at 31 December 2018, the Group's total loans and advances to customers increased by 6.00% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

(a) Loans and advances neither past due nor impaired

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

(b) Loans and advances past due but not impaired

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

	As at 31 December 2017					
	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Total	Fair value of collaterals
Corporate entities						
– Commercial loans	8,388	2,507	1,621	10,687	23,203	15,276
Individuals						
– Mortgages	1,782	512	264	–	2,558	4,207
– Credit Cards	4,732	1,124	650	–	6,506	–
– Others	351	156	197	128	832	1,160
Total	15,253	4,299	2,732	10,815	33,099	20,643
Due from banks and other financial institutions	–	–	–	–	–	–

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers

(c) Loans and advances individually impaired

As at 31 December 2018, impaired loans and advances to customers before taking into consideration the collaterals held is RMB72,512 million (31 December 2017: RMB68,506 million).

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

	As at 31 December 2017
Impaired loans and advances to customers	
Corporate entities	52,608
Individuals	15,898
Total	68,506
Fair value of collaterals	
Corporate entities	15,175
Individuals	11,356
Total	26,531

3.1.6 Foreclosed assets

	As at 31 December 2018	As at 31 December 2017
Buildings	**913**	991
Land use rights	**20**	25
Others	**19**	19
Gross	**952**	1,035
Less: Impairment allowances	**(128)**	(129)
Net	**824**	906

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 Concentration risk analysis for financial assets with credit risk exposure

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

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 31 December 2018				
Financial assets				
Balances with central banks	790,382	2,548	32,576	825,506
Due from banks and other financial institutions	689,611	69,231	89,225	848,067
Derivative financial assets	22,541	5,646	2,543	30,730
Financial investments – Financial assets at fair value through profit or loss	333,693	7,726	24,635	366,054
Loans and advances to customers	4,385,888	190,464	166,020	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	110,740	80,452	246,438	437,630
Financial investments – debt instruments at amortised cost	1,962,108	4,154	34,243	2,000,505
Other financial assets	24,945	10,491	4,481	39,917
	8,319,908	370,712	600,161	9,290,781
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	605,869	11,595	20,320	637,784
Other credit related commitments	766,769	36,213	15,452	818,434
	1,372,638	47,808	35,772	1,456,218

	Mainland China	Hong Kong	Others	Total
As at 31 December 2017				
Financial assets				
Balances with central banks	893,353	1,805	26,790	921,948
Due from banks and other financial institutions	655,483	50,801	76,184	782,468
Derivative financial assets	25,165	7,590	1,252	34,007
Financial investments – Financial assets at fair value through profit or loss	206,296	3,923	16,511	226,730
Loans and advances to customers	4,051,431	214,933	206,891	4,473,255
Financial investments – loans and receivables	386,505	–	1,228	387,733
Financial investments – available-for-sale (debt securities)	157,306	51,804	184,638	393,748
Financial investments – held-to-maturity	1,497,147	584	13,644	1,511,375
Other financial assets	200,078	8,515	6,889	215,482
	8,072,764	339,955	534,027	8,946,746
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	563,090	10,504	26,792	600,386
Other credit related commitments	765,071	21,140	26,106	812,317
	1,328,161	31,644	52,898	1,412,703

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

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

	As at 31 December 2018		As at 31 December 2017	
		%		%
North of China (1)	**619,891**	**12.77**	588,224	12.85
Northeast (2)	**205,989**	**4.24**	207,142	4.52
East of China (3)	**2,250,486**	**46.36**	2,059,334	44.97
South and middle of China (4)	**941,511**	**19.40**	851,780	18.60
West of China (5)	**480,670**	**9.90**	447,924	9.78
Overseas (6)	**355,681**	**7.33**	424,852	9.28
Gross amount of loans and advances	**4,854,228**	**100.00**	4,579,256	100.00

Note:

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

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

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(b) Industry analysis

	As at 31 December 2018		As at 31 December 2017	
		%		%
Corporate loans				
Mining	119,091	2.45	114,010	2.49
Manufacturing				
– Petroleum and chemical	*104,806*	*2.16*	*110,087*	*2.40*
– Electronics	*95,858*	*1.97*	*76,261*	*1.67*
– Steel	*33,241*	*0.68*	*36,377*	*0.79*
– Machinery	*93,828*	*1.93*	*96,532*	*2.11*
– Textile and clothing	*29,146*	*0.60*	*30,043*	*0.66*
– Other manufacturing	*224,533*	*4.64*	*231,606*	*5.06*
Electricity, gas and water production and supply	186,117	3.83	180,471	3.94
Construction	114,577	2.36	112,544	2.46
Transportation, storage and postal service	573,151	11.82	576,156	12.58
Telecommunication, computer service and software	28,682	0.59	26,229	0.57
Wholesale and retail	246,706	5.08	283,654	6.19
Accommodation and catering	34,486	0.71	35,531	0.78
Financial institutions	98,342	2.03	118,533	2.59
Real estate	216,536	4.46	189,295	4.13
Services	413,716	8.52	358,956	7.84
Water conservancy, environmental and other public services	263,235	5.42	265,073	5.79
Education, science, culture and public health	89,436	1.84	82,780	1.81
Others	96,428	1.99	106,278	2.32
Discounted bills	156,686	3.23	138,958	3.03
Total corporate loans	3,218,601	66.31	3,169,374	69.21
Individual loans				
Mortgages	1,007,528	20.75	897,264	19.60
Credit cards	505,190	10.41	399,004	8.71
Others	122,909	2.53	113,614	2.48
Total individual loans	1,635,627	33.69	1,409,882	30.79
Gross amount of loans and advances before impairment allowances	4,854,228	100.00	4,579,256	100.00

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

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

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

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework led by Board of Directors, Supervisors and senior management. The Assets and Liabilities Management Department takes the lead in the Group's market risk management, while business units such as financial markets department, precious metals trading centre, domestic and overseas branches and subsidiaries are the execution units of the Bank's market risk management. The risk management department and the internal audit department are responsible for the independent verification of the market risk management system, as well as the internal audit of the Bank.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. With regard to the exchange rate risks and the interest rate risks of trading book, the Group established an effective limit management system by implementing Net Position, Risk Sensitivity, Value at Risk ("VaR") and other indicators. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

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

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

Items	**Year ended 31 December 2018**			
	31 December 2018	**Average**	**Maximum**	**Minimum**
VaR	**586**	**556**	**690**	**467**
– Interest rate risk	**176**	**159**	**218**	**68**
– Foreign exchange risk	**625**	**538**	**701**	**442**

Items	Year ended 31 December 2017			
	31 December 2017	Average	Maximum	Minimum
VaR	570	551	811	348
– Interest rate risk	183	153	192	89
– Foreign exchange risk	511	522	858	288

3.2.3 Sensitivity tests

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net profits and other comprehensive income for the Group by measuring the impact of a change in net profits of financial assets and liabilities, not taking customer behaviour and repayment option into consideration. The Group calculates the impact of a parallel shift of 100 basis points interest rates on the net profits and other comprehensive income for the year on a monthly basis.

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

	Expected changes in net profit	
	As at 31 December 2018	As at 31 December 2017
+100 basis points parallel shift in yield curves	**14,029**	13,747
-100 basis points parallel shift in yield curves	**(14,029)**	(13,747)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Sensitivity tests (Continued)

Interest rate sensitivity test (Continued)

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

	Changes in other comprehensive income	
	As at 31 December 2018	As at 31 December 2017
+100 basis points parallel shift in yield curves	**(5,572)**	(6,414)
-100 basis points parallel shift in yield curves	**5,740**	6,800

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

Foreign exchange sensitivity test

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

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

	Expected changes in net profit/(loss)	
	Year ended 31 December 2018	Year ended 31 December 2017
5% appreciation of RMB	**(1,755)**	(4,187)
5% depreciation of RMB	**1,755**	4,187

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rate against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 31 December 2018	As at 31 December 2017
5% appreciation of RMB	**(891)**	(684)
5% depreciation of RMB	**891**	684

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk

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

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

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. The PBOC established RMB benchmark interest rates for loans with a floor and such policy was eliminated with effect from 20 July 2013 whereby financial institutions are in a position to price their loans based on commercial and market factors. Since 24 October 2015, the PBOC has cancelled the upper limit of floating of benchmark interest rate for deposit. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the published PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of the financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

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

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2018							
Assets							
Cash and balances with central banks	815,408	–	–	–	–	24,763	840,171
Due from banks and other financial institutions	421,426	65,741	203,758	143,923	5,463	7,756	848,067
Derivative financial assets	–	–	–	–	–	30,730	30,730
Financial investments – financial assets at fair value through profit or loss	27,857	18,051	48,317	43,896	33,166	205,099	376,386
Loans and advances to customers	2,211,528	521,424	1,544,308	101,108	64,324	299,680	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	50,183	123,857	80,836	125,220	53,657	3,877	437,630
Financial investments – equity investments at fair value through other comprehensive income	–	–	–	–	–	7,388	7,388
Financial investments – debt instruments at amortised cost	41,240	59,505	210,740	1,165,477	494,443	29,100	2,000,505
Other assets	425	–	–	–	–	247,497	247,922
Total assets	3,568,067	788,578	2,087,959	1,579,624	651,053	855,890	9,531,171
Liabilities							
Due to banks and other financial institutions	(776,575)	(325,116)	(955,468)	(46,009)	(26,521)	(32,604)	(2,162,293)
Financial liabilities at fair value through profit or loss	(2,968)	(5,760)	(5,948)	(7,401)	–	(1,032)	(23,109)
Derivative financial liabilities	–	–	–	–	–	(28,105)	(28,105)
Due to customers	(2,970,102)	(391,142)	(1,609,799)	(661,237)	(75,540)	(85,504)	(5,793,324)
Other liabilities	(44,739)	(108,504)	(233,212)	(185,771)	(141,087)	(105,719)	(819,032)
Total liabilities	(3,794,384)	(830,522)	(2,804,427)	(900,418)	(243,148)	(252,964)	(8,825,863)
Total interest sensitivity gap	(226,317)	(41,944)	(716,468)	679,206	407,905	602,926	705,308

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Interest rate risk *(Continued)*

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017							
Assets							
Cash and balances with central banks	914,394	–	152	–	–	24,025	938,571
Due from banks and other financial institutions	433,536	81,883	234,917	32,132	–	–	782,468
Derivative financial assets	–	–	–	–	–	34,007	34,007
Financial assets at fair value through profit or loss	23,855	21,209	51,997	33,603	6,957	89,409	227,030
Loans and advances to customers	2,029,682	494,381	1,482,830	186,508	61,251	218,603	4,473,255
Financial investments – loans and receivables	5,874	6,854	57,157	204,902	112,946	–	387,733
Financial investments – available-for-sale	46,534	77,320	42,020	165,901	61,973	8,390	402,138
Financial investments – held-to-maturity	33,531	47,583	137,104	876,824	416,333	–	1,511,375
Other assets	7,073	–	–	–	–	274,604	281,677
Total assets	3,494,479	729,230	2,006,177	1,499,870	659,460	649,038	9,038,254
Liabilities							
Due to banks and other financial institutions	(829,995)	(543,334)	(706,377)	(10,870)	(15,616)	–	(2,106,192)
Derivative financial liabilities	–	–	–	–	–	(33,344)	(33,344)
Financial liabilities at fair value through profit or loss	(7,174)	(9,685)	(5,148)	(4,371)	–	(586)	(26,964)
Due to customers	(3,173,681)	(569,972)	(929,120)	(838,174)	(9,897)	(24,522)	(5,545,366)
Other liabilities	(28,964)	(46,373)	(88,693)	(166,847)	(139,935)	(179,305)	(650,117)
Total liabilities	(4,039,814)	(1,169,364)	(1,729,338)	(1,020,262)	(165,448)	(237,757)	(8,361,983)
Total interest sensitivity gap	(545,335)	(440,134)	276,839	479,608	494,012	411,281	676,271

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in USD, HKD and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates and changes on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. As at 31 December 2018, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.8632 (31 December 2017: RMB6.5342) and 1 HK dollar to RMB0.8762 (31 December 2017: RMB0.83591). The tables below summarise the Group's exposure to foreign exchange risk at the end of the year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, are categorised by the original currency.

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2018					
Assets					
Cash and balances with central banks	784,959	30,993	3,390	20,829	840,171
Due from banks and other financial institutions	488,242	334,579	13,180	12,066	848,067
Derivative financial assets	25,102	1,738	3,344	546	30,730
Financial investments – financial assets at fair value through profit or loss	328,378	29,449	759	17,800	376,386
Loans and advances to customers	4,245,922	297,273	138,325	60,852	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	151,084	198,397	44,968	43,181	437,630
Financial investments – equity investments at fair value through other comprehensive income	6,200	1,087	101	–	7,388
Financial investments – debt instruments at amortised cost	1,981,956	15,707	–	2,842	2,000,505
Other assets	121,427	117,928	7,410	1,157	247,922
Total assets	8,133,270	1,027,151	211,477	159,273	9,531,171
Liabilities					
Due to banks and other financial institutions	(1,776,123)	(332,360)	(2,364)	(51,446)	(2,162,293)
Financial liabilities at fair value through profit or loss	(4,155)	(1,137)	(7,234)	(10,583)	(23,109)
Derivative financial liabilities	(24,021)	(900)	(2,809)	(375)	(28,105)
Due to customers	(5,122,012)	(437,650)	(207,753)	(25,909)	(5,793,324)
Other liabilities	(567,133)	(209,406)	(18,064)	(24,429)	(819,032)
Total liabilities	(7,493,444)	(981,453)	(238,224)	(112,742)	(8,825,863)
Net position	639,826	45,698	(26,747)	46,531	705,308
Financial guarantees and credit related commitments	1,281,258	134,995	27,704	12,261	1,456,218

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk *(Continued)*

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 31 December 2017					
Assets					
Cash and balances with central banks	879,753	37,073	2,573	19,172	938,571
Due from banks and other financial institutions	449,036	286,691	28,126	18,615	782,468
Derivative financial assets	31,506	1,222	251	1,028	34,007
Financial assets at fair value through profit or loss	202,380	19,961	3,056	1,633	227,030
Loans and advances to customers	3,914,731	363,558	143,396	51,570	4,473,255
Financial investments – loans and receivables	386,494	1,239	–	–	387,733
Financial investments – available-for-sale	185,123	151,492	29,487	36,036	402,138
Financial investments – held-to-maturity	1,498,292	9,371	–	3,712	1,511,375
Other assets	189,986	84,823	4,632	2,236	281,677
Total assets	7,737,301	955,430	211,521	134,002	9,038,254
Liabilities					
Due to banks and other financial institutions	(1,668,277)	(379,647)	(12,057)	(46,211)	(2,106,192)
Derivative financial liabilities	(26,883)	(2,997)	(536)	(2,928)	(33,344)
Financial liabilities at fair value through profit or loss	(5,529)	(14,748)	(6,678)	(9)	(26,964)
Due to customers	(4,885,189)	(424,411)	(202,002)	(33,764)	(5,545,366)
Other liabilities	(458,976)	(157,279)	(13,065)	(20,797)	(650,117)
Total liabilities	(7,044,854)	(979,082)	(234,338)	(103,709)	(8,361,983)
Net position	692,447	(23,652)	(22,817)	30,293	676,271
Financial guarantees and credit related commitments	1,228,550	145,088	21,199	17,866	1,412,703

3.2.6 Other price risk

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

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

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 31 December 2018, 14.0% (31 December 2017: 16.5%) of the Group's total RMB denominated due to customers and 5.0% (31 December 2017: 5.0%) of the total foreign currency denominated due to customers must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Headquarters;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolios.

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

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

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018									
Liabilities									
Due to banks and other financial institutions	–	–	(438,924)	(356,970)	(333,168)	(985,845)	(50,277)	(32,319)	(2,197,503)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(865)	(2,980)	(5,857)	(6,265)	(7,726)	–	(23,693)
Due to customers	–	–	(2,443,124)	(555,345)	(399,059)	(1,659,473)	(704,621)	(80,025)	(5,841,647)
Certificates of deposit issued	–	–	–	(41,447)	(106,436)	(209,534)	(15,446)	–	(372,863)
Debt securities issued	–	–	–	(3,665)	(3,474)	(39,527)	(199,677)	(129,224)	(375,567)
Other financial liabilities	–	–	(34,370)	(247)	(237)	(903)	(6,096)	(26,029)	(67,882)
Total liabilities (contractual maturity dates)	–	–	(2,917,283)	(960,654)	(848,231)	(2,901,547)	(983,843)	(267,597)	(8,879,155)
Assets									
Cash and balances with central banks	–	713,376	126,424	–	371	–	–	–	840,171
Due from banks and other financial institutions	–	–	93,517	335,541	68,165	208,480	145,585	5,471	856,759
Non-derivative financial assets at fair value through profit or loss	458	194,838	8,232	7,416	10,235	51,034	72,536	54,336	399,085
Loans and advances to customers	36,953	–	–	680,810	287,572	1,307,557	1,520,092	2,574,873	6,407,857
Financial investments – debt instruments at fair value through other comprehensive income	–	–	–	12,314	28,455	114,936	252,017	63,611	471,333
Financial investments – equity investments at fair value through other comprehensive income	–	7,388	–	–	–	–	–	–	7,388
Financial investments – debt instruments at amortised cost	600	–	–	39,005	55,896	266,384	1,375,516	557,879	2,295,280
Other financial assets	781	–	35,288	–	–	–	–	–	36,069
Assets held for managing liquidity risk (contractual maturity dates)	38,792	915,602	263,412	1,075,086	450,694	1,948,391	3,365,746	3,256,170	11,313,942
Net position	38,792	915,602	2,653,822	114,432	(397,537)	(953,156)	2,381,903	2,988,573	2,434,787

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

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

	Overdue	Undated	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2017									
Liabilities									
Due to banks and other financial institutions	–	–	(381,473)	(450,804)	(548,784)	(719,079)	(63,486)	(24,185)	(2,187,811)
Non-derivative financial liabilities at fair value through profit or loss	–	–	(585)	(7,187)	(8,018)	(6,996)	(4,628)	–	(27,414)
Due to customers	–	–	(2,512,237)	(692,488)	(578,392)	(953,188)	(894,025)	(9,908)	(5,640,238)
Certificates of deposit issued	–	–	–	(23,916)	(46,388)	(72,225)	(8,503)	–	(151,032)
Debt securities issued	–	–	–	(5,001)	(1,214)	(26,020)	(209,451)	(133,154)	(374,840)
Other financial liabilities	–	–	(29,241)	(198)	(122)	(1,549)	(5,041)	(25,758)	(61,909)
Total liabilities (contractual maturity dates)	–	–	(2,923,536)	(1,179,594)	(1,182,918)	(1,779,057)	(1,185,134)	(193,005)	(8,443,244)
Assets									
Cash and balances with central banks	–	809,261	129,158	–	1,198	153	–	–	939,770
Due from banks and other financial institutions	–	–	76,427	357,232	83,896	237,855	32,219	–	787,629
Non-derivative financial assets at fair value through profit or loss	270	84,172	4,967	9,123	17,959	57,756	53,759	10,597	238,603
Loans and advances to customers	52,025	–	–	559,298	321,251	1,217,456	1,485,862	2,233,973	5,869,865
Financial investments – loans and receivables	80	–	–	6,091	10,383	72,777	246,892	134,146	470,369
Financial investments – available-for-sale	–	8,390	–	18,431	24,418	64,881	261,598	77,780	455,498
Financial investments – held-to-maturity	–	–	–	30,094	43,476	174,642	1,030,820	464,720	1,743,752
Other financial assets	121	–	41,416	–	–	–	–	–	41,537
Assets held for managing liquidity risk (contractual maturity dates)	52,496	901,823	251,968	980,269	502,581	1,825,520	3,111,150	2,921,216	10,547,023
Net position	52,496	901,823	(2,671,568)	(199,325)	(680,337)	46,463	1,926,016	2,728,211	2,103,779

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows

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

(a) Derivative settled on a net basis

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

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

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

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	6	–	–	–	–	6
– Interest rate contracts and others	99	257	1,016	2,316	180	3,868
Total	105	257	1,016	2,316	180	3,874
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(145)	(220)	(389)	–	–	(754)
– Interest rate contracts and others	(64)	(200)	(760)	(1,836)	(104)	(2,964)
Total	(209)	(420)	(1,149)	(1,836)	(104)	(3,718)

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2017						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	97	241	497	–	–	835
– Interest rate contracts and others	140	287	718	1,348	100	2,593
Total	237	528	1,215	1,348	100	3,428
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(198)	(105)	(61)	–	–	(364)
– Interest rate contracts and others	(69)	(172)	(546)	(918)	(35)	(1,740)
Total	(267)	(277)	(607)	(918)	(35)	(2,104)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

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

(b) Derivative settled on a gross basis

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

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

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2018						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(745,533)	(542,190)	(1,458,561)	(41,111)	(1,241)	(2,788,636)
– Inflow	746,029	542,837	1,458,647	41,052	2,870	2,791,435
Total	496	647	86	(59)	1,629	2,799

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2017						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(567,886)	(514,787)	(1,272,481)	(74,494)	–	(2,429,648)
– Inflow	568,303	514,893	1,271,064	74,841	–	2,429,101
Total	417	106	(1,417)	347	–	(547)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

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

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2018									
Assets									
Cash and balances with central banks	126,424	–	371	–	–	–	–	713,376	840,171
Due from banks and other financial institutions	93,420	330,936	67,073	207,595	143,572	5,471	–	–	848,067
Derivative financial assets	–	5,601	6,887	13,831	2,859	1,552	–	–	30,730
Financial investments – financial assets at fair value through profit or loss	8,232	7,253	9,786	47,586	58,183	50,050	458	194,838	376,386
Loans and advances to customers	–	664,962	257,043	1,191,035	1,088,301	1,514,178	26,853	–	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	–	13,348	27,707	106,691	232,364	57,520	–	–	437,630
Financial investments – equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	7,388	7,388
Financial investments – debt instruments at amortised cost	–	38,084	52,330	227,158	1,187,867	494,466	600	–	2,000,505
Other assets	55,165	–	165	499	21,311	1,309	781	168,692	247,922
Total assets	283,241	1,060,184	421,362	1,794,395	2,734,457	2,124,546	28,692	1,084,294	9,531,171
Liabilities									
Due to banks and other financial institutions	(438,924)	(354,689)	(329,637)	(966,127)	(46,308)	(26,608)	–	–	(2,162,293)
Financial liabilities at fair value through profit or loss	(865)	(2,968)	(5,801)	(5,978)	(7,497)	–	–	–	(23,109)
Derivative financial liabilitiies	–	(5,036)	(6,199)	(14,435)	(2,199)	(236)	–	–	(28,105)
Due to customers	(2,442,774)	(554,332)	(397,452)	(1,649,194)	(674,006)	(75,566)	–	–	(5,793,324)
Other liabilities	(50,161)	(53,191)	(118,200)	(238,444)	(214,200)	(144,836)	–	–	(819,032)
Total liabilities	(2,932,724)	(970,216)	(857,289)	(2,874,178)	(944,210)	(247,246)	–	–	(8,825,863)
Net amount on liquidity gap	(2,649,483)	89,968	(435,927)	(1,079,783)	1,790,247	1,877,300	28,692	1,084,294	705,308

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 *Maturity analysis* *(Continued)*

	On demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2017									
Assets									
Cash and balances with central banks	129,158	–	–	152	–	–	–	809,261	938,571
Due from banks and other financial institutions	76,427	357,109	81,883	234,917	32,132	–	–	–	782,468
Derivative financial assets	–	6,237	8,381	15,942	3,143	304	–	–	34,007
Financial assets at fair value through profit or loss	4,968	8,938	17,312	54,804	47,154	9,413	270	84,171	227,030
Loans and advances to customers	–	544,512	292,796	1,115,050	1,105,688	1,371,355	43,854	–	4,473,255
Financial investments – loans and receivables	–	5,144	6,701	57,857	205,004	112,947	80	–	387,733
Financial investments – available-for-sale	–	17,690	22,554	55,866	234,404	63,234	–	8,390	402,138
Financial investments – held-to-maturity	–	26,455	36,150	134,704	895,522	418,544	–	–	1,511,375
Other assets	50,526	9,672	13,471	7,465	33,354	8,377	121	158,691	281,677
Total assets	261,079	975,757	479,248	1,676,757	2,556,401	1,984,174	44,325	1,060,513	9,038,254
Liabilities									
Due to banks and other financial institutions	(381,472)	(448,523)	(543,334)	(706,377)	(10,870)	(15,616)	–	–	(2,106,192)
Financial liabilities at fair value through profit or loss	(585)	(7,174)	(7,883)	(6,867)	(4,455)	–	–	–	(26,964)
Derivative financial labilitiies	–	(6,384)	(7,669)	(16,868)	(2,222)	(201)	–	–	(33,344)
Due to customers	(2,512,066)	(686,030)	(569,933)	(929,244)	(838,196)	(9,897)	–	–	(5,545,366)
Other liabilities	(47,566)	(53,545)	(65,062)	(117,156)	(217,476)	(149,312)	–	–	(650,117)
Total liabilities	(2,941,689)	(1,201,656)	(1,193,881)	(1,776,512)	(1,073,219)	(175,026)	–	–	(8,361,983)
Net amount on liquidity gap	(2,680,610)	(225,899)	(714,633)	(99,755)	1,483,182	1,809,148	44,325	1,060,513	676,271

3.3.6 *Off-balance sheet items*

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

	Up to 1 year	1–5 years	Over 5 years	Total
As at 31 December 2018				
Loan commitments and credit related commitments	787,886	21,417	9,131	818,434
Guarantees, acceptances and letters of credit	527,162	106,736	3,886	637,784
Total	1,315,048	128,153	13,017	1,456,218
As at 31 December 2017				
Loan commitments and credit related commitments	766,298	44,058	1,961	812,317
Guarantees, acceptances and letters of credit	469,307	113,192	17,887	600,386
Total	1,235,605	157,250	19,848	1,412,703

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair value of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

(2) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(3) Level 3 inputs are unobservable inputs for the asset or liability.

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

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

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposits without quotations from active market, precious metals, the second tier capital bonds and debt instruments trading in inter-bank market, and loans and advances carried at FVOCI. The fair value of RMB denominated bonds is determined based on the valuation result from the China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate level of volatilities and counterparty credit spread etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For Loans and advances to customers, Trust and Management plan, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

For convertible loans, unlisted equities, unlisted funds, equity derivatives and part of loans and advances to customers held by the Group, the fair value of these financial instruments are determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for considering market liquidity. The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(b) Financial instruments not measured at fair value

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

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments – debt instruments at amortised cost	2,000,505	2,013,818	N.A.	N.A.
Financial investments – loans and receivables	N.A.	N.A.	387,733	384,546
Financial investments – held-to-maturity	N.A.	N.A.	1,511,375	1,471,789
Financial liabilities				
Debt securities issued	(301,151)	(304,328)	(269,615)	(267,754)

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

Fair value hierarchy of financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets				
Financial investments – debt instruments at amortised cost	14,022	1,793,650	206,146	2,013,818
Financial liabilities				
Debt securities issued	–	(304,328)	–	(304,328)

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

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

The table below summarises the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	1,925	3,636	–	5,561
– Public sector entities	90	2,498	–	2,588
– Banks and other financial institutions	4,031	86,950	255	91,236
– Corporate entities	696	29,368	3,417	33,481
Fund investments and other asset management plan	47	180,846	6,670	187,563
Equity securities	1,099	–	9,233	10,332
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	26,442	–	26,442
– Interest rate contracts and others	–	3,307	981	4,288
Precious metal contracts	–	37,232	–	37,232
Loans to banks and other financial institutions	–	8,393	–	8,393
Loans and advances to customers designated at fair value through profit or loss	–	–	494	494
	7,888	378,672	21,050	407,610
Financial investments – FVOCI				
Investments in debt instruments measured at FVOCI				
– Governments and central banks	28,115	38,505	–	66,620
– Public sector entities	124	3,575	–	3,699
– Banks and other financial institutions	152,355	159,984	–	312,339
– Corporate entities	29,900	24,691	381	54,972
Investments in equity instruments designated at fair value through other comprehensive income	2,096	–	5,292	7,388
Loans and advances to customers designated at fair value through other comprehensive income	–	184,159	25	184,184
	212,590	410,914	5,698	629,202
Total assets	220,478	789,586	26,748	1,036,812
Financial liabilities at fair value through profit or loss				
Certificates of deposits issued	–	(11,660)	–	(11,660)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(25,640)	–	(25,640)
– Interest rate contracts and others	–	(2,465)	–	(2,465)
Financial liabilities related to precious metal contracts	–	(11,449)	–	(11,449)
Debt securities issued	–	(16,537)	–	(16,537)
Total liabilities	–	(67,751)	–	(67,751)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

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

	Level 1	Level 2	Level 3	Total
As at 31 December 2017				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
– Governments and central banks	5,102	6,980	–	12,082
– Public sector entities	88	2,127	–	2,215
– Banks and other financial institutions	4,117	41,863	–	45,980
– Corporate entities	826	27,827	–	28,653
Fund investments and other asset management plan	60	81,770	2,042	83,872
Equity securities	2	–	298	300
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	31,655	–	31,655
– Interest rate contracts and others	–	2,352	–	2,352
Precious metal contracts	–	41,198	–	41,198
	10,195	235,772	2,340	248,307
Financial investments designated at FVPL				
Loans to banks and other financial institutions	–	12,730	–	12,730
	–	12,730	–	12,730
Available-for-sale financial assets				
Debt securities				
– Governments and central banks	14,711	23,072	–	37,783
– Public sector entities	69	4,282	–	4,351
– Banks and other financial institutions	123,843	178,575	–	302,418
– Corporate entities	20,253	25,339	3,604	49,196
Fund investments and others	–	2,101	482	2,583
Equity securities	3,158	–	2,649	5,807
	162,034	233,369	6,735	402,138
Total assets	172,229	481,871	9,075	663,175
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,485)	–	–	(2,485)
Certificates of deposits issued	–	(12,654)	–	(12,654)
Derivatives				
– Foreign exchange and commodity contracts	–	(31,819)	–	(31,819)
– Interest rate contracts and others	–	(1,525)	–	(1,525)
Financial liabilities related to precious metal contracts	–	(11,825)	–	(11,825)
Debt securities issued	–	(18,047)	–	(18,047)
Total liabilities	(2,485)	(75,870)	–	(78,355)

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

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

Reconciliation of level 3 items

	Financial assets at fair value through profit or loss	**Financial assets at fair value through other comprehensive income**
Balance at 1 January 2018	**14,107**	**1,577**
Total gains or losses		
– Net gains arising from trading activities	**217**	**32**
– Other comprehensive income	**–**	**(314)**
Additions	**14,079**	**4,836**
Disposals and settlement	**(7,353)**	**(433)**
Transfer to other levels	**–**	**–**
Balance at 31 December 2018	**21,050**	**5,698**
Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2018		
– Realised gains/(losses)	**327**	**33**
– Unrealised gains/(losses)	**(110)**	**(315)**

	Financial assets at fair value through profit or loss	Available-for-sale financial assets
Balance at 1 January 2017	–	5,925
Total gains or losses		
– Net gains arising from trading activities	12	(286)
– Other comprehensive income	–	(1,132)
Additions	2,328	2,264
Disposals	–	(30)
Transfer to other levels	–	(6)
Balance at 31 December 2017	2,340	6,735
Total gains/(losses) for consolidated financial assets/liabilities held at 31 December 2017		
– Realised gains/(losses)	12	(286)
– Unrealised gains/(losses)	–	(1,132)

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

As at 31 December 2018, the carrying amounts of financial instruments with fair values determined based on unobservable inputs were insignificant, and the effect on the valuation results by using reasonable alternatives for the unobservable assumptions is considered to be insignificant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

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

As at 31 December 2018, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

3.6 Capital management

The Group's objectives in managing "capital", which is a broader concept than the "shareholder equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the markets where the Group operates;
- To ensure the Group's ability to maintain a stable operation so as to continue provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group management adopts administrative measures issued by CBIRC, which was developed based on guideline issued by the Based Committee, in monitoring its capital adequacy and the usage of regulatory capital on a quarterly basis.

The Administrative Measures for the Capital of Commercial Banks (Provisional) specified the regulatory requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- Minimum regulatory requirements for Core Tier 1 Capital adequacy ratio, Tier 1 Capital adequacy ratio and Capital adequacy ratio are 5%, 6% and 8%, respectively;
- Capital conservation buffer requires additional 2.5% on Core Tier 1 Capital adequacy ratio;
- Additional capital surcharge for systemically important banks requires additional 1% on Core Tier 1 Capital adequacy ratio;
- Should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Capital management *(Continued)*

The Group's capital as monitored by its Planning and Finance Department consists of the following:

- Core Tier 1 Capital, including ordinary shares, eligible portion of capital surplus, statutory reserve, statutory general reserve, retained earnings, eligible portion of non-controlling interests and translation reserve on foreign operations;

- Additional Tier 1 Capital, including additional Tier 1 Capital instruments issued and related premium and eligible portion of non-controlling interests;

- Tier 2 Capital, including Tier 2 Capital instruments issued and related premium, excess loan loss provisions and eligible portion of non-controlling interests.

The Group's deductible items from Core Tier 1 Capital include: Goodwill, other intangible assets (except land use rights), investments in Core Tier 1 Capital of financial institutions with controlling interests but outside the scope of regulatory consolidation.

In April 2014, CBIRC officially approved the implementation of the advanced approach of capital management adopted by the Bank. In this approach, the Bank elected to use elementary internal rating based ("IRB") approach for corporate risk exposure, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure which is compliant with regulatory requirements. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated by adopting non-advanced approaches. The capital ratios calculated based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* are as follows:

Item	As at 31 December 2018	As at 31 December 2017
Core Tier 1 Capital adequacy ratio (%)	11.16	10.79
Tier 1 Capital adequacy ratio (%)	12.21	11.86
Capital adequacy ratio (%)	14.37	14.00
Core Tier 1 Capital	640,373	613,104
Core Tier 1 Capital deductions	(5,566)	(3,650)
Net Core Tier 1 Capital	634,807	609,454
Additional Tier 1 Capital	60,025	59,975
Net Tier 1 Capital	694,832	669,429
Tier 2 Capital	122,717	120,952
Net Capital	817,549	790,381
Risk-weighted asset	5,690,542	5,646,313

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

4 NET INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income		
Loans and advances to customers	225,422	200,207
Financial investments	85,449	79,895
Due from banks and other financial institutions	24,945	20,528
Balances with central banks	13,048	13,570
	348,864	314,200
Interest expense		
Due to customers	(128,589)	(111,366)
Due to banks and other financial institutions	(66,788)	(64,751)
Certificates of deposits issued	(11,344)	(3,572)
Debt securities issued	(11,235)	(9,638)
	(217,956)	(189,327)
Net interest income	130,908	124,873
Including:		
Interest income on impaired financial assets	1,618	1,812

5 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	2017
Bank cards	20,114	16,267
Management services	12,524	14,948
Investment banking	4,424	4,518
Agency services	2,777	3,216
Guarantee and commitment	2,461	2,554
Settlement services	2,167	1,884
Others	206	673
	44,673	44,060

	Year ended 31 December	
	2018	2017
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	701	907
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	3,406	3,124

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

6 FEE AND COMMISSION EXPENSE

	Year ended 31 December	
	2018	2017
Bank card business	**2,326**	2,382
Settlement services	**771**	716
Others	**339**	411
	3,436	3,509

	Year ended 31 December	
	2018	2017
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**5**	7

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Year ended 31 December	
	2018	2017
Financial instrument at fair value through profit and loss	**12,606**	3,633
Foreign exchange	**3,636**	(1,052)
Interest rate instruments and others	**857**	(485)
	17,099	2,096

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

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

Net income arising from trading activities for the year ended 31 December 2018 include an income of RMB26 million (for the year ended 31 December 2017: a loss of RMB24 million) in relation to changes in the fair value of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Leasing income	**10,523**	8,661
Income from sales of precious metal merchandise	**2,351**	2,242
Revaluation of investment property	**117**	192
Net profit on the disposal of fixed and foreclosed assets	**15**	123
Other miscellaneous income	**2,807**	1,598
	15,813	12,816

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

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

9 CREDIT IMPAIRMENT LOSSES/OTHER ASSETS IMPAIRMENT LOSSES/ASSETS IMPAIRMENT LOSSES

Credit impairment losses:

	Year ended 31 December 2018
Credit impairment losses on due from banks and other financial institutions	(43)
Credit impairment losses on loans and advances to customers at amortised cost	42,813
Credit impairment losses on loans and advances carried at FVOCI	(317)
Credit impairment losses on guarantee and commitment	(1,142)
Credit impairment losses on financial investments – debt instruments at amortised cost	(362)
Credit impairment losses on financial investments – debt instruments at FVOCI	265
Credit impairment losses on other receivables	1,075
Credit impairment losses on interest receivable of loans and advances to customers at amortised cost	1,127
Others	38
	43,454

Other assets impairment losses:

	Year ended 31 December 2018
Impairment losses on property and equipment	33
Impairment losses on foreclosed assets	27
	60

Assets impairment losses:

	Year ended 31 December 2017
Impairment losses on loans and advances to customers	30,161
Impairment losses on financial investments – available-for-sale	412
Impairment losses on financial investments – held-to-maturity	4
Impairment losses on Financial investments – loans and receivables	(195)
Impairment losses on property and equipment	80
Impairment losses on other receivables	991
Impairment losses on foreclosed assets	6
Impairment losses on unsettled assets	(1)
Others	11
	31,469

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

10 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Staff costs and benefits (Note 11)	29,519	28,193
General operational and administrative expense	28,844	26,334
Depreciations and amortisations	5,677	5,878
Leasing cost	6,414	3,437
Taxes and surcharges	2,501	2,481
Charge of provision for outstanding litigations	549	110
Others	3,248	3,142
	76,752	69,575

11 STAFF COSTS AND BENEFITS

	Year ended 31 December	
	2018	2017
Salaries and bonuses and allowances and subsidies	20,599	19,986
Post-employment benefit (a)	3,380	3,258
Other social security and benefit costs	5,540	4,949
	29,519	28,193

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the period to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Year ended 31 December	
	2018	2017
Expenses incurred for retirement benefit plans and unemployment insurance	2,532	2,472
Expenses incurred for annuity plan	820	758
Total	3,352	3,230

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

	As at 31 December 2018	As at 31 December 2017
Expenses incurred for retirement benefit plans and unemployment insurance	64	53
Expenses incurred for annuity plan	14	12
Total	78	65

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

11 STAFF COSTS AND BENEFITS *(Continued)*

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

Defined benefit plans

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

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

	As at 31 December 2018	As at 31 December 2017
Statement of financial position		
– Obligations for pension benefits	408	395

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

	Year ended 31 December	
	2018	2017
Components of defined benefit costs recognised in profit or loss	28	28
Components of defined benefit costs recognised in other comprehensive income	25	(31)
Total	53	(3)

Past service cost and interest expense were recognised in other operating expenses in the income statement.

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

	Year ended 31 December	
	2018	2017
Present value of unfunded obligations at the beginning of the year	395	427
Retirement benefits paid during the year	(40)	(29)
Interest expense	25	26
Past service cost	3	2
Net actuarial (gains)/losses recognised in the current year	25	(31)
Present value of unfunded obligations at the end of the year	408	395

The average duration of the supplementary retirement benefits plan at 31 December 2018 is 10.95 years (31 December 2017: 11.75 years).

The Group expects to make a contribution of RMB41 million (2017: RMB42 million) to the defined benefit plan during the next financial year.

11 STAFF COSTS AND BENEFITS *(Continued)*

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

Defined benefit plans *(Continued)*

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate or inflation rate, which were 3.47% (31 December 2017: 4.05%) and 2.12% (31 December 2017: 1.58%) respectively as at 31 December 2018. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2018, an average longevity of a pensioner after retirement at age 60 for male is 19.70 years (31 December 2017: 19.70 years) while a pensioner after retirement at age 55 for female is 28.70 years (31 December 2017: 28.70 years).

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

(1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB24 million (increase by RMB27 million).

(2) If the expected inflation rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB27 million (decrease by RMB25 million).

(3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB30 million (decrease by RMB29 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

(in thousands of RMB)	Year ended 31 December 2018			
Name	**Emoluments**	**Remuneration**	**Other benefits**	**Total**
Executive directors				
Mr. Peng, Chun	–	546	179	725
Mr. Ren, Deqi	–	273	103	376
Mr. Hou, Weidong	–	491	174	665
Non-executive directors				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Wang, Taiyin	–	672	170	842
Mr. Song, Guobin	–	672	210	882
Mr. He, Zhaobin	–	672	210	882
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	250	–	–	250
Mr. Hu, Zhanyun	250	–	–	250
Mr. Cai, Haoyi	–	–	–	–
Supervisors				
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	200	–	200
Ms. Chen, Qing	–	853	161	1,014
Mr. Du, Yarong	–	840	161	1,001
Mr. Xu, Ming	–	833	161	994
Mr. Guan, Xingshe	–	133	28	161
Total	1,000	6,185	1,557	8,742
Directors and supervisors that resigned in 2018				
Mr. Niu, Ximing	–	312	195	507
Ms. Yu, Yali	–	328	114	442
Mr. Shen, Rujun	–	409	158	567
Mr. Song, Shuguang	–	546	195	741
Mr. Fan, Jun	–	484	91	575
Mr. Chen, Zhiwu	146	–	–	146
Total	146	2,079	753	2,978

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors', supervisors' and senior management's emoluments before taxation *(Continued)*

(in thousands of RMB)	Year ended 31 December 2017			
Name	Emoluments	Remuneration	Other benefits	Total
Executive directors				
Mr. Niu, Ximing	–	552	177	729
Mr. Peng, Chun	–	672	168	840
Ms. Yu, Yali	–	605	163	768
Mr. Hou, Weidong	–	605	163	768
Non-executive directors				
Mr. Wang, Dongsheng	–	–	–	–
Mr. Wang, Taiyin	–	1,508	159	1,667
Mr. Song, Guobin	–	503	76	579
Mr. He, Zhaobin	–	503	76	579
Ms. Huang, Bijuan	–	–	–	–
Mr. Liu, Hanxing	–	–	–	–
Mr. Luo, Mingde	–	–	–	–
Mr. Liu, Haoyang	–	–	–	–
Mr. Chen, Zhiwu	250	–	–	250
Mr. Yu, Yongshun	–	–	–	–
Ms. Li, Jian	250	–	–	250
Mr. Liu, Li	250	–	–	250
Mr. Yang, Zhiwei	250	–	–	250
Mr. Hu, Zhanyun	24	–	–	24
Supervisors				
Mr. Song, Shuguang	–	519	183	702
Mr. Gu, Huizhong	–	–	–	–
Mr. Zhao, Yuguo	–	–	–	–
Mr. Liu, Mingxing	–	–	–	–
Ms. Zhang, Lili	–	–	–	–
Mr. Wang, Xueqing	–	–	–	–
Ms. Tang, Xinyu	–	–	–	–
Ms. Xia, Zhihua	–	–	–	–
Mr. Li, Yao	–	–	–	–
Ms. Chen, Qing	–	853	150	1,003
Mr. Du, Yarong	–	841	150	991
Mr. Fan, Jun	–	829	150	979
Mr. Xu, Ming	–	833	150	983
Total	1,024	8,823	1,765	11,612

(1) The total compensation package for directors and supervisors for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2018 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2017 was disclosed in Information on the First Interim General Meeting of Stockholders in 2019 issued on 10 December 2018.

(2) Staff supervisors Ms. Chen, Qing, Mr. Du, Yarong, Mr. Xu Ming and Mr. Guan, Xingshe received compensation according to their staff position of the Bank and did not received additional compensation for being staff supervisors.

(3) During 2018 and 2017, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

(4) Other benefits include social insurance, housing fund, enterprise annuity paid by the Bank.

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group for the related years are as follows:

	Year ended 31 December	
	2018	2017
Salary	**14**	13
Discretionary bonuses	**14**	12
Employer's contribution to pension scheme and other benefits	**2**	2
Total	**30**	27

Emoluments of the above five highest paid individuals in the Group are within the following bands:

	Number of employees As at 31 December	
	2018	2017
HKD4,000,001 – 4,500,000	**–**	2
HKD4,500,001 – 5,000,000	**2**	2
HKD5,000,001 – 5,500,000	**2**	–
HKD5,500,001 – 6,000,000	**–**	–
HKD6,000,001 – 6,500,000	**–**	–
HKD6,500,001 – 7,000,000	**–**	–
HKD7,000,001 – 7,500,000	**–**	–
HKD7,500,001 – 8,000,000	**–**	–
HKD8,000,001 – 8,500,000	**–**	1
HKD8,500,001 – 9,000,000	**–**	–
HKD9,000,001 – 9,500,000	**–**	–
HKD9,500,001 – 10,000,000	**1**	–
	5	5

During 2018 and 2017, no emolument was paid by the Group to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 INCOME TAX

	Year ended 31 December	
	2018	2017
Current tax		
– PRC enterprise income tax	**6,838**	13,602
– Hong Kong profits tax	**1,058**	826
– Overseas taxations	**593**	408
	8,489	14,836
Deferred income tax (Note 24)	**3,413**	(2,262)
	11,902	12,574

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2017: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the PRC tax rate shall be reported and paid by the PRC head office.

13 INCOME TAX *(Continued)*

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2017: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2018	2017
Profit before tax	**86,067**	83,265
Tax calculated at a tax rate of 25%	**21,517**	20,816
Effect of different tax rates in other countries (or regions)	**(33)**	(31)
Tax effect of expense not deductible for tax purposes	**3,589**	1,966
Tax effect arising from income not subject to tax (1)	**(12,395)**	(10,282)
Income tax adjustment for prior years	**(776)**	105
Income tax expense	**11,902**	12,574

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

14 BASIC AND DILUTED EARNINGS PER SHARE

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

	Year ended 31 December	
	2018	2017
Net profit attributable to shareholders of the Bank	**73,630**	70,223
Less: Net profit attributable to preference shareholders of the Bank	**(2,618)**	(2,693)
Net profit attributable to ordinary shareholders of the Bank	**71,012**	67,530
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	**74,263**	74,263
Basic and diluted earnings per share (expressed in RMB per share)	**0.96**	0.91

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016 under the terms and conditions as detailed in Note 33 Preference Shares. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,618 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December 2018	As at 31 December 2017
Cash	**14,665**	16,623
Mandatory reserve deposits	**703,649**	802,012
Excess reserve deposits	**111,759**	112,534
Balances with central banks other than reserve deposits	**9,727**	7,402
Interest receivable of balance with central banks	**371**	N.A.
	840,171	938,571

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

15 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

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

	As at 31 December 2018	As at 31 December 2017
Domestic mandatory reserve rate for deposits denominated in RMB	**14.00**	16.50
Domestic mandatory reserve rate for deposits denominated in foreign currencies	**5.00**	5.00

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Due from banks and other financial institutions		
– Banks operating in Mainland China	**104,270**	109,025
– Banks operating outside Mainland China	**58,697**	35,400
Interest receivable of due from banks and financial institutions	**933**	N.A.
Less: ECL allowance	**(254)**	N.A.
Financial assets held under resale agreements		
– Securities	**116,871**	57,051
– Bills	**2,846**	10,226
Interest receivable of financial assets held under resale agreements	**92**	N.A.
Less: ECL allowance	**(166)**	N.A.
Placements with and loans to banks		
– Banks operating in Mainland China	**194,008**	194,348
– Banks operating outside Mainland China	**47,437**	98,342
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	**275,020**	274,307
– Placements with and loans to other financial institutions outside Mainland China	**42,898**	3,769
Interest receivable of placements with and loans to banks and other financial institutions	**6,749**	N.A.
Less: ECL allowance	**(1,334)**	N.A.
	848,067	782,468

As at 31 December 2018, placements with and financial assets held under resale agreements with wealth management products that were sponsored and not consolidated by the Group amounted to RMB96,473 million (31 December 2017: RMB110,662 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements. The average exposure of the above transactions during the year ended 31 December 2018 was RMB54,670 million and the weighted average outstanding period was 6.01 days (The average exposure during 2017 was RMB51,429 million and the weighted average outstanding period was 4.13 days). As at the approval date of these consolidated financial statements, the placements, loans and financial assets under resale agreements had matured and the amounts had been fully repaid.

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018
Government bonds	
– Listed in Hong Kong	1,740
– Listed outside Hong Kong (a)	2,989
– Unlisted	776
Other debt securities	
– Listed in Hong Kong	12,957
– Listed outside Hong Kong (a)	108,006
– Unlisted – corporate entities	3,606
– Unlisted – public sector entities	–
– Unlisted – banks	1,193
Equity securities	
– Listed in Hong Kong	1
– Listed outside Hong Kong	1,099
– Unlisted	9,232
Fund investments and other asset management products	
– Listed in Hong Kong	–
– Listed outside Hong Kong	–
– Unlisted	187,554
Precious metal contracts	37,232
Loans to banks and other financial institutions	8,393
Interest receivable of financial investments – financial assets at fair value through profit or loss	1,608
Total	376,386

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 31 December 2018
– Banks and other financial institutions	91,198
– Corporate entities	33,481
– Governments and central banks	5,561
– Public sector entities	2,588
	132,828

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

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

	As at 31 December 2017
Government bonds	
– Listed in Hong Kong	2,414
– Listed outside Hong Kong (a)	7,062
– Unlisted	2,606
Other debt securities	
– Listed in Hong Kong	6,178
– Listed outside Hong Kong (a)	69,894
– Unlisted – corporate entities	–
– Unlisted – public sector entities	–
– Unlisted – banks	776
Equity securities	
– Listed in Hong Kong	10
– Listed outside Hong Kong	–
– Unlisted	290
Fund investments and other asset management products	
– Listed in Hong Kong	–
– Listed outside Hong Kong	5
– Unlisted	83,867
Precious metal contracts	41,198
Loans to banks and other financial institutions	12,730
Total	227,030

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

	As at 31 December 2017
– Banks and other financial institutions	45,980
– Corporate entities	28,653
– Governments and central banks	12,082
– Public sector entities	2,215
	88,930

The financial assets at fair value through profit or loss include financial assets held for trading and financial assets that cannot pass the 'SPPI test'.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

	Contractual/notional amount	**Fair values Assets**	**Fair values Liabilities**
As at 31 December 2018			
Foreign exchange and commodity contracts	**2,541,252**	**26,441**	**(25,640)**
Interest rate contracts and others	**831,692**	**4,289**	**(2,465)**
Total amount of derivative instruments recognised	**3,372,944**	**30,730**	**(28,105)**

	Contractual/notional amount	Fair values Assets	Fair values Liabilities
As at 31 December 2017			
Foreign exchange and commodity contracts	2,472,503	31,655	(31,819)
Interest rate contracts and others	721,892	2,352	(1,525)
Total amount of derivative instruments recognised	3,194,395	34,007	(33,344)

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

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

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2018	As at 31 December 2017
RMB	1,785,452	1,518,866
USD	1,384,347	1,343,072
HKD	129,328	200,543
Others	73,817	131,914
Total	3,372,944	3,194,395

Hedge accounting

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

Interest rate risk on fixed rate financial assets and financial liabilities and foreign exchange risk on foreign currency debt (fair value hedge)

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

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

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

The Group obtain effective sources of funding from international markets. As part of this process, the oversea branches assume significant foreign currency exposure, principally USD. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange placements from banks issued in the foreign currency for financial liabilities in functional currency.

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

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts or interest rate contracts with changes in fair value of the hedged liabilities attributable to the hedged risk.

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

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

2) The credit risk of the counterparty impacts the fair value of interest rate swaps and hedged items.

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

Foreign exchange risk on foreign currency debt and interest rate risk on floating rate debt (cash flow hedge)

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

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

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

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

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

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

2) The credit risk of the counterparty impacts the fair value of interest rate swaps and on hedged items.

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

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

	Maturity					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
As at 31 December 2018						
Fair value hedge						
Foreign exchange						
Foreign exchange contract in USD						
Notional	2	2	–	–	–	4
Average exchange rate of USD/BRL	3.71	3.76	–	–	–	
Interest rate contract						
Notional (i)	2	4	236	183	–	425
Average fixed interest rate in BRL	3.70%	2.63%	3.75%	4.18%	–	
Interest rate						
Interest rate contract						
Notional	70	–	6,266	44,609	19,760	70,705
Average fixed interest rate in USD and other currencies	3.21%	–	2.65%	3.31%	3.66%	
Cash flow hedge						
Foreign exchange						
Foreign exchange contract in CNY						
Notional	3,022	931	6,353	–	–	10,306
Average exchange rate of USD/CNY	6.84	6.85	6.82	–	–	
Average exchange rate of AUD/CNY	4.93	5.04	4.94	–	–	
Foreign exchange contract in HKD (ii)						
Notional	594	2,809	2,474	1,365	–	7,242
Average fixed interest rate	–	–	–	2.68%	–	
Average exchange rate of USD/HKD	7.80	7.79	7.81	–	–	
Average exchange rate of AUD/HKD	–	5.95	5.87	–	–	
Average exchange rate of GBP/HKD	–	–	–	10.40	–	
Foreign exchange contract in USD (ii)						
Notional	961	2,862	3,137	–	–	6,960
Average fixed interest rate	3.36%	3.50%	3.46%	–	–	
Average exchange rate of USD/AUD	1.35	–	1.38	–	–	
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of USD/NZD	–	1.47	–	–	–	
Average exchange rate of USD/BRL	–	3.92	–	–	–	
Average exchange rate of USD/CNY	6.49	6.33	6.57	–	–	
Foreign exchange contract in GBP						
Notional	–	–	608	–	–	608
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of GBP/AUD	–	–	1.86	–	–	
Interest rate						
Interest rate contract						
Notional	–	–	–	471	1,348	1,819
Average fixed interest rate in USD	–	–	–	4.74%	4.67%	

(i): Interest rate contract refers to a compound tool with interest rate as the underlying asset
(ii): Foreign exchange contracts include currency swap contracts and cross-currency swap contracts

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

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

	Notional	Carrying amount		Line item on balance sheet	Fair value changes of the hedging instruments
		Assets	Liabilities		
As at 31 December 2018					
Fair value hedge					
Foreign exchange					
Exchange Rate Instruments	4	–	–	Derivative financial assets/ liabilities	1
Interest rate contract	425	14	(1)	Derivative financial assets/ liabilities	65
Interest rate					
Interest rate contract	70,705	1,108	(352)	Derivative financial assets/ liabilities	(94)
Cash flow hedge					
Foreign exchange					
Foreign exchange contract	25,116	451	(201)	Derivative financial assets/ liabilities	122
Interest rate					
Interest rate contract	1,819	28	–	Derivative financial assets/ liabilities	25

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

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Line item on balance sheet	Fair value changes of the hedged items	Cash flow hedge reserves
	Assets	Liabilities	Assets	Liabilities			
As at 31 December 2018							
Fair value hedge							
Foreign exchange							
Placement from banks	–	(705)	–	(124)	Due to banks and other financial institutions	(116)	N.A.
Interest rate							
Debt instruments	67,742	–	(722)	–	Financial investments – debt instruments at fair value through other comprehensive income	51	N.A.
Deposits from banks and other financial institutions	–	(663)	–	23	Due to banks and other financial institutions	8	N.A.
Loans and advances to customers	2,134	–	(19)	–	Loans and advances to customers	15	N.A.
Certificates of deposits issued	–	(541)	–	5	Certificates of deposits issued	(39)	N.A.
Cash flow hedge							
Foreign exchange	N.A.	N.A.	N.A.	N.A.	N.A	(122)	3
Interest rate	N.A.	N.A.	N.A.	N.A.	N.A	(25)	21

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

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

				Amounts reclassified from reserves to profit and loss due to following reasons		
	Gains/(losses) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit and loss	Profit and loss line item that includes hedge ineffectiveness	Hedged cash flows no longer occurred	Hedged item affected profit and loss	Profit and loss line item that includes reclassified amount
Year ended 31 December 2018						
Fair value hedge						
Foreign exchange	N.A.	(50)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Interest rate	N.A.	(59)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Cash flow hedge						
Foreign exchange	122	–	Net gains arising from trading activities	(11)	(113)	Net gains arising from trading activities
Interest rate	25	–	Net gains arising from trading activities	–	–	Net gains arising from trading activities

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

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

(a) Fair value hedge

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

	As at 31 December 2017
Net gains on hedging instruments	256
Net losses on hedged items attributable to the hedge risk	(348)
Net losses from fair value hedges	(92)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(b) Cash flow hedge

For the year ended 31 December 2017, the Group's profit from the cash flow hedge of RMB23 million was recognised in other comprehensive income and the gain and loss arising from the ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2017, as a result of the highly probable cash flows no longer being expected to occur.

19 LOANS AND ADVANCES TO CUSTOMERS

19.1 Loans and advances to customers

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers		
– Carried at amortised cost	4,669,550	4,579,256
– Carried at FVOCI	184,184	N.A.
– Carried at FVPL	494	N.A.
Less: ECL allowance	(123,861)	(106,001)
Interest receivable of loans and advances to customers	14,195	N.A.
Less: allowance for impairment of interest receivable of loans and advances to customers	(2,190)	N.A.
	4,742,372	4,473,255

19.2 Movements of gross carrying amount and ECL allowance

Movements of gross amount – Corporate Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	2,791,561	150,487	62,557	3,004,605
Addition, net	154,030	(87,260)	(5,225)	61,515
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	(103,366)	64,901	38,465	–
Transfer between Stage 1 and Stage 2, net	*(88,892)*	*88,892*	–	–
Transfer between Stage 1 and Stage 3, net	*(14,474)*	–	*14,474*	–
Transfer between Stage 2 and Stage 3, net	–	*(23,991)*	*23,991*	–
Modification of contractual cash flows of financial assets	18	148	(212)	(46)
Exchange differences	6,713	71	53	6,837
Gross carrying amount as at 31 December 2018	2,848,956	127,820	57,147	3,033,923

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Corporate Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 January 2018	25,027	50,159	36,406	111,592
Addition (Reversal)	(2,123)	1,320	30,879	30,076
Written-offs and disposals	–	(527)	(38,461)	(38,988)
Transfers:	381	(8,488)	8,107	–
Transfer between Stage 1 and Stage 2, net	*741*	*(741)*	*–*	–
Transfer between Stage 1 and Stage 3, net	*(360)*	*–*	*360*	–
Transfer between Stage 2 and Stage 3, net	*–*	*(7,747)*	*7,747*	–
Recoveries of loans written-off in previous years	–	–	1,062	1,062
Unwind of discount	–	–	(1,447)	(1,447)
Exchange differences	38	39	31	108
Loss allowance as at 31 December 2018	23,323	42,503	36,577	102,403

Movements of gross carrying amount – Individual Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	1,388,170	5,721	15,991	1,409,882
Addition, net	240,290	(1,515)	(2,902)	235,873
Written-offs	–	–	(11,180)	(11,180)
Transfers:	(17,027)	3,635	13,392	–
Transfer between Stage 1 and Stage 2, net	*(5,541)*	*5,541*	*–*	–
Transfer between Stage 1 and Stage 3, net	*(11,486)*	*–*	*11,486*	–
Transfer between Stage 2 and Stage 3, net	*–*	*(1,906)*	*1,906*	–
Exchange differences	982	31	39	1,052
Gross carrying amount as at 31 December 2018	1,612,415	7,872	15,340	1,635,627

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Individual Loan at amortised cost:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 January 2018	6,506	1,395	11,626	19,527
Addition (Reversal)	730	1,450	10,557	12,737
Written-offs	–	–	(11,180)	(11,180)
Transfers:	460	(545)	85	–
Transfer between Stage 1 and Stage 2, net	*272*	*(272)*	–	–
Transfer between Stage 1 and Stage 3, net	*188*	–	*(188)*	–
Transfer between Stage 2 and Stage 3, net	–	*(273)*	*273*	–
Recoveries of loans written-off in previous years	–	–	517	517
Unwind of discount	–	–	(171)	(171)
Exchange differences	14	2	12	28
Loss allowance as at 31 December 2018	7,710	2,302	11,446	21,458

Movements of gross carrying amount – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	156,612	7,184	209	164,005
Addition, net	28,129	(7,712)	(44)	20,373
Transfers:	(7,029)	6,980	49	–
Transfer between Stage 1 and Stage 2, net	*(6,980)*	*6,980*	–	–
Transfer between Stage 1 and Stage 3, net	*(49)*	–	*49*	–
Changes in the fair value	1,162	279	44	1,485
Gross carrying amount as at 31 December 2018	178,874	6,731	258	185,863

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.2 Movements of gross carrying amount and ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 January 2018	1,587	278	131	1,996
Addition (Reversal)	(138)	(279)	100	(317)
Transfers:	(286)	284	2	–
Transfer between Stage 1 and Stage 2, net	*(284)*	*284*	–	–
Transfer between Stage 1 and Stage 3, net	*(2)*	–	*2*	–
Loss allowance as at 31 December 2018	1,163	283	233	1,679

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

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

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

19.3 Loans and advances to customers analysed by security type

	As at 31 December 2018	As at 31 December 2017
Unsecured loans	**1,554,652**	1,437,854
Guaranteed loans	**895,738**	908,119
Collateralised and other secured loans	**2,403,838**	2,233,283
Including: Loans secured by collateral	***1,732,818***	*1,631,954*
Pledged loans	***671,020***	*601,329*
Total	**4,854,228**	4,579,256

20 FINANCIAL INVESTMENTS

	As at 31 December 2018
Financial investments – debt instruments at amortised cost	
– Listed in Hong Kong	**6,007**
– Listed outside Hong Kong	**1,759,249**
– Unlisted	**209,518**
Financial investments – interest receivable of debt instruments at amortised cost	**29,100**
Less: ECL allowance	**(3,369)**
Financial investments – debt instruments at amortised cost (net)	**2,000,505**
Financial investments – debt instruments at fair value through other comprehensive income	
– Listed in Hong Kong	**106,465**
– Listed outside Hong Kong (a)	**236,079**
– Unlisted	**91,209**
Financial investments – interest receivable of debt instruments at FVOCI	**3,877**
Total	**437,630**
Financial investments – equity investments at fair value through other comprehensive income	
– Listed in Hong Kong	**991**
– Listed outside Hong Kong	**1,423**
– Unlisted	**4,974**
Total	**7,388**

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

20 FINANCIAL INVESTMENTS *(Continued)*

	As at 31 December 2017
Available-for-sale debt securities – at fair value	
– Listed in Hong Kong	66,827
– Listed outside Hong Kong (a)	222,352
– Unlisted	104,569
Available-for-sale debt securities	393,748
Available-for-sale equity securities – at fair value	
– Listed in Hong Kong	1,263
– Listed outside Hong Kong	1,895
– Unlisted	2,649
Available-for-sale equity securities	5,807
Available-for-sale fund investments and others – at fair value	
– Listed in Hong Kong	–
– Listed outside Hong Kong	247
– Unlisted	2,336
Available-for-sale fund investments and others	2,583
Total available-for-sale financial assets	402,138
Held-to-maturity debt securities – at amortised cost	
– Listed in Hong Kong	2,158
– Listed outside Hong Kong (a)	1,506,878
– Unlisted	2,694
Impairment allowance	(355)
Held-to-maturity investments (net)	1,511,375
Loans and receivables – at amortised cost	
– Listed outside Hong Kong	109,888
– Unlisted	280,453
Less: Impairment allowance	(2,608)
Loans and receivables (net)	387,733

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

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

20 FINANCIAL INVESTMENTS *(Continued)*

The movements in the gross carrying amount of financial assets are summarised as follows:

	Financial investments – debt instruments at fair value through other comprehensive income			Financial investments – debt instruments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	369,756	–	454	1,886,559	54	576	2,257,399
New financial assets originated or purchased	283,626	–	–	406,039	–	–	689,665
Financial assets derecognised during the period other than write-offs	(221,948)	–	(8)	(319,166)	(54)	(16)	(541,192)
Write-offs	–	–	–	–	–	–	–
Transfers:							
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(525)*	–	*525*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Modification of contractual cash flows of financial assets	–	–	–	–	–	–	–
Changes in interest accrual	3,877	–	–	29,100	–	–	32,977
Foreign exchange and other movements	3,037	–	21	782	–	–	3,840
Gross carrying amount as at 31 December 2018	438,348	–	467	2,002,789	–	1,085	2,442,689

The movements in ECL of debt instruments are summarised as follows:

	Financial investments – debt instruments at fair value through other comprehensive income			Financial investments – debt instruments at amortised cost			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance							
As at 1 January 2018	438	–	454	3,246	10	475	4,623
Additions	756	–	–	1,170	–	–	1,926
Reversal	(483)	–	(8)	(1,506)	(10)	(16)	(2,023)
Transfers in	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Written-offs	–	–	–	–	–	–	–
Recovery after written-off	–	–	–	–	–	–	–
Transfers:	–	–	–	(26)	–	26	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	*(26)*	–	*26*	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Modification of contractual cash flows of financial assets	–	–	–	–	–	–	–
Exchange differences	7	–	21	–	–	–	28
As at 31 December 2018	718	–	467	2,884	–	485	4,554

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

20 FINANCIAL INVESTMENTS *(Continued)*

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

Debt securities analysed by issuer are as follows:

	As at 31 December 2018	As at 31 December 2017
Financial Investments – debt instruments at FVOCI		
– Governments and central banks	**66,621**	N.A.
– Public sector entities	**3,699**	N.A.
– Banks and other financial institutions	**312,339**	N.A.
– Corporate entities	**54,971**	N.A.
Total	**437,630**	N.A.
Available-for-sale financial assets		
– Banks and other financial institutions	**N.A.**	302,418
– Corporate entities	**N.A.**	49,196
– Governments and central banks	**N.A.**	37,783
– Public sector entities	**N.A.**	4,351
Total	**N.A.**	393,748
Financial investment – debt instruments at amortised cost		
– Governments and central banks	**1,439,657**	N.A.
– Public sector entities	**28,364**	N.A.
– Banks and other financial institutions	**292,631**	N.A.
– Corporate entities	**38,411**	N.A.
Financial investment – debt instruments at amortised cost (net)	**1,799,063**	N.A.
Held-to-maturity investments		
– Governments and central banks	**N.A.**	1,152,115
– Banks and other financial institutions	**N.A.**	280,343
– Corporate entities	**N.A.**	49,820
– Public sector entities	**N.A.**	29,097
Held-to-maturity investments (net)	**N.A.**	1,511,375
Loans and receivables		
– Governments and central banks	**N.A.**	104,630
– Banks and other financial institutions	**N.A.**	12,646
Loans and receivables (net)	**N.A.**	117,276

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

20 FINANCIAL INVESTMENTS *(Continued)*

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

	As at 31 December 2018	As at 31 December 2017
Financial investment at FVPL		
– Listed in Hong Kong	**1,047**	N.A.
– Listed outside Hong Kong	**44,682**	N.A.
– Unlisted	**44,354**	N.A.
	90,083	N.A.
Available-for-sale financial assets (at fair value)		
– Listed in Hong Kong	**N.A.**	795
– Listed outside Hong Kong	**N.A.**	11,863
– Unlisted	**N.A.**	40,603
	N.A.	53,261

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

	As at 31 December 2018	As at 31 December 2017
Within 3 months	**14,407**	29,686
3 months to 12 months	**58,075**	16,314
1 year to 5 years	**17,072**	7,261
Over 5 years	**529**	–
	90,083	53,261

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

21 PRINCIPAL SUBSIDIARIES

21.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group (%)	Principal activities
Bank of Communications Financial Leasing Co., Ltd.	Mainland China	20 Dec. 2007	RMB8,500,000,000	100	Financial leasing
Bank of Communications International Trust Co., Ltd.	Mainland China	18 Oct. 2007	RMB5,764,705,882	85	Trust investment
Bank of Communications Schroder Fund Management Co., Ltd.	Mainland China	4 Aug. 2005	RMB200,000,000	65	Fund management
BoCommlife Insurance Company Limited	Mainland China	27 Jan. 2010	RMB5,100,000,000	62.50	Life Insurance
BoCom International Holdings Company Limited (formerly known as BoCom Securities Company Limited)	Hong Kong	2 May. 2007	HKD2,734,392,000	73.14	Securities dealing and brokerage
China BoCom Insurance Co., Ltd. (formerly known as China Communications Insurance Company Limited)	Hong Kong	1 Nov. 2000	HKD400,000,000	100	General insurance and reinsurance
Dayi BoCom Xingmin Rural Bank Ltd.	Mainland China	15 Aug. 2008	RMB60,000,000	61	Commercial banking
Zhejiang Anji BoCom Rural Bank Ltd.	Mainland China	18 Mar. 2010	RMB180,000,000	51	Commercial banking
Xinjiang Shihezi BoCom Rural Bank Company Ltd.	Mainland China	13 Apr. 2011	RMB150,000,000	51	Commercial banking
Qingdao Laoshan BoCom Rural Bank Company Ltd.	Mainland China	16 Aug. 2012	RMB150,000,000	51	Commercial banking
Bank of Communications (UK) Limited	UK	29 July. 2011	USD1	100	Commercial banking
Bank of Communications (Luxemburg) Limited	Luxembourg	7 May. 2015	EUR100,000,000	100	Commercial banking
BoCom Brazil Holding Company Ltda	Brazil	11 Mar. 2016	BRL501,255,813	100	Investment
BANCO Bocom BBM S.A.	Brazil	29 Jun. 1967	BRL313,686,111	80	Commercial banking
Bank of Communications Financial Assets Investment Co., Ltd.	Mainland China	29 Dec. 2017	RMB10,000,000,000	100	Debt-to-equity swaps
Bank of Communications (Hong Kong) Limited (3)	Hong Kong	29 Jan.2018	HKD17,900,000,000	100	Commercial banking

(1) These subsidiaries incorporated in PRC are all limited liability companies.

As at 31 December 2018, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

(2) For details of the debt securities issued by subsidiaries, please refer to Note 30.

(3) In 29 January 2018, the Bank set up a wholly-owned subsidiary, Bank of Communications (Hong Kong) Limited, with the initial registered capital of 7.9 billion HKD. On 29 June 2018, the Bank contributed extra 10 billion HKD to its registered capital. As at 31 December 2018, the Bank held 100% of the total capital of Bank of Communications (Hong Kong) Limited.

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

21 PRINCIPAL SUBSIDIARIES *(Continued)*

21.2 Changes of principal subsidiaries

(1) In 2018, the Bank increased the capital of BoCommlife Insurance Company Limited by 1.875 billion yuan and got approval by CBIRC on 29 June 2018. As at December 31, 2018, the bank held 62.50% of the total capital of BoCommlife Insurance Company Limited.

(2) The bank reduced the capital of Bank of Communications (UK) Limited by USD99,999,999 to USD1 in December 2018. As at 31 December 2018, the Bank held 100% of Bank of Communications (UK) Limited.

(3) The Bank increased the capital of Bocom Brazil Holding Company Ltda by BRL54,105,601.28 in December 2018. As at 31 December 2018, the Bank and its subsidiaries held 100% of in Bocom Brazil Holding Company Ltda.

21.3 Auditors of subsidiaries

For the year ended 31 December 2018, PricewaterhouseCoppers was the auditor of all principal subsidiaries incorporated in Hong Kong (for the year ended 31 December 2017: PricewaterhouseCoppers).

For the year ended 31 December 2018, PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC (for the year ended 31 December 2017: PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP).

For the year ended 31 December 2018, Bank of Communications (UK) Limited was audited by PricewaterhouseCoopers LLP (for the year ended 31 December 2017: PricewaterhouseCoopers LLP).

For the year ended 31 December 2018, Bank of Communications (Luxemburg) Limited was audited by PricewaterhouseCoopers, Société coopérative (for the year ended 31 December 2017: PricewaterhouseCoopers, Société coopérative).

For the year ended 31 December 2018, BoCom Brazil Holding Company Ltda and BANCO Bocom BBM S.A. were audited by PricewaterhouseCoopers LLP(for the year ended 31 December 2017: PricewaterhouseCoopers LLP).

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	As at 31 December 2018	As at 31 December 2017
Investments in associates		
Investment cost	**2,977**	2,886
Net profit adjusted by the equity method	**666**	439
Changes in other equity	**44**	26
Dividend income	**(42)**	–
Subtotal	**3,645**	3,351
Investments in joint venture	**8**	6
Total	**3,653**	3,357

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

Jiangsu Changshu Rural Commercial Bank Co., Ltd. was incorporated in Changshu City, Jiangsu Province on 3 December 2001. The registered capital of the entity is RMB2,223 million, and the principal activities of the entity are banking activities.

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

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

There are 15 directors at the Board of Directors of Jiangsu Changshu Rural Commercial Bank Co., Ltd., of which 3 directors were nominated by the Group. Accordingly, the Group is able to exert significant influence on such company, so such company is accounted for as associates.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,018 million, and the principal activities of the entity are commercial banking activities.

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

23 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2018	58,158	4,286	25,184	82,885	7,961	178,474
Additions	1,367	1,249	2,149	25,745	139	30,649
Transfer in from investment properties	458	–	–	–	–	458
Disposals	(294)	–	(1,810)	(77)	(138)	(2,319)
Construction in progress transfer in/(out)	2,433	(3,076)	–	–	643	–
Other transfers in/(out)	(528)	(52)	–	–	528	(52)
As at 31 December 2018	61,594	2,407	25,523	108,553	9,133	207,210
Accumulated depreciation						
As at 1 January 2018	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Charge for the year	(1,890)	–	(2,249)	(4,591)	(866)	(9,596)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in/(out)	7	–	–	–	(7)	–
Disposals	29	–	1,568	69	21	1,687
As at 31 December 2018	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Allowance for impairment losses						
As at 1 January 2018	–	(16)	–	(84)	–	(100)
Provision for impairment	–	–	–	(33)	–	(33)
Decrease	–	–	–	–	–	–
As at 31 December 2018	–	(16)	–	(117)	–	(133)
Net book value						
As at 31 December 2018	44,734	2,391	5,235	96,896	4,030	153,286

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

23 PROPERTY AND EQUIPMENT *(Continued)*

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2017	53,391	7,120	25,174	61,627	7,122	154,434
Additions	600	1,799	2,250	22,264	359	27,272
Transfers in from investment properties	674	–	–	–	–	674
Disposals	(419)	(210)	(2,240)	(1,006)	(31)	(3,906)
Construction in progress transfer in	3,912	(4,423)	–	–	511	–
Other transfers in/(out)	–	–	–	–	–	–
As at 31 December 2017	58,158	4,286	25,184	82,885	7,961	178,474
Accumulated depreciation						
As at 1 January 2017	(13,288)	–	(19,066)	(4,072)	(3,562)	(39,988)
Charge for the year	(1,829)	–	(2,613)	(3,489)	(704)	(8,635)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in	–	–	–	–	–	–
Disposals	111	–	2,072	543	15	2,741
As at 31 December 2017	(15,006)	–	(19,607)	(7,018)	(4,251)	(45,882)
Allowance for impairment losses						
As at 1 January 2017	–	(16)	–	(5)	–	(21)
Provision for impairment	–	–	–	(80)	–	(80)
Decrease	–	–	–	1	–	1
As at 31 December 2017	–	(16)	–	(84)	–	(100)
Net book value						
As at 31 December 2017	43,152	4,270	5,577	75,783	3,710	132,492

As at 31 December 2018, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB96,623 million (31 December 2017: RMB75,689 million). Among them, the net book value of the mortgaged aircrafts and vessels was RMB59,279 million (31 December 2017: RMB33,029 million).

As at 31 December 2018, the property and equipment with re-registration procedure not completed amounted to RMB203 million (31 December 2017: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

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

24 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2018 (for the year ended 31 December 2017: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2017: 16.5%).

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

	Impairment of assets	Provisions	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of financial assets designated at FVOCI	Change in fair value of derivative instruments	Change in fair value of investment properties	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
Balance at 31 December 2017	12,844	110	99	664	–	(163)	(522)	916	1,988	15,936
Impact of adoption of IFRS 9 on opening balance	9,004	–	–	(664)	1,095	–	–	36	–	9,471
Balance at 1 January 2018	21,848	110	99	N.A.	1,095	(163)	(522)	952	1,988	25,407
Recognised in profit or loss	(2,901)	1,406	3	N.A.	–	(243)	(62)	(1,490)	(126)	(3,413)
Recognised in other comprehensive income	–	–	–	N.A.	(611)	(6)	–	–	–	(617)
Balance at 31 December 2018	18,947	1,516	102	N.A.	484	(412)	(584)	(538)	1,862	21,377

	Impairment of assets	Provisions	Retirement supplementary pension payable	Change in fair value of available-for-sale financial assets	Change in fair value of derivative instruments	Change in fair value of investment properties	Change in fair value of financial assets and liabilities at fair value through profit or loss	Other temporary differences	Total
As at 1 January 2017	12,401	109	107	(628)	(644)	(509)	(172)	1,758	12,422
Recognised in profit or loss	443	1	(8)	–	521	(13)	1,088	230	2,262
Recognised in other comprehensive income	–	–	–	1,292	(40)	–	–	–	1,252
Balance at 31 December 2017	12,844	110	99	664	(163)	(522)	916	1,988	15,936

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

24 DEFERRED INCOME TAX *(Continued)*

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

	As at 31 December 2018		As at 31 December 2017	
	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Change in fair value of financial assets designated at FVOCI	(351)	(88)	N.A.	N.A.
Changes in fair value of financial assets and liabilities designated at FVPL	(4,021)	(1,005)	–	–
Changes in fair value of derivative instruments	(30,566)	(7,642)	(34,007)	(8,503)
Change in fair value of investment property	(2,334)	(584)	(2,291)	(522)
Change in fair value of available-for-sale financial assets	N.A.	N.A.	(1,348)	(382)
Other temporary differences	(336)	(84)	(807)	(220)
	(37,608)	(9,403)	(38,453)	(9,627)
Deferred income tax assets				
Impairment of assets	75,789	18,947	51,233	12,844
Retirement supplementary pension payable	408	102	395	99
Provisions	6,063	1,516	449	110
Change in fair value of financial assets and liabilities at FVOCI	1,866	467	3,681	916
Change in fair value of financial assets at FVOCI	2,288	572	N.A.	N.A.
Change in fair value of available-for-sale financial assets	N.A.	N.A.	4,797	1,046
Changes in fair value of derivative instruments	28,921	7,230	33,344	8,340
Other temporary differences	7,782	1,946	7,899	2,208
	123,117	30,780	101,798	25,563
Net deferred income tax assets	85,509	21,377	63,345	15,936

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

	As at 31 December 2018	As at 31 December 2017
Deferred income tax assets	21,975	16,456
Deferred income tax liabilities	(598)	(520)

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

25 OTHER ASSETS

	As at 31 December 2018	As at 31 December 2017
Interest receivable[1]	3,849	54,561
Settlement accounts	7,562	24,196
Other receivables and prepayments	30,050	20,454
Less: ECL allowance (c)	(2,152)	(1,907)
Investment properties (b)	7,899	8,217
Land use rights and others	1,869	1,834
Intangible assets (a)	1,309	1,328
Long-term deferred expenses	692	791
Precious metal	925	1,031
Foreclosed assets	824	906
Goodwill (d)	437	453
Refundable deposits	425	7,072
Unsettled assets	33	33
Others	15,286	10,403
	69,008	129,372

Note 1 : The interest receivable account only reflects the interest for relevant financial instructions which is due but not received on balance sheet date.

(a) Intangible assets

	Software
Cost	
As at 1 January 2018	2,780
Additions	270
Transfers in	–
Disposals	(22)
As at 31 December 2018	3,028
Accumulated amortisation	
As at 1 January 2018	(1,452)
Amortisation expense	(271)
Transfers in	–
Disposals	4
As at 31 December 2018	(1,719)
Net book value	1,309

	Software
Cost	
As at 1 January 2017	2,380
Additions	433
Transfers in	–
Disposals	(33)
As at 31 December 2017	2,780
Accumulated amortisation	
As at 1 January 2017	(1,208)
Amortisation expense	(247)
Transfers in	–
Disposals	3
As at 31 December 2017	(1,452)
Net book value	1,328

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

25 OTHER ASSETS *(Continued)*

(b) Investment properties

	Year ended 31 December 2018	Year ended 31 December 2017
Balance at the beginning of the year	8,217	8,762
Additions/(Decrease) of the year	(458)	(581)
Gains on property revaluation	117	192
Exchange differences	23	(156)
Balance at the end of the year	7,899	8,217

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 31 December 2018, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value for the year ended 31 December 2018
Commercial property units located in Hong Kong	–	–	1,183	1,183
Commercial property units located outside Hong Kong	–	–	6,716	6,716

The valuation of these investment properties located in Hong Kong as at 31 December 2018 were performed by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalisation rate and unit price.

(c) ECL allowance

	As at 1 January 2018 (restated)	Amounts accrued	Reversal	Write-offs	Transfers (in)/out	Exchange differences	As at 31 December 2018
Other receivables and prepayments	(1,940)	(1,574)	499	864	–	(1)	(2,152)
Total	(1,940)	(1,574)	499	864	–	(1)	(2,152)

	As at 1 January 2017	Amounts accrued	Reversal	Write-offs	Transfers (in)/out	Exchange differences	As at 31 December 2017
Other receivables and prepayments	(629)	(1,103)	112	189	(436)	1	(1,866)
Others	(44)	(12)	1	14	–	–	(41)
Total	(673)	(1,115)	113	203	(436)	1	(1,907)

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

25 OTHER ASSETS *(Continued)*

(d) Goodwill

	As at 1 January 2018	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2018
Bank of Communications International Trust Co., Ltd.	**200**	**–**	**–**	**–**	**200**
BoCommLife Insurance Company Limited	**122**	**–**	**–**	**–**	**122**
BANCO Bocom BBM S.A	**131**	**–**	**–**	**(16)**	**115**
Total	**453**	**–**	**–**	**(16)**	**437**

	As at 1 January 2017	Addition during the year	Decrease during the year	Exchange differences	As at 31 December 2017
Bank of Communications International Trust Co., Ltd.	200	–	–	–	200
BoCommLife Insurance Company Limited	122	–	–	–	122
BANCO Bocom BBM S.A	149	–	–	(18)	131
Total	471	–	–	(18)	453

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the adjusted transaction prices of similar types of financial institutions.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

(e) Loans to employees

As at 31 December 2018 and 31 December 2017, the Group does not offer any loans to employees for the purpose of enabling the selected employees to acquire the shares of the Bank and its subsidiaries.

26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Borrowing from central banks	**511,284**	532,867
Interest payable of borrowing from central banks	**8,854**	N.A.
Deposits from other banks		
– Banks operating in Mainland China	**327,250**	350,499
– Banks operating outside Mainland China	**16,729**	24,385
Deposits from other financial institutions		
– Other financial institutions operating in Mainland China	**724,295**	630,138
– Other financial institutions operating outside Mainland China	**11,851**	25,947
Interest payable of deposits from other financial institutions	**21,199**	N.A.
Placement from banks		
– Banks operating in Mainland China	**131,865**	191,932
– Banks operating outside Mainland China	**260,241**	235,867
Borrowing from other financial institutions		
– Other financial institutions operating in Mainland China	**651**	4,434
– Other financial institutions operating outside Mainland China	**8,083**	12,140
Interest payable of borrowing from other financial institutions	**2,478**	N.A.
Financial assets sold under repurchase agreements		
– Securities	**107,367**	74,270
– Bills	**30,072**	23,713
Interest payable of financial assets sold under repurchase agreements	**74**	N.A.
Total	**2,162,293**	2,106,192

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

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018	As at 31 December 2017
Certificates of deposit issued	11,493	12,654
Financial liabilities related to precious metal contracts	11,449	11,825
Short position of securities held for trading	–	2,485
Interest payable of financial liabilities at FVPL	167	N.A.
Total	23,109	26,964

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

Financial liabilities designated as fair value through profit or loss

	As at 31 December 2018	As at 31 December 2017
Difference between carrying amount and maturity amount		
Fair values	11,493	12,654
Amount payable at maturity	11,496	12,638
Total	(3)	16

For the year ended 31 December 2018 and the year ended 31 December 2017, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

28 DUE TO CUSTOMERS

	As at 31 December 2018	As at 31 December 2017
Corporate demand deposits	1,748,857	1,852,676
Corporate time deposits	2,195,241	2,003,443
Individual demand deposits	687,393	655,559
Individual time deposits	1,089,095	1,030,233
Other deposits	3,903	3,455
Due to customers	5,724,489	5,545,366
Interest payable of due to customers	68,835	N.A.
Total	5,793,324	5,545,366
Including:		
Deposits pledged as collateral	297,707	335,706

29 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposits issued by the Bank's domestic branches, branches in Macau, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg, Frankfurt and BANCO Bocom BBM S.A., were measured at amortised cost.

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

30 DEBT SECURITIES ISSUED

		As at 31 December 2018	As at 31 December 2017
Carried at amortised cost:			
Subordinated bonds	30.1	39,450	39,450
Tier 2 capital bonds	30.2		
The Bank		70,017	69,585
Subsidiaries		1,994	–
Bonds			
The Bank	30.3	115,431	106,264
Subsidiaries	30.3	70,777	54,316
Subtotal		297,669	269,615
Carried at fair value:			
Bonds	30.3	16,429	18,047
Interest payable of debt securities issued		3,590	N.A.
Total		317,688	287,662

Note: These debt securities issued are designated as fair value through profit and loss upon initiation as the Hong Kong branch of the Bank considers such designation could eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring the corresponding financial assets or recognising the gains or losses on them on different basis. Accordingly, the debts are designated as fair value through profit and loss with changes in fair values charged to profit and loss account. For the year ended 31 December 2018 and the year ended 31 December 2017, there were no significant changes due to the Group's changes in credit risks.

30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Interest payable	Balance at the end of the period	Balance at the beginning of the period
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 years	(a)	13,500	269	13,500	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(b)	26,000	284	25,950	25,950
Total								39,500	553	39,450	39,450

(a) The Group has an option to redeem 09 BoComm 02 on 3 July 2019. If no redemption exercised by the Group, the bonds will bear a fixed coupon rate of 7.00% for the remaining 5 years commencing 3 July 2019.

(b) The Group has an option to redeem 11 BoComm 01 on 24 October 2021. The bonds bear a fixed coupon rate of 5.75%.

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.2 Tier 2 capital bonds

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Interest payable	Balance at the end of the period	Balance at the beginning of the period
Bank											
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 years	(a)	28,000	601	27,976	27,963
14 BoComm 01-USD	USD	Hong Kong	4.50	1,200	2014/10/03	10 years	(b)	8,236	91	8,169	7,786
14 BoComm 01-Euro	EUR	Hong Kong	3.625	500	2014/10/03	12 years	(c)	3,924	35	3,904	3,876
17 BoComm 02	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(d)	30,000	973	29,968	29,960
Subtotal								70,160	1,700	70,017	69,585
Subsidiaries											
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(e)	2,000	29	1,994	–
Subtotal								2,000	29	1,994	–
Total								72,160	1,729	72,011	69,585

(a) The Group has an option to redeem 14 BoComm 01 at the face value partially or as a whole on 19 August 2019, provided CBIRC's permission is acquired in advance and the Group's capital structure fulfils the CBIRC requirements on capital if the redemption is exercised.

(b) The Group has an option to redeem 14 BoComm 01-USD as a whole on 3 October 2019. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year US treasury bonds plus 285 basis points.

(c) The Group has an option to redeem 14 BoComm 01-Euro as a whole on 3 October 2021. If the issuer does not exercise the redemption right at the end of the 5th year, the interest rate will be adjusted based on swap value of 5-year Euro plus 300 basis points.

(d) The Group has an option to redeem 17 BoComm 02 at the face value partially or as a whole on 13 April 2022, provided CBIRC's permissions acquired in advance and the Group's capital structure fulfills the CBIRC requirements on capital if the redemption is exercised.

(e) As these bonds are 10-year bonds with fixed interest rates, the Group has an option to redeem them at the face value partially or as a whole at the end of the 5th year, provided CBIRC's permissions acquired in advance.

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

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Interest payable	Balance at the end of the period	Balance at the beginning of the period
Bank										
13 BoComm 01	RMB	Mainland China	4.37	10,000	2013/07/26	5 years	10,000	–	–	10,000
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	28	30,000	30,000
16 BoComm Green Financial bond 01	RMB	Mainland China	2.94	10,000	2016/11/18	3 years	10,000	32	10,000	10,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	71	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/30	3 years	20,000	148	20,000	20,000
18 BoCom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/30	3 years	10,000	33	10,000	–
13 Taiwan Bond B	RMB	Taiwan	3.70	400	2013/12/10	5 years	400	–	–	401
14 Formosa Bond B	RMB	Taiwan	3.85	500	2014/06/23	5 years	500	–	499	502
14 Formosa Bond C	RMB	Taiwan	4.15	500	2014/06/23	7 years	500	–	499	502
17 medium-term notes 01	USD	Hong Kong	3MLibor+0.78	700	2017/05/15	3 years	4,804	22	4,802	4,573
17 medium-term notes 02	USD	Hong Kong	3MLibor+0.88	300	2017/05/15	5 years	2,059	10	2,058	1,960
17 medium-term notes 03	USD	Hong Kong	3MLibor+0.80	400	2017/12/04	3 years	2,745	7	2,744	2,613
17 medium-term notes 04	USD	Hong Kong	3MLibor+0.90	600	2017/12/04	5 years	4,118	11	4,116	3,919
18 medium-term notes 01	USD	Hong Kong	3MLibor+0.75	600	2018/05/17	3 years	4,118	18	4,116	–
18 medium-term notes 02	USD	Hong Kong	3MLibor+0.85	700	2018/05/17	5 years	4,804	21	4,802	–
P14JHTP1B	RMB	Taiwan	3.75	900	2014/12/04	5 years	900	2	898	897
P14JHTP1C	RMB	Taiwan	3.90	700	2014/12/04	7 years	700	2	698	698
P14JHTP1D	RMB	Taiwan	4.00	200	2014/12/04	10 years	200	1	199	199
Sub-total							125,848	406	115,431	106,264
Subsidiaries										
13 Azure Orbit	USD	Hong Kong	3.75	500	2013/03/06	10 years	3,432	41	3,427	3,267
14 Azure Orbit	USD	Hong Kong	3.375	500	2014/04/25	5 years	3,432	21	3,428	3,267
5 Year medium-term notes	USD	Hong Kong	3.125	385	2015/08/18	5 years	2,642	31	2,642	2,516
3 Year medium-term notes	EUR	Luxembourg	3M Euribor+1.15	100	2015/08/18	3 years	785	–	–	780
3 Year USD bond	USD	Hong Kong	2.23	400	2016/03/15	3 years	2,745	18	2,745	2,614
5 Year USD bond	USD	Hong Kong	2.748	600	2016/03/15	5 years	4,118	33	4,105	3,870
3 Year USD bond	USD	Hong Kong	3.50	300	2018/01/25	3 years	2,059	31	2,035	–
5 Year USD bond	USD	Hong Kong	3.75	950	2018/01/25	5 years	6,520	106	6,496	–
10 Year USD bond	USD	Hong Kong	4.00	250	2018/01/25	10 years	1,716	30	1,692	–
15 Leasing	RMB	Mainland China	3.80	4,000	2015/10/16	3 years	4,000	–	–	3,200
16 Leasing 01	RMB	Mainland China	3.17	4,000	2016/07/21	3 years	4,000	53	3,898	3,900
16 Leasing 02	RMB	Mainland China	3.05	1,500	2016/09/07	3 years	1,500	14	1,199	1,200
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	5	449	450
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	2,000	41	1,947	1,950
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	49	2,395	2,100
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	28	2,395	2,400
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	4,000	31	3,989	–
Azure Nova	USD	Hong Kong	2.25	500	2016/10/25	3 years	3,432	14	3,431	3,265
Azure Nova	USD	Hong Kong	2.625	1,000	2016/10/25	5 years	6,863	33	6,847	6,513
Azure Nova	USD	Hong Kong	3.00	700	2017/03/21	3 years	4,804	40	4,788	4,567
Azure Nova	USD	Hong Kong	3.50	1,050	2017/03/21	5 years	7,206	70	7,171	6,831
Azure Nova	USD	Hong Kong	4.25	250	2017/03/21	10 years	1,716	20	1,708	1,626
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	4,000	87	3,990	–
Sub-total							77,470	796	70,777	54,316
Total							203,318	1,202	186,208	160,580

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds *(Continued)*

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

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Amortised cost	Interest payable	Fair value at the end of the period	Balance at the beginning of the period
14 Hong Kong bond	HKD	Hong Kong	4.00	500	2014/02/14	7 years	438	438	6	449	415
14 Hong Kong bond 02	HKD	Hong Kong	3.20	350	2014/04/02	5 years	307	307	2	307	293
15 Hong Kong medium-term notes	USD	Hong Kong	2.50	750	2015/01/16	3 years	5,159	–	–	–	4,895
16 Hong Kong medium-term notes	USD	Hong Kong	2.25	500	2016/01/25	3 years	3,432	3,432	34	3,429	3,274
16 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+0.875	550	2016/08/16	3 years	3,775	3,775	14	3,777	3,602
17 Hong Kong medium-term notes	USD	Hong Kong	3MLibor+0.775	850	2017/02/21	3 years	5,834	5,834	23	5,833	5,568
18 Hong Kong medium-term notes	HKD	Hong Kong	2.95	3,000	2018/05/18	2 years	2,629	2,629	48	2,634	–
Total							21,574	16,415	127	16,429	18,047

31 OTHER LIABILITIES

	As at 31 December 2018	As at 31 December 2017
Interest payable	–	92,579
Insurance contracts reserve	22,821	21,428
Settlement accounts	21,692	24,742
Staff compensation payable	9,309	8,770
Deposits received for finance lease	7,677	8,390
VAT and other taxes payable	4,515	3,939
Provision for outstanding litigation (a)	982	449
Dividends payable	77	102
Others	64,641	43,111
Total	131,714	203,510

31 OTHER LIABILITIES *(Continued)*

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

	As at 1 January 2018	Amounts accrued during the year	Amounts paid during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2018
Provision for outstanding litigation	**449**	**640**	**(16)**	**(91)**	**–**	**982**
	449	**640**	**(16)**	**(91)**	**–**	**982**

	As at 1 January 2017	Amounts accrued during the year	Amounts paid during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2017
Provision for outstanding litigation	348	223	(9)	(113)	–	449
Provision for unsettled obligation	100	–	(100)	–	–	–
	448	223	(109)	(113)	–	449

32 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2018	**74,263**	**74,263**	**113,663**	**187,926**
As at 31 December 2018	**74,263**	**74,263**	**113,663**	**187,926**

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2017	74,263	74,263	113,392	187,655
As at 31 December 2017	74,263	74,263	113,663	187,926

As at 31 December 2018 and 31 December 2017, the number of A shares of the Group is 39,251 million, and the number of H shares of the Group is 35,012 million, both with par value of RMB1 per share.

32 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2018 and 31 December 2017, the Group's capital surplus is listed as follows:

	As at 1 January 2018	Additions	Reductions	As at 31 December 2018
Share premium	113,046	–	–	113,046
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	22	–	–	22
Total	113,663	–	–	113,663

	As at 1 January 2017	Additions	Reductions	As at 31 December 2017
Share premium	112,769	277	–	113,046
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	148	–	–	148
Movements in non-controlling interests	(41)	–	–	(41)
Capital increase in an associate	16	–	–	16
Others	28	–	(6)	22
Total	113,392	277	(6)	113,663

33 PREFERENCE SHARES

33.1 Preference shares outstanding at the end of the period

	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency (in millions)	In RMB (in millions)	Maturity	Conversion condition	Conversion
Offshore preference share										
Preference shares in USD	2015-07-29	Equity	5.00%	USD20/share	122,500,000	2,450	14,982	No maturity date	Mandatory	No conversion during the year
Domestic preference shares										
Preference shares in RMB	2016-09-02	Equity	3.90%	RMB100/share	450,000,000	45,000	45,000	No maturity date	Mandatory	No conversion during the year
					Total		59,982			
					Less: Issuance fees		(106)			
					Book value		59,876			

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses

Offshore preference shares

(a) Dividend

The offshore preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 5.00% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the five-year US treasury bonds yield plus a fixed premium of 3.344%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on offshore preference shares.

The dividend for offshore preference shares is non-cumulative. Where the Bank determines to cancel the dividend for offshore preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, offshore preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Offshore preference shares *(Continued)*

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares on 29 July 2020 and on any dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

Domestic preference shares

(a) Dividend

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date)plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for domestic preference shares is non-cumulative. Where the Bank determines to cancel the dividend for domestic preference shares in whole or in part, the omitted dividend will not be carried forward and claimed in the future period. After receiving dividends at the agreed dividend rate, domestic preference shareholders of the Bank will not participate in the distribution of residual profits with ordinary shareholders. Domestic preference shares issued by the Bank have the same dividend distribution order as the offshore preference shares.

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Domestic preference shares *(Continued)*

(b) Conditions to distribution of dividends

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) Order of distribution and liquidation method

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) Redemption

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the domestic preference shares on 2 September 2021 and on any preference share dividend payment date thereafter. The redemption period ends at the date when shares are fully converted or redeemed.

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

33 PREFERENCE SHARES *(Continued)*

33.3 Movement of preference shares issued

	Balance at 1 January 2018	Movement Additions	Movement Reductions	Balance at 31 December 2018
Offshore preference shares				
Amount (shares)	122,500,000	–	–	**122,500,000**
In RMB (millions)	14,924	–	–	**14,924**
Domestic preference shares				
Amount (shares)	450,000,000	–	–	**450,000,000**
In RMB (millions)	44,952	–	–	**44,952**

33.4 Interests attribute to holders of preference shares

	As at 31 December 2018	As at 31 December 2017
Total equity attribute to equity holders of the parent company	**698,405**	671,143
Equity attribute to ordinary shareholders of the parent company	**638,529**	611,267
Equity attribute to preference shareholders of the parent company	**59,876**	59,876
Of which: Net profit	***2,618***	*2,693*
Total comprehensive income	**–**	–
Dividends paid during the year	***2,618***	*2,693*
Unpaid cumulative dividends	**–**	–
Total equity attribute to non-controlling interests	**6,903**	5,128
Equity attribute to non-controlling interests of ordinary shares	**6,903**	5,128
Equity attribute to non-controlling interests of preference shares	**–**	–

34 RESERVES AND RETAINED EARNINGS

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

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

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to Administrative Measures for the Provisioning of Financial Enterprises (Cai Jin [2012] No. 20), the Bank made general reserve for the risk assets as defined by the policy. The Bank's subsidiaries and oversea branches, if required by local regulation requirements, also need to make such accrual for risk assets.

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

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

34 RESERVES AND RETAINED EARNINGS *(Continued)*

The 2017 annual general meeting, held on June 29, 2018, considered and adopted the 2017 profit distribution scheme, which is distributed as follows:

	Year ended 31 December	
	2018	2017
Statutory reserve	**6,833**	6,621
Statutory general reserve	**8,705**	16,116
Discretionary reserve	**–**	–
Total	**15,538**	22,737

During the year ended 31 December 2018, the Group and the Bank transferred RMB9,811 million (2017: RMB16,738 million) and RMB8,705 million (2017: RMB16,116 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB8,705 million (2017: RMB16,116 million) related to the appropriation proposed for the Bank for the year ended 31 December 2017 which was approved in the 2017 Annual General Meeting held on 29 June 2018.

Revaluation reserve

	2018
As at 31 December 2017	**(2,237)**
Impact of adoption of IFRS 9 on opening balance	**(1,345)**
Opening balance under IFRS 9 (restated)	**(3,582)**
Changes in fair value recorded in equity	**2,936**
Changes in fair value reclassified from equity to profit or loss	**(228)**
Income tax relating to components of other comprehensive income	**(611)**
Transferred from other comprehensive income	**4**
At the end of the year	**(1,481)**

Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets are set out below:

	2017
At the beginning of the year	2,191
Changes in fair value recorded in equity	(3,089)
Changes in fair value reclassified from equity to profit or loss	(2,631)
Income tax relating to components of other comprehensive income	1,292
At the end of the year	(2,237)

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

34 RESERVES AND RETAINED EARNINGS *(Continued)*

Retained earnings

The movements of retained earnings are set out below:

	Year ended 31 December	
	2018	2017
At the beginning of the year	**124,514**	100,698
Impact of adoption of IFRS 9 on opening balance	**(28,257)**	N.A.
Opening balance under IFRS 9 (restated)	**96,257**	100,698
Profit for the year	**73,630**	70,223
Appropriation to statutory reserve	**(7,055)**	(6,811)
Appropriation to statutory general reserve	**(9,811)**	(16,738)
Appropriation to discretionary reserve	**(29)**	(3)
Dividends payable to ordinary shareholders	**(21,209)**	(20,162)
Dividends payable to preference shareholders	**(2,618)**	(2,693)
Others	**(4)**	–
At the end of the year	**129,161**	124,514

35 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividends to ordinary shareholders of the Bank	**21,209**	20,162
Dividends to preference shareholders of the Bank	**2,618**	2,693

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

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

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

(3) Allocations to statutory general reserve;

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

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

Pursuant to the proposal raised at the Board meeting on 29 March 2018 and the approval by the Annual General Meeting of Shareholders on 29 June 2018, the Bank appropriated RMB8,705 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2856 (before tax) for each ordinary share, with total amount of RMB21,209 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2017, will be distributed to ordinary shareholders.

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

35 DIVIDENDS *(Continued)*

Pursuant to the approval by the Board meeting on 27 April 2018, the Bank appropriated overseas preference dividends on 29 July 2018 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 29 July is not a working day, the dividend payment day defers to 30 July 2018. The Bank will appropriate domestic preference dividends on 7 September 2018 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

Pursuant to the *Administrative Measures for Securities Issuance and Underwriting*, in the situation that the proposals of profit distribution and capital contribution from reserve have not been submitted for the approval from shareholders' general meeting or approved but not yet executed, listed companies shall issue securities after the execution of aforementioned proposals. The Bank is in the progress of the public issuance of A share convertible corporate bonds and has not formulated the profit distribution proposal for the year of 2018, which the Bank will formulate and submit for the approval from the Board of Directors and shareholders' general meeting of the year of 2018 at earliest.

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

Financial guarantees and credit related commitments

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

	As at 31 December 2018	As at 31 December 2017
Letters of guarantee	268,097	272,981
Letters of credit commitments	141,137	131,280
Acceptances bills	228,550	196,125
Credit card commitments	759,994	742,011
Loan commitments		
– Under 1 year	12,709	16,147
– 1 year and over	45,731	54,159
	1,456,218	1,412,703

Capital expenditure commitments

	As at 31 December 2018	As at 31 December 2017
Contracted but not provided for	66,968	70,236

Operating lease commitments

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

	As at 31 December 2018	As at 31 December 2017
Within 1 year (inclusive)	3,918	4,185
Beyond 1 year but no more than 2 years (inclusive)	2,772	3,124
Beyond 2 years but no more than 3 years (inclusive)	1,908	2,186
Beyond 3 years but no more than 5 years (inclusive)	2,215	2,492
More than 5 years	1,532	1,819
	12,345	13,806

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

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

Operating lease commitments *(Continued)*

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

	As at 31 December 2018	As at 31 December 2017
Within 1 year (inclusive)	**11,204**	8,411
Beyond 1 year but no more than 2 years (inclusive)	**11,045**	8,388
Beyond 2 years but no more than 3 years (inclusive)	**10,768**	8,139
Beyond 3 years but no more than 5 years (inclusive)	**20,983**	14,892
More than 5 years	**59,827**	37,053
	113,827	76,883

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2018, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB74,423 million (31 December 2017: RMB73,271 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 31 December 2018, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2017: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the periods are summarised as follows:

	As at 31 December 2018	As at 31 December 2017
Outstanding claims	**3,242**	3,694
Provision for outstanding litigation (Note 31)	**982**	449

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

37 COLLATERALS

(1) Assets pledged

Assets pledged are mainly collaterals under repurchase arrangement and short selling business among banks and other financial institutions and pledge related to the membership of local stock exchange.

	Pledged assets		Associated liabilities	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Investment securities	697,288	683,907	581,070	589,154
Bills	32,308	25,885	32,308	25,885
Total	729,596	709,792	613,378	615,039

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 42 transfers of financial assets.

(2) Collateral accepted

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2018, the fair value of such collaterals amounted to RMB2,758 million (31 December 2017: RMB18,079 million). All pledges are conducted under standard and normal business terms. As at 31 December 2018 and 31 December 2017, the Group did not sell or re-pledge any collaterals received.

38 OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2018		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Loans and advances to customers- Carried at FVOCI	241	(139)	102
Net gains recorded in equity	*241*	*(139)*	*102*
Net gains reclassified from equity to profit or loss	*–*	*–*	*–*
Financial investments – debt instruments at fair value through other comprehensive income	2,367	(452)	1,915
Net gains recorded in equity	*2,595*	*(509)*	*2,086*
Net gains reclassified from equity to profit or loss	*(228)*	*57*	*(171)*
Cash flow hedge reserve	23	(6)	17
Changes in fair value recorded in equity	*147*	*(37)*	*110*
Changes in fair value reclassified from equity to profit or loss	*(124)*	*31*	*(93)*
Translation difference on foreign operations	1,998	–	1,998
Net gains on investments in equity instruments designated at FVOCI	81	(20)	61
Change in fair value attributable to change in the credit risk of financial liability designated at FVPL	(14)	–	(14)
Actuarial gains on pension benefits	(25)	–	(25)
Others	18	–	18
Other comprehensive income for the year	4,689	(617)	4,072

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

38 OTHER COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December 2017		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Financial investments – available-for-sale	(5,720)	1,292	(4,428)
Changes in fair value recorded in equity	*(3,089)*	*772*	*(2,317)*
Changes in fair value reclassified from equity to profit or loss	*(2,631)*	*520*	*(2,111)*
Cash flow hedge reserve	161	(40)	121
Changes in fair value recorded in equity	*23*	*(5)*	*18*
Changes in fair value reclassified from equity to profit or loss	*138*	*(35)*	*103*
Translation difference on foreign operations	(1,592)	–	(1,592)
Actuarial gains on pension benefits	31	–	31
Others	(9)	–	(9)
Other comprehensive income for the year	(7,129)	1,252	(5,877)

39 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

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

	As at 31 December 2018	As at 31 December 2017
Cash and balances with central banks (Note 15)	**123,665**	116,397
Due from banks and other financial institutions (Note 16)	**119,827**	112,522
	243,492	228,919

40 CONSOLIDATED STRUCTURED ENTITIES

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

As at 31 December 2018, the wealth management products managed and consolidated by the Group amounted to RMB138,366 million (31 December 2017: RMB938,943 million). The financial impact of any individual wealth management products on the Group's financial performance is not significant.

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

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

41 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 31 December 2018, those structured entities sponsored by the Group consist primarily of funds, trusts, asset management products and wealth management products with principals not guaranteed by the Group. The Group earns commission income by providing management services to the investors of these structured entities, which are not material to the Group. In addition, the Group is also involved in certain structured entities sponsored by the Group or third parties through direct investments. These investments are recognised as Financial investments-investments at fair value through profit and Financial investments – debt instruments at amortised cost.

As at 31 December 2018 and 31 December 2017, unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		
	31 December 2018	31 December 2017	Type of income
Funds	**242,502**	193,490	Commission income
Trusts and asset management products	**1,054,073**	1,266,372	Commission income
Wealth management products	**960,003**	962,517	Commission income
Total	**2,256,578**	2,422,379	

For the year ended 31 December 2018, the Group's commission income from provision of providing service to the investors of the structured entities managed by the Group was RMB2,936 million (For the year ended 31 December 2017: RMB5,748 million), and Net Interest Income which related to placements transactions by the Group with WMP Vehicles was RMB1,612 million (For the year ended 31 December 2017: RMB1,562 million).

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

41 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

As at 31 December 2018 and 31 December 2017, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

	As at 31 December 2018 Carrying amount			
	Financial investments – financial assets at fair value through profit or loss	Financial investments – debt instruments at amortised cost	Maximum exposure to loss	Type of income
Funds	180,547	–	180,547	Net gains arising from trading activities
Trusts and asset management products	4,906	200,861	205,767	Net gains arising from trading activities Interest income
Wealth management products	2,101	–	2,101	Net gains arising from trading activities
Total	187,554	200,861	388,415	

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

	As at 31 December 2017 Carrying amount				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Maximum exposure to loss	Type of income
Funds	81,991	2,268	–	84,259	Net gains arising from trading activities
Trusts and asset management products	1,881	315	270,457	272,653	Interest income
Total	83,872	2,583	270,457	356,912	

42 TRANSFERS OF FINANCIAL ASSETS

42.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 31 December 2018 and 31 December 2017, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 26).

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

42 TRANSFERS OF FINANCIAL ASSETS *(Continued)*

42.1 Financial assets sold under repurchase agreements *(Continued)*

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		Associated liabilities	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Investment securities	**4,094**	3,298	**3,797**	3,116

42.2 Securities lending transactions

Transferred financial assets that do not qualify for de-recognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2018, the carrying value of debt securities lent to counterparties was RMB3,810 million (31 December 2017: RMB13,620 million).

42.3 Asset securitisation

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2018, loans with an original value of RMB98,763 million and carrying amount of RMB93,777 million (31 December 2017: RMB44,021 million and RMB40,155 million) have been securitised by the Group and the Bank.

As at 31 December 2018, assets continuously recognised by the Group and the Bank amounted to RMB6,108 million have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets in the form of holding subordinated tranches. (31 December 2017: RMB2,197 million).

42.4 Package disposal of impaired loans and advances to customers

The Group disposes impaired loans and advances to customers through transferring to third parties in the normal course of business. For the year ended 31 December 2018, the Group had transferred impaired loans and advances to customers with a total gross carrying amount of RMB8,971 million (31 December 2017: RMB24,854 million) and collected cash totaling RMB3,448 million (31 December 2017: RMB12,531 million) from the transfer. The difference between the gross carrying amount and the cash collected had already been written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

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

43 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2018, the MOF holds 19,703 million (31 December 2017: 19,703 million) shares of the Group which represents 26.53% (31 December 2017: 26.53%) of total share capital of the Group. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the year and the revenue from related party transactions for the year are listed below:

	As at 31 December 2018	As at 31 December 2017
Bonds issued by MOF	**524,736**	416,098
Interest receivable	**8,017**	6,032

	Year ended 31 December	
	2018	2017
Interest income	**16,040**	13,200
Interest expense	**92**	358

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

	Year ended 31 December	
	2018 %	2017 %
Bonds issued by MOF	**1.927~5.05**	1.94~5.50
Due to customers	**3.71**	4.46~4.51

(b) Transactions with National Council for Social Security Fund

As at 31 December 2018, National Council for Social Security Fund holds 10,923 million (31 December 2017: 10,920 million) shares in the Group which represents 14.71% (31 December 2017: 14.70%) of total share capital of the Group. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Due to customers	**26,650**	34,150
Interest payable	**359**	509

	Year ended 31 December	
	2018	2017
Interest expense	**1,355**	2,553

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund *(Continued)*

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

	Year ended 31 December	
	2018	2017
	%	%
Due to customers	**3.85~6.10**	3.85~6.10

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

As at 31 December 2018, HSBC holds 13,886 million (31 December 2017: 13,886 million) shares of the Group which represents 18.70% (31 December 2017: 18.70%) of total share capital of the Group. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
On-balance sheet items		
Due from banks and other financial institutions	**2,250**	3,704
Loans to banks and other financial institutions	**–**	3,126
Derivative financial assets	**1,592**	2,399
Financial assets held under resale agreements	**–**	3,920
Interest receivable	**N.A.**	28
Financial investments – debt instruments at fair value through other comprehensive income	**4,410**	N.A.
Financial investments – available-for-sale	**N.A.**	2,315
Financial investments – debt instruments at amortised cost	**230**	N.A.
Financial investments – financial assets at fair value through profit or loss	**1,314**	1,388
Deposits from banks and other financial institutions	**1,289**	3,949
Loans from banks and other financial institutions	**13,298**	3,996
Financial liabilities at FVPL	**2,832**	2,861
Derivative financial liabilities	**760**	1,449
Financial assets sold under repurchase agreements	**1,807**	–
Interest payable	**N.A.**	34
Off-balance sheet items		
Notional principal of derivative financial instruments	**138,544**	163,191

	Year ended 31 December	
	2018	2017
Net gains from trading activities	**(984)**	(338)
Interest income	**162**	128
Interest expense	**348**	175

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	Year ended 31 December	
	2018	2017
	%	%
Due from banks and other financial institutions	**0.01~2.84**	0.01~0.52
Loans to banks and other financial institutions	**0.20~3.55**	0.20~3.55
Financial investments	**1.50~6.68**	1.50~4.75
Deposits from banks and other financial institutions	**0.01~6.10**	0.01~6.10
Loans from banks and other financial institutions	**(0.01)~4.75**	(0.28)~4.30
Financial assets held under resale agreements	**2.73~5.60**	2.60~2.96
Financial assets sold under repurchase agreements	**2.34~5.30**	2.45~4.95

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

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

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks.

Details of transaction volumes and outstanding balances are summarised below:

Bank	As at 31 December 2018	As at 31 December 2017
Due from banks and other financial institutions	484	150
Loans to banks and other financial institutions	74,791	38,402
Loans and advances to customers	7,298	20,691
Financial investments – debt instruments at amortised cost	1,721	N.A.
Financial investments – fair value through other comprehensive income	–	N.A.
Financial investments – held-to-maturity	N.A.	2,500
Financial investments – available-for-sale	N.A.	300
Interest receivable	N.A.	590
Other assets	126	1,972
Deposits from banks and other financial institutions	19,904	14,275
Loans from banks and other financial institutions	10,255	1,792
Due to customers	2,201	4,605
Debt securities issued	51	51
Interest payable	N.A.	36
Other liabilities	31	25

	Year ended 31 December	
Bank	2018	2017
Interest income	2,291	1,601
Interest expense	603	108
Fee and commission income	1,063	818
Fee and commission expense	27	39
Other operating income	249	110
Other operating expense	174	158

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

	Year ended 31 December	
Bank	2018 %	2017 %
Due from banks and other financial institutions	0.01~4.70	0.72~4.67
Loans to banks and other financial institutions	0.03~5.45	0.09~5.55
Financial investments	3.05~4.70	3.05~6.10
Loans and advances to customers	0.03~5.52	0.02~4.18
Deposits from banks and other financial institutions	0.01~5.50	0.01~5.50
Loans from banks and other financial institutions	(0.10)~5.45	0.04~4.95
Due to customers	0.01~4.16	0.01~2.30
Debt securities issued	5.75	5.75

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Due to customers	8	32
Loans and advances to customers	4	1

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

(g) Transactions with associates

The Group's investments in associates mainly include the investment in Jiangsu Changshu Rural Commercial Bank Co., Ltd. and Bank of Tibet Co., Ltd. Transactions between the Group and Associates are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Deposits from banks and other financial institutions	222	1,689
Financial assets held under resale agreements	–	–
Due from banks and other financial institutions	101	–
Placements to banks and other financial institutions	10	–
Interest payable	N.A.	3

	Year ended 31 December	
	2018	2017
Interest income	2	2
Interest expense	10	27

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

	Year ended 31 December	
	2018 %	2017 %
Due from banks and other financial institutions	2.84~3.88	–
Deposits from banks and other financial institutions	0.01~5.58	1.35~5.58
Placements to banks and other financial institutions	0.75	2.31~2.88
Financial assets held under resale agreements	2.66~2.75	2.075~2.95

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers	4,337	5,052
Interest receivable of loans and advances to customers	6	N.A.
Interest receivable	N.A.	6
Deposits from banks and other financial institutions	1,910	1,224
Interest payable of deposits from banks and other financial institutions	18	N.A.
Interest payable	N.A.	19

	Year ended 31 December	
	2018	2017
Interest income	218	233
Interest expense	87	26

The interest rates of the transactions between the Group and Other related parties are summarised below:

	Year ended 31 December	
	2018	2017
	%	%
Loans and advances to customers	3.915~5.22	3.70~5.00
Deposits from banks and other financial institutions	0.35~5.80	2.45~5.80

44 SEGMENTAL ANALYSIS

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

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

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

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

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

44 SEGMENTAL ANALYSIS *(Continued)*

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

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

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

Operating segment information

	Year ended 31 December 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	28,500	9,630	78,890	43,787	21,811	29,276	136,970	–	348,864
External interest expense	(30,461)	(8,934)	(58,022)	(32,062)	(14,467)	(21,499)	(52,511)	–	(217,956)
Inter-segment net Interest income/(expense)	18,453	4,572	23,413	18,201	6,372	(426)	(70,585)	–	–
Net Interest income	16,492	5,268	44,281	29,926	13,716	7,351	13,874	–	130,908
Fee and commission income	4,342	1,623	13,606	8,160	3,221	3,350	10,371	–	44,673
Fee and commission expense	(226)	(53)	(1,508)	(285)	(153)	(351)	(860)	–	(3,436)
Net fee and commission income	4,116	1,570	12,098	7,875	3,068	2,999	9,511	–	41,237
Net gains/(losses) arising from trading activities	326	74	1,310	455	154	1,094	13,686	–	17,099
Net gains/(losses) arising from financial investments	–	–	149	–	–	282	(141)	–	290
Insurance business income	–	–	7,446	–	–	35	–	–	7,481
Share of profit of associates and joint venture	–	–	–	–	–	13	214	–	227
Other operating income	1,166	218	10,412	804	591	1,511	1,111	–	15,813
Total operating income -net	22,100	7,130	75,696	39,060	17,529	13,285	38,255	–	213,055
Credit impairment losses	(2,395)	(7,716)	(10,425)	(5,516)	(4,855)	(399)	(12,148)	–	(43,454)
Other assets impairment losses	–	–	(27)	(24)	–	(9)	–	–	(60)
Insurance business expense	–	–	(6,712)	–	–	(10)	–	–	(6,722)
Other operating expense	(7,234)	(3,321)	(25,618)	(11,252)	(5,980)	(4,968)	(18,379)	–	(76,752)
Profit before tax	12,471	(3,907)	32,914	22,268	6,694	7,899	7,728	–	86,067
Income tax									(11,902)
Net profit for the year									74,165
Depreciation and amortisation	(734)	(335)	(1,683)	(1,052)	(611)	(235)	(1,027)	–	(5,677)
Capital expenditure	(361)	(170)	(27,597)	(974)	(665)	(780)	(798)	–	(31,345)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Year ended 31 December 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	26,790	9,374	71,906	38,861	20,626	20,414	126,229	–	314,200
External interest expense	(32,819)	(8,792)	(58,026)	(33,832)	(14,144)	(13,250)	(28,464)	–	(189,327)
Inter-segment net Interest income/(expense)	23,116	4,984	25,232	21,602	6,651	(400)	(81,185)	–	–
Net Interest income	17,087	5,566	39,112	26,631	13,133	6,764	16,580	–	124,873
Fee and commission income	4,831	1,715	14,556	8,849	3,414	2,926	7,769	–	44,060
Fee and commission expense	(373)	(83)	(1,975)	(429)	(245)	(298)	(106)	–	(3,509)
Net fee and commission income	4,458	1,632	12,581	8,420	3,169	2,628	7,663	–	40,551
Net gains/(losses) arising from trading activities	279	59	942	432	90	189	105	–	2,096
Net gains/(losses) arising from financial investments	–	–	556	70	–	425	2,033	–	3,084
Insurance business income	–	–	12,932	–	–	36	–	–	12,968
Share of profit of associates and joint venture	–	–	–	–	–	(5)	137	–	132
Other operating income	1,285	204	8,192	819	453	1,489	374	–	12,816
Total operating income – net	23,109	7,461	74,315	36,372	16,845	11,526	26,892	–	196,520
Assets impairment losses	(2,398)	(1,690)	(14,612)	(3,875)	(3,762)	(281)	(4,851)	–	(31,469)
Insurance business expense	–	–	(12,198)	–	–	(13)	–	–	(12,211)
Other operating expense	(7,243)	(3,314)	(21,414)	(11,089)	(5,311)	(4,323)	(16,881)	–	(69,575)
Profit before tax	13,468	2,457	26,091	21,408	7,772	6,909	5,160	–	83,265
Income tax									(12,574)
Net profit for the year									70,691
Depreciation and amortisation	(787)	(383)	(1,762)	(1,120)	(658)	(195)	(973)	–	(5,878)
Capital expenditure	(411)	(179)	(24,075)	(1,049)	(590)	(394)	(2,107)	–	(28,805)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 31 December 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,157,867	339,827	2,669,816	1,434,255	688,096	1,006,195	4,224,506	(2,011,366)	9,509,196
Including:									
Investments in associates and joint venture	–	–	4	7	–	67	3,575	–	3,653
Unallocated assets									21,975
Total assets									9,531,171
Segment liabilities	(1,140,638)	(342,636)	(2,534,865)	(1,399,199)	(681,169)	(991,077)	(3,747,047)	2,011,366	(8,825,265)
Unallocated liabilities									(598)
Total liabilities									(8,825,863)

	As at 31 December 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,278,373	365,648	2,692,078	1,523,081	727,652	939,297	4,077,988	(2,582,319)	9,021,798
Including:									
Investments in associates and joint venture	–	–	4	6	–	82	3,265	–	3,357
Unallocated assets									16,456
Total assets									9,038,254
Segment liabilities	(1,265,063)	(363,044)	(2,597,457)	(1,493,665)	(721,874)	(931,308)	(3,571,371)	2,582,319	(8,361,463)
Unallocated liabilities									(520)
Total liabilities									(8,361,983)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information

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

The business information of the Group is summarised as follows:

	As at 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	49,626	41,747	37,302	2,233	130,908
Inter-segment net interest income/(expense)	19,847	8,946	(28,793)	–	–
Net interest income	69,473	50,693	8,509	2,233	130,908
Net fee and commission income	14,322	24,131	603	2,181	41,237
Net gains/(losses) arising from trading activities	2,585	(53)	13,876	691	17,099
Net gains/(losses) arising from financial investments	–	–	290	–	290
Share of profit of associates and joint venture	–	–	–	227	227
Insurance business income	–	–	–	7,481	7,481
Other operating income	11,508	3,130	2	1,173	15,813
Total operating income – net	97,888	77,901	23,280	13,986	213,055
Impairment losses on loans and advances to customers	(29,726)	(13,607)	141	(262)	(43,454)
Other assets impairment losses	(34)	–	–	(26)	(60)
Insurance business expense	–	–	–	(6,722)	(6,722)
Other operating expense					
– Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
– Others	(28,641)	(36,093)	(2,467)	(3,874)	(71,075)
Profit before tax	37,779	24,620	20,829	2,839	86,067
Income tax					(11,902)
Net profit for the year					74,165
Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
Capital expenditure	(9,430)	(19,775)	(688)	(1,452)	(31,345)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	Year ended 31 December 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	50,787	32,986	39,151	1,949	124,873
Inter-segment net interest income/(expense)	17,685	12,273	(29,958)	–	–
Net interest income	68,472	45,259	9,193	1,949	124,873
Net fee and commission income	16,034	20,229	2,483	1,805	40,551
Net gains/(losses) arising from trading activities	1,959	99	(511)	549	2,096
Net gains arising from financial investments	–	–	3,084	–	3,084
Share of profit of associates and joint venture	–	–	–	132	132
Insurance business income	–	–	–	12,968	12,968
Other operating income	9,064	2,308	10	1,434	12,816
Total operating income – net	95,529	67,895	14,259	18,837	196,520
Assets impairment losses	(27,687)	(3,447)	(221)	(114)	(31,469)
Insurance business expense	–	–	–	(12,211)	(12,211)
Other operating expense					
– Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
– Others	(24,590)	(33,420)	(2,461)	(3,226)	(63,697)
Profit before tax	41,483	27,320	11,448	3,014	83,265
Income tax					(12,574)
Net profit for the year					70,691
Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
Capital expenditure	(8,667)	(18,172)	(632)	(1,334)	(28,805)

	As at 31 December 2018				
	Corporate Banking Business	**Personal Banking Business**	**Treasury Business**	**Other Business**	**Total**
Segment assets	**3,181,294**	**1,721,526**	**4,529,647**	**76,729**	**9,509,196**
Including:					
Investments in associates and joint venture	***–***	***–***	***–***	***3,653***	***3,653***
Unallocated assets					**21,975**
Total assets					**9,531,171**
Segment liabilities	**(4,247,625)**	**(1,806,316)**	**(2,742,362)**	**(28,962)**	**(8,825,265)**
Unallocated assets					**(598)**
Total liabilities					**(8,825,863)**

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

44 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 31 December 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,145,789	1,487,329	4,307,392	81,288	9,021,798
Including:					
Investments in associates and joint venture	–	–	–	*3,357*	*3,357*
Unallocated assets					16,456
Total assets					9,038,254
Segment liabilities	(3,621,436)	(1,606,949)	(3,110,385)	(22,693)	(8,361,463)
Unallocated assets					(520)
Total liabilities					(8,361,983)

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

45 FINANCIAL STATEMENTS OF THE BANK

(a) Statement of Financial Position of the Bank

Bank	**As at 31 December 2018**	As at 31 December 2017
ASSETS		
Cash and balances with central banks	**835,960**	937,800
Due from banks and other financial institutions	**895,393**	809,651
Derivative financial assets	**29,447**	33,935
Loans and advances to customers	**4,556,775**	4,354,253
Financial investments – financial assets at fair value through profit or loss	**356,351**	222,637
Financial investments – debt instruments at amortised cost	**1,982,351**	N.A.
Financial investments – debt instruments at FVOCI	**319,198**	N.A.
Financial investments – equity investments at FVOCI	**5,724**	N.A.
Financial investments – available-for-sale	**N.A.**	374,858
Financial investments – held-to-maturity	**N.A.**	1,509,592
Financial investments – loans and receivables	**N.A.**	376,161
Investment in associates and joint venture	**3,454**	3,264
Property and equipment	**52,740**	53,333
Investments in subsidiaries	**46,110**	29,982
Deferred income tax assets	**20,580**	15,211
Other assets	**43,710**	106,608
Total assets	**9,147,793**	8,827,285

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

45 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(a) Statement of Financial Position of the Bank *(Continued)*

	As at 31 December 2018	As at 31 December 2017
Liabilities		
Due to banks and other financial institutions	**2,092,370**	2,028,416
Financial liabilities at fair value through profit or loss	**23,109**	26,964
Derivative financial liabilities	**28,801**	33,294
Due to customers	**5,644,733**	5,543,520
Certificates of deposits issued	**360,766**	145,088
Current tax liabilities	**1,101**	7,133
Deferred income tax liabilities	**46**	253
Debt securities issued	**244,163**	233,396
Other liabilities	**77,887**	155,265
Total liabilities	**8,472,976**	8,173,329
Equity		
Share capital	**74,263**	74,263
Preference shares	**59,876**	59,876
Capital surplus	**113,427**	113,427
Other reserves	**313,760**	293,846
Retained earnings	**113,491**	112,544
Total equity	**674,817**	653,956
Total equity and liabilities	**9,147,793**	8,827,285

The financial statements of the Bank were approved and authorised for issuance by the Board of Directors on 29 March 2019 and signed on its behalf by:

Chairman and Executive Director: Peng Chun

Vice Chairman, Executive Director and President: Ren Deqi

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

45 FINANCIAL STATEMENTS OF THE BANK *(Continued)*

(b) Statement of Changes in Equity of the Bank

				Other reserves										
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for financial assets at fair value through other comprehensive income/ Financial investments - available-for-sale	Revaluation reserve for the changes in credit risk of the financial liabilities measured at designated FVPL	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Total
Balance at 31 December 2017	**74,263**	**59,876**	**113,427**	**56,239**	**139,764**	**100,012**	**(2,053)**	**N.A.**	**(5)**	**(1,473)**	**35**	**1,327**	**112,544**	**653,956**
Impact on adoption of IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**1,797**	**(6)**	**-**	**-**	**-**	**-**	**(28,012)**	**(26,221)**
Balance at 1 January 2018 (restated)	**74,263**	**59,876**	**113,427**	**56,239**	**139,764**	**100,012**	**(256)**	**(6)**	**(5)**	**(1,473)**	**35**	**1,327**	**84,532**	**627,735**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**68,324**	**68,324**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1,503**	**(14)**	**34**	**1,069**	**(25)**	**18**	**-**	**2,585**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1,503**	**(14)**	**34**	**1,069**	**(25)**	**18**	**68,324**	**70,909**
Dividends paid to ordinary shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(21,209)**	**(21,209)**
Dividends paid to preference shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,618)**	**(2,618)**
Transfer to reserves	**-**	**-**	**-**	**6,833**	**-**	**8,705**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,538)**	**-**
Balance at 31 December 2018	**74,263**	**59,876**	**113,427**	**63,072**	**139,764**	**108,717**	**1,247**	**(20)**	**29**	**(404)**	**10**	**1,345**	**113,491**	**674,817**
Balance at 1 January 2017	74,263	59,876	113,433	49,618	139,764	83,896	1,766	N.A.	(119)	61	4	1,336	91,922	615,820
Net profit for the year	–	–	–	–	–	–	–	N.A.	–	–	–	–	66,214	66,214
Other comprehensive income	–	–	–	–	–	–	(3,819)	N.A.	114	(1,534)	31	(9)	–	(5,217)
Total comprehensive income	–	–	–	–	–	–	(3,819)	N.A.	114	(1,534)	31	(9)	66,214	60,997
Dividends paid to ordinary shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(20,162)	(20,162)
Dividends paid to preference shares	–	–	–	–	–	–	–	N.A.	–	–	–	–	(2,693)	(2,693)
Transfer to reserves	–	–	–	6,621	–	16,116	–	N.A.	–	–	–	–	(22,737)	–
Others	–	–	(6)	–	–	–	–	N.A.	–	–	–	–	–	(6)
Balance at 31 December 2017	74,263	59,876	113,427	56,239	139,764	100,012	(2,053)	N.A.	(5)	(1,473)	35	1,327	112,544	653,956

46 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

In accordance with the resolution and authorization of the 16th meeting of the 8th Session of Board of Directors of the Bank, the Bank was approved to set up the wholly-owned subsidiary, BoCom Asset Management Co., Ltd. On 7 January 2019, the Bank received the *Approval from the China Banking and Insurance Regulatory Commission Concerning the Establishment of BoCom Asset Management Co., Ltd.*The subsidiary will apply for opening according to the related regulations and procedures after the preparation.

In March 2019, the Bank's Hong Kong Branch issued three medium term notes with the face value of RMB2.5 billion due 2021, USD0.8 billion due 2022 and HKD3.5 billion due 2024 respectively.

In March 2019, the Board of Directors of the Bank approved the issuance of write-down non-fixed-term capital bonds with a total amount of no more than RMB40.0 billion or equivalent foreign currencies.The matter still requires to be submitted to the Shareholders' General Meeting for approval.

In March 2019, the Board of Directors of the Bank approved the issurance of ordinary financial bonds with a total amount of no more than RMB90.0 billion.

In March 2019, the Board of Directors of the Bank approved to increase the capital of not exceeding RMB5.5 billion to BoCom Leasing, a wholly-owned subsidiary of the Bank and approved BoCom Leasing to increase the capital of not exceeding RMB5.5 billion to its wholly-owned subsidiary, BoCom Aviation and Shipping. The matter is still waiting for the approval of related regulatory authorities.

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

1 LIQUIDITY RATIO

The liquidity ratios that the Group submitted to the Regulators are calculated in accordance with the formula promulgated by CBIRC.

	As at 31 December 2018	As at 31 December 2017
Liquidity ratio (%)	68.73	58.86

2 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
As at 31 December 2018				
Spot assets	923,779	190,792	154,296	1,268,867
Spot liabilities	(980,657)	(239,433)	(112,500)	(1,332,590)
Forward purchases	1,176,798	111,895	34,961	1,323,654
Forward sales	(1,164,445)	(50,463)	(67,904)	(1,282,812)
Net option position	(3,652)	–	(728)	(4,380)
Net long/(short) position	(48,177)	12,791	8,125	(27,261)
Net structural position	103,330	18,941	5,048	127,319

	USD	HKD	Others	Total
As at 31 December 2017				
Spot assets	869,474	208,402	129,103	1,206,979
Spot liabilities	(980,457)	(235,093)	(101,872)	(1,317,422)
Forward purchases	1,160,763	113,493	64,483	1,338,739
Forward sales	(1,080,955)	(78,190)	(81,381)	(1,240,526)
Net option position	(3,763)	58	(172)	(3,877)
Net long/(short) position	(34,938)	8,670	10,161	(16,107)
Net structural position	89,106	4,159	4,962	98,227

The net options position is calculated using the approach as set out by CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and properties, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital

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

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposits and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

As at 31 December 2018	**Bank**	**Official sector**	**Non-bank private sector**	**Others**	**Total**
Asia Pacific	**543,039**	**49,363**	**461,398**	**–**	**1,053,800**
Of which attributed to Hong Kong	**123,413**	**19,119**	**192,390**	**–**	**334,922**
North and South America	**57,414**	**14,001**	**50,278**	**–**	**121,693**
Africa	**–**	**–**	**–**	**–**	**–**
Europe	**22,481**	**1,125**	**57,266**	**–**	**80,872**
	622,934	**64,489**	**568,942**	**–**	**1,256,365**

As at 31 December 2017	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	526,963	56,522	384,235	–	967,720
Of which attributed to Hong Kong	84,062	31,378	173,165	–	288,605
North and South America	57,681	9,061	36,907	–	103,649
Africa	–	196	–	–	196
Europe	24,376	–	24,528	–	48,904
	609,020	65,779	445,670	–	1,120,469

4 OVERDUE AND RESTRUCTURED ASSETS

4.1 Balance of overdue loans

	As at 31 December 2018	As at 31 December 2017
Loans and advances to customers which have been overdue for		
– Within 3 months	**25,843**	22,657
– Between 3 and 6 months	**10,983**	7,929
– Between 6 and 12 months	**21,096**	18,163
– Over 12 months	**31,242**	50,749
	89,164	99,498
Percentage (%)		
– Within 3 months	**0.54**	0.49
– Between 3 and 6 months	**0.23**	0.17
– Between 6 and 12 months	**0.43**	0.40
– Over 12 months	**0.64**	1.11
	1.84	2.17

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

4 OVERDUE AND RESTRUCTURED ASSETS *(Continued)*

4.2 Overdue and restructured loans

	As at 31 December 2018	As at 31 December 2017
Total restructured loans and advances to customers	**9,415**	10,843
Including: Restructured loans and advances to customers overdue above 3 months	**3,617**	7,437
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	**0.07**	0.17

5 SEGMENTAL INFORMATION OF LOANS

5.1 Impaired loans and advances to customers by geographical area

	As at 31 December 2018		As at 31 December 2017	
	Impaired loans and advances to customers	**ECL allowance**	Impaired loans and advances to customers	Allowances for individually assessed impaired loans and advances to customers
PRC domestic regions				
– Northern China	**7,734**	**(5,479)**	8,491	(4,878)
– North Eastern China	**8,668**	**(5,586)**	4,412	(2,258)
– Eastern China	**29,576**	**(20,869)**	33,899	(15,301)
– Central and Southern China	**14,941**	**(9,090)**	10,584	(6,098)
– Western China	**10,329**	**(6,084)**	10,146	(6,057)
	71,248	**(47,108)**	67,532	(34,592)
Hong Kong, Macau, Taiwan and overseas regions	**1,264**	**(915)**	974	(742)
	72,512	**(48,023)**	68,506	(35,334)

5.2 Overdue loans and advances to customers by geographical area

	As at 31 December 2018		As at 31 December 2017		
	Overdue loans	**ECL allowance**	Overdue loans	Allowances for individually assessed impaired loans and advances to customers	Allowances for collectively assessed impaired loans and advances to customers
PRC domestic regions					
– Northern China	**7,939**	**(5,346)**	10,176	(4,652)	(387)
– North Eastern China	**9,619**	**(5,724)**	6,747	(2,117)	(582)
– Eastern China	**43,603**	**(24,848)**	50,839	(14,554)	(14,720)
– Central and Southern China	**15,901**	**(9,594)**	14,770	(5,712)	(966)
– Western China	**10,536**	**(6,648)**	15,378	(5,606)	(1,376)
	87,598	**(52,178)**	97,910	(32,641)	(18,031)
Hong Kong, Macau, Taiwan and overseas regions	**1,566**	**(1,143)**	1,588	(742)	(286)
	89,164	**(53,321)**	99,498	(33,383)	(18,317)
Fair value of collaterals	**43,899**	**N.A.**	48,824	N.A.	N.A.

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

6 LOANS AND ADVANCES TO CUSTOMERS

6.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	As at 31 December 2018			As at 31 December 2017		
Hong Kong		**%**	**Amount covered by collaterals**		%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– Petroleum and chemical	1,265	0.66	–	–	–	–
– Electronics	668	0.35	325	53	0.02	25
– Textile and clothing	2,990	1.56	634	3,497	1.62	27
– Other manufacturing	29,120	15.21	4,116	20,989	9.70	460
Electricity, gas and water production and supply	1,187	0.62	227	2,175	1.01	2
Construction	9,455	4.94	1,106	7,589	3.51	1,496
Transportation, storage and postal service	13,435	7.02	4,143	5,593	2.59	1,422
Telecommunication, IT service and software	835	0.44	32	504	0.23	–
Wholesale and retail	36,487	19.05	3,235	60,308	27.88	2,518
Accommodation and catering	–	–	–	997	0.46	50
Financial institutions	12,348	6.45	3,211	34,110	15.77	11,569
Real estate	12,934	6.75	6,736	4,483	2.07	6,466
Services	5,358	2.80	2,649	–	–	–
Education, science, culture and public health	–	–	–	–	–	–
Others	39,937	20.84	4,506	50,434	23.30	2,028
Total corporate loans	166,019	86.69	30,920	190,732	88.16	26,063
Individual loans		–				
Mortgage	14,445	7.54	14,429	10,986	5.08	10,984
Credit cards	156	0.08	–	150	0.07	–
Others	10,893	5.69	9,912	14,477	6.69	11,814
Total individual loans	25,494	13.31	24,341	25,613	11.84	22,798
Gross amount of loans and advances before impairment allowance	191,513	100.00	55,261	216,345	100.00	48,861
Outside Hong Kong	4,662,715			4,362,911		

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group is 49% as at 31 December 2018 (31 December 2017: 49%).

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

6.2 Allowance on loans and advances by type of loan

	As at 31 December 2018		As at 31 December 2017	
	Impaired loans	Lifetime ECL	Impaired loans	Allowances for individually assessed impaired loans
Corporates	57,172	(36,577)	52,608	(29,789)
Individuals	15,340	(11,446)	15,898	(5,545)
	72,512	(48,023)	68,506	(35,334)
Fair value of collateral	28,349	N.A.	26,563	N.A.

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of profit or loss and other comprehensive income, and the amount of loans and advances written off during the years are disclosed below:

	Year ended 31 December 2018			Year ended 31 December 2017		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	29,759	(38,988)	1,062	27,223	(17,191)	436
Individuals	12,737	(11,180)	517	2,564	(2,363)	481
	42,496	(50,168)	1,579	29,787	(19,554)	917

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