交通銀行
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)

2019 INTERIM REPORT

Stock Code: 03328

IMPORTANT REMINDERS

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 Interim Report, free of false records, misleading statements or material omissions and assume individual and joint legal responsibilities.

The Bank did not distribute any interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2019.

There was no appropriation of non-operating funds of the Bank by its controlling shareholders or their related parties. The Bank did not provide any external guarantees in violation of the prescribed decision-making procedures.

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

Contents

DEFINITIONS

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

"Articles of Associations"	The Articles of Association of Bank of Communications Co., Ltd. as approved by the CBIRC
"Bank", "BoCom"	Bank of Communications Co., Ltd.
"Basis point"	One in ten thousand
"CBIRC"	China Banking and Insurance Regulatory Commission
"Central and Southern China"	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"Commercial Bank Law"	Commercial Bank Law of the People's Republic of China
"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
"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"	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"Northern China"	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Overseas"	Includes 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 and other overseas subsidiaries

"PBOC"	The People's Bank of China
"Reporting Period"	The period from 1 January 2019 to 30 June 2019
"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: 交通銀行股份有限公司

Chinese abbreviation: 交通銀行

English name: Bank of Communications Co., Ltd.

CONTACT PERSON AND CONTACT INFORMATION

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ADDRESS AND OFFICIAL WEBSITE

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

Official website: www.bankcomm.com

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

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

INFORMATION DISCLOSURE CHANNELS AND PLACES WHERE THE INTERIM REPORT IS AVAILABLE

Newspapers for information disclosure (A share)

China Securities Journal, Shanghai Securities News, Securities Times

Designated website for information disclosure (A share)

Website of the SSE at www.sse.com.cn

Designated website for information disclosure (H share)

Website of HKEx News at www.hkexnews.hk

Places where the interim report is available

Board of Directors Office of the Bank

INFORMATION OF ORDINARY AND PREFERENCE SHARES

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

AUDITORS

Domestic auditor: PricewaterhouseCoopers Zhong Tian LLP.
11/F PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai

Name of auditor signed: Hu Liang, Zhou Zhang

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

Name of auditor signed: Ling Tung Man Tom

AUTHORIZED REPRESENTATIVES

Hou Weidong, Gu Sheng

LEGAL ADVISORS

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

SHARE REGISTER AND TRANSFER OFFICE

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

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

OTHER INFORMATION

Unified social credit code: 9131000010000595XD

FINANCIAL HIGHLIGHTS

The Group implemented the International Financial Reporting Standard 16 (the "**IFRS16**") : Leases from 1 January 2019. As permitted by the transitional provisions of IFRS16, the Group did not restate comparative figures. Any adjustments to the carrying amounts at the date of transition were recognized in the opening retained earnings and other related items in the financial statements. For the related impact, please refer to 2.2.1 Changes in accounting policies of 2 Summary of Significant Accounting Policies in Interim Financial Statements and Review Report.

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

(in millions of RMB unless otherwise stated)

Key financial data	**January to June 2019**	January to June 2018	Increase/ (decrease) (%)
Net interest income	**70,062**	60,658	15.50
Profit before tax	**48,959**	47,470	3.14
Net profit (attributable to shareholders of the Bank)	**42,749**	40,771	4.85
Earnings per share (attributable to shareholders of the Bank, in RMB yuan)[5]	**0.54**	0.51	5.88

	30 June 2019	31 December 2018	Increase/ (decrease) (%)
Total assets	**9,886,608**	9,531,171	3.73
Including: Loans and advances to customers[1]	**5,130,612**	4,854,228	5.69
Total liabilities	**9,162,860**	8,825,863	3.82
Including: Due to customer[1]	**6,054,728**	5,724,489	5.77
Shareholders' equity (attributable to shareholders of the Bank)	**716,490**	698,405	2.59
Net assets per share (attributable to shareholders of the Bank, in RMB yuan)[2]	**8.84**	8.60	2.79
Net capital[3]	**831,689**	817,549	1.73
Including: Net Core Tier 1 Capital[3]	**653,117**	634,807	2.88
Other Tier 1 Capital[3]	**60,079**	60,025	0.09
Tier 2 Capital[3]	**118,493**	122,717	(3.44)
Risk-weighted Assets[3]	**6,011,424**	5,690,542	5.64

Key financial indicators (%)	January to June 2019	January to June 2018	Change (percentage point)
Cost-to-income ratio[4]	**29.05**	29.26	(0.21)
Annualized average return on assets	**0.89**	0.89	–
Annualized return on average shareholders' equity[5]	**12.79**	12.99	(0.20)

	30 June 2019	31 December 2018	Change (percentage point)
Non-performing loans ratio	**1.47**	1.49	(0.02)
Provision coverage of impaired loan	**173.53**	173.13	0.40
Capital adequacy ratio[3]	**13.84**	14.37	(0.53)
Tier 1 Capital adequacy ratio[3]	**11.86**	12.21	(0.35)
Core Tier 1 Capital adequacy ratio[3]	**10.86**	11.16	(0.30)

Notes:

1. 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.
2. Refers to shareholders' equity attributable to shareholders' of the Bank after the deduction of other equity instruments divided by the total issued ordinary shares at the end of the Reporting Period.
3. Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)* issued by the CBIRC.
4. Calculated as a percentage of the businesses and management expenses to the operating income net of other business costs, based on data extracted from the financial statements prepared in accordance with China Accounting Standards.
5. Excluding the impact of preference shares.

BUSINESS PROFILE

The Group's primary businesses include corporate banking businesses, personal banking businesses, and inter-bank and financial market businesses. Corporate banking businesses include providing kinds of financial products and services for enterprises and government agencies, such as deposits and loans, supply chain finance, cash management, international settlement and trade finance, investment banking, asset custody, wealth management and all kinds of intermediary businesses, etc. Personal banking businesses include services such as deposits and loans, wealth management, bank cards, private banking and all kinds of intermediary businesses for individual customers. Inter-bank and financial market businesses include cooperation with customers in the markets of interest rates, exchange rates, commodities, providing comprehensive services such as investment and financing, transactions, agency, settlement and liquidation. In addition, the Group involved in businesses such as fund, trust, financial leasing, insurance, overseas securities, debt-to-equity conversion and asset management through its subsidiaries, including Bank of Communications Schroder Fund Management Co., Ltd., Bank of Communications International Trust Co., Ltd., Bank of Communications Financial Leasing Co., Ltd., BoCommLife Insurance Company Limited, China BOCOM Insurance Co., Ltd., BoCom International Holdings Company Limited, BOCOM Financial Asset Investment Co., Ltd. and BOCOM Wealth Management Co., Ltd.

Under the development strategy of "building the best wealth management bank by taking the road of internationalization and integration" and the "186" strategic landscape, the Group continued to improve its services across industries, markets and borders. The Group remained the leading position for implementing the international development strategy and the integrated operation among domestic interbanks. The brand image "BoCom, your best wealth management bank" became more and more prominent. The Group has always followed the principle of steady operation during its operation and development and continuously improved the comprehensive risk management system of "full coverage, differentiation, specialization, intelligence and accountability". During the Reporting Period, the Group's major operating model, principal businesses and key performance drivers had no significant change. There was no significant change in the Group's core business competitiveness either.

I. PRIMARY BUSINESSES REVIEW

During the first half of 2019, the Group actively responded to the changing market and political environment. Under the guidance of the new connotation of development strategy, the Group adhered to the new development concept, insisted on serving the real economy, adhered to the bottom line of risk compliance and accelerated the financial technology empowerment. The Group achieved steady development with good momentum in various businesses. The Group was honored with "Top 500 Global Companies" for eleven consecutive years by FORTUNE, ranking No. 150 in terms of operating income, up by 18 ranks as compared with the previous year. The Group was also ranked No. 11 among global top 1,000 banks rated in terms of Tier-1 Capital by The Banker.

The Group achieved steady growth in earnings and improvement in value creation. During the Reporting Period, the Group reported net profit (attributed to shareholders of the Bank) of RMB42.749 billion, representing a year-on-year increase of 4.85%. Net operating income was RMB118.314 billion, representing a year-on-year increase of 15.96%. Net operating income increased by RMB18.188 billion more than that of the same period of the previous year, indicating a very remarkable improvement. Net interest income was RMB70.062 billion, representing a year-on-year increase of 15.50%. Net interest income increased by RMB10.079 billion more than that of the same period of the previous year. The Group's interest margin well sustained, with net interest margin of 1.58%, representing an increase of 17 basis points on a year-on-year basis. Under the premise of strictly implementing the charging regulatory requirements, the Group explored the advantages of wealth management and accelerated the transformation of revenue growth. The net fee and commission income increased by 9.16% on a year-on-year basis. The cost-to-income ratio was 29.05%, representing a decrease of 0.21 percentage point on a year-on-year basis, reflecting a continued effect of cost reduction and efficiency improvement.

The Group responded to national strategies and increased the support to entities. The Group actively responded to the national major strategies and industrial policies and supported the construction of key areas such as the Yangtze River Delta, Beijing-Tianjin-Hebei and Guangdong-Hong Kong-Macao Greater Bay Area. As at the end of the Reporting Period, the balance of loans to customers of the Group (before provision, same below unless otherwise stated) amounted to RMB5,130.612 billion, representing an increase of RMB276.384 billion or 5.69% over the end of the previous year. The Group contributed to the real economy with corporate loans, corporate loans increased by RMB200.723 billion more than that of the same period of the previous year. The Group also increased support for inclusive finance and private enterprises. As at the end of the Reporting Period, the balance of inclusive small and micro enterprise loans increased by 27.22% or RMB29.434 billion over the end of the previous year. The number of customers of loans to inclusive small and micro enterprises increased by 16.6 thousand over the end of the previous year. The Group achieved progress goal of "Two Increases and Two Controls". Loans to private enterprise increased by 5.95% over the end of the previous year, which was higher than the average growth rate of loans.

[1] Private enterprise loans include privately held corporate loans and personal business loans.

The Group enhanced the technology empowerment and deepened the implementation of strategy connotation. The Group continuously deepened the new connotation of "building the best wealth management bank by taking the road of internationalization and integration". The Group also enhanced the comprehensive service capabilities across borders, industries and markets. During the Reporting Period, the Prague Branch officially opened. The application for the establishment of the Dubai Branch was approved by the regulatory authorities. The financial service network along the "Belt and Road" was enhanced. The subsidiary BOCOM Wealth Management Co., Ltd. was the first batch to be authorized for operation. The coverage of integrated service was increased. The Group were deep into the area of the wealth management and, aiming to enhance value together with customers. During the Reporting Period, agency fees derived from distribution of fund, insurance and treasury bonds increased by 30.99% on a year-on-year basis. The management fee income of asset custody, fund management, sales and management of wealth management products etc. increased by 13.22% on a year-on-year basis. The Group accelerated the intelligent transformation via channels, data and talents. As at the end of the Reporting Period, the number of registered mobile phone banking customers increased by 7.54% over the end of the previous year and the transaction amount during the first half of the year increased by 26.20% on a year-on-year basis. The Group launched one-stop ETC application service to create an online closed-loop experience for customers. The Group launched three major projects of Fintech Management Trainees, 10 thousand Fintech Talent Plan and the Empowerment Transformation of Existing Talents, providing talent support for the Group's digital and intelligent transformation.

The foundation of the risk control was solid and the asset quality was stable. The Group adhered to prudent and stable risk appetite and the bottom line of systemic regional risk. The major asset-quality indicators were stable. The defense of risk control was continuously enhanced. As at the end of the Reporting Period, the Group's non-performing loans ratio, overdue loan ratio and provision coverage of impaired loan continued to achieve "Two Decreases and One Increase". The non-performing loans ratio was 1.47%, decreasing by 0.02 percentage point over the end of the previous year; the overdue loan ratio decreased by 0.02 percentage point over the end of the previous year; the provision coverage of impaired loan increased by 0.4 percentage point over the end of the previous year to 173.53%. The market risk and liquidity risk are generally under control, which met regulatory requirements. The Group created a matrix-based risk prevention and control system, deepened the integration of the case prevention and the comprehensive risk management system and carried out the "5+N" specialized case prevention and control.

(I) Corporate Banking Businesses

- **During the Reporting Period, the Group's profit before tax from corporate banking businesses was RMB23.290 billion, of which net interest income was RMB36.090 billion and net fee and commission income was RMB8.704 billion.**

- **As at the end of the Reporting Period, the balance of corporate deposits of the Group increased by 4.19% over the end of the previous year to RMB4,109.438 billion. The balance of corporate loans increased by 8.01% over the end of the previous year to RMB3,476.395 billion.**

- **As at the end of the Reporting Period, the balance of non-performing loan of the Group was RMB56.776 billion and the non-performing loans ratio was 1.63%.**

The Group continued to enhance the ability to serve the real economy and satisfied the full range of customers' financing needs by product portfolios such as credit, bonds, funds, leasing, trust, asset management, insurance and investment. The Group continued to strengthen the core businesses and characteristic businesses such as industrial chain finance, cash management, investment banking, cross-border finance, asset custody. The Group established a good market image and promoted the high-quality development of corporate banking businesses.

1. Corporate and institutional businesses

The Group grasped the opportunity of information construction of the national government service platform and obtained newly registered corporate customers from the source. The Group improved customer experience and enhanced the quality and efficiency of customer development in key processes such as account opening and credit approval. The Group also focused on mobile internet, scenario application and industrial application, strengthened online channel construction and provided more convenient and efficient financial services. Corporate online banking and mobile banking customers are growing rapidly. The Group carried forward special marketing campaigns to attract core enterprises and subordinated enterprises in bulk and to generate revenue by building platforms for customers, aiming to increase customer viscosity via promoting the roll-out of innovative services. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 11.70% over the end of the previous year. The number of newly-opened accounts increased by 117.82% on a year-on-year basis.

2. *Inclusive finance businesses*

The Group deepened the reform of the Inclusive Finance Development Committee and actively developed inclusive financial services for small and micro enterprises, "Agriculture, Rural areas and Farmers", poverty alleviation and "Mass Entrepreneurship and Innovation". The Group established a specialized service system for inclusive finance to effectively solve the problems of "Difficult Financing and Expensive Financing" in key areas and key customer groups. As at the end of the Reporting Period, the balance of loans of inclusive small and micro enterprises and the number of customers increased by RMB29.434 billion and 16,623 over the end of the previous year respectively, representing an increase of 27.22% and 18.97% respectively. The amount of non-performing loans decreased by RMB744 million over the end of the previous year. The non-performing loans ratio decreased by 1.69 percentage points over the end of the previous year. The average price of newly issued small and micro enterprise loans decreased by 58 basis points over the previous year. The progress target of "Two increases and two controls" was achieved. The balance of inclusive agriculture-related loans increased by RMB7.390 billion or 39.11% over the end of the previous year. The balance of loans on targeted financial poverty alleviation increased by RMB1.013 billion to RMB27.334 billion over the end of the previous year.

3. *Industrial value chain financial businesses*

The Group focused on the core enterprises to build an "Online + Offline" integrated industrial chain financial ecosystem for the whole industrial chain. The Group enhanced the promotion of industrial chain finance in key industries such as construction, automobile, medical, modern agriculture and petroleum with key products such as "Express Bill Discounting", "Express Receivable Collector", "Express Pay" and "Intelligent Automobile Finance". The Group continued to promote the optimization and development of online financing products such as online acceptance, online discounting, online factoring and accounts receivable chain businesses. As at the end of the Reporting Period, the total accumulated number of industrial chain networks of domestic branches exceeded 3,500 and the balance of key products of industrial value chain financing increased by 49.92% to nearly RMB180.0 billion over the end of the previous year.

4. *Cash management businesses*

The Group continuously promoted the iteration of cash management products and innovation of service scenarios and launched products such as BoCom Intelligent Financial Service Platform, Enterprise Online Trading Platform, E-pay and "Delivery and Guarantee". The Group provided global cash management services including offshore funds pool, cross-border two-way fund pool and centralized receipt and payment. Customer service and customer experience were actively enhanced at the same time. As at the end of the Reporting Period, the number of group customers of the online "Win to Fortune" cash management exceeded 26 thousand, including more than 720 thousand cash management accounts, of which the accumulated number of customers of BoCom Intelligent Financial Service Platform reached 806. The Group successively won the "China's Best Service Provider – Cash Management" by The Asset.

5. *International settlement and trade financing businesses*

The Group actively promoted international settlement and cross-border trade financing businesses and provided financial support and guarantee for the national “Belt and Road” construction and “going out” of Chinese enterprises through financing and settlement products such as external guarantees. The Group took actions to stabilize foreign trade development and assisted in stable quality enhancement of foreign trade. During the Reporting Period, the international payments reached RMB955.760 billion, the amount of international trade financing reached RMB59.941 billion and the amount of external guarantee of domestic branches reached RMB21.843 billion.

6. *Investment banking businesses*

The Group actively supported the demand for bond issuance across boarders. The amount of overseas bond issuance was nearly USD36.1 billion. The Group promoted major overseas debt programs including the RMB5.0 billion offshore treasury bonds of Ministry of Finance and RMB30.0 billion offshore central bank bills of the People’s Bank of China. The Group completed major projects including Central Huijin Investment Ltd.’s medium-term notes of RMB20.0 billion, financial bonds of Hangzhou Bank of RMB10.0 billion and financial bond of Great Wall Asset Management of RMB30.0 billion. The Group comprehensively promoted asset securitization businesses. The total underwriting amount of full-scale asset securitization (including credit-asset-backed securities and asset-backed notes) ranked fourth in the banking system. The Group successfully issued two personal housing mortgage asset-backed securities of RMB15.097 billion in total. During the Reporting Period, the fee income of investment banking reached RMB2.632 billion, accounting for 10.50% of the Group’s total fee and commission income. The domestic branches accumulatively underwrote 231 different bonds (excluding local treasury bonds). The underwriting amount (excluding local treasury bonds) was RMB141.616 billion, representing a year-on-year increase of 6.65%. The Group was awarded “Top 10 Investment Bank Innovation Award in 2019” by The Banker, “Best Securitization Trading Award” by Asian Currency, “Asia Pacific Most Innovative Trading Award” by Treasury and other awards.

7. *Asset custody businesses*

The Group actively carried out pension financial services and grasped the strategic opportunities for centralized bidding for local occupational annuities custody. The Group participated in the pilot innovation businesses of certificate deposit in capital market and obtained the qualification of CDR depository bank. The Group promoted the public fund custody businesses by remaining market-oriented and customer-oriented, moving forward in the asset management service chain from the back to the front and jointly developing products and expanding businesses with asset management institutions. As at the end of the Reporting Period, the assets under custody of the Bank increased by 2.12% to RMB9,102.283 billion over the end of the previous year.

Laid out in Key Areas to Accelerate the Integrated Development in the Yangtze River Delta

Since the introduction of the national strategy for the integrated development of the Yangtze River Delta, the Bank, as the sole large scale state-owned commercial bank with its head office in Shanghai, actively responded to national policy requirements, integrated and optimized resources and channels within the Group and enhanced the regional integrated operation capability of the Yangtze River Delta. The Group focused on popular areas such as free trade zone, science and technology, financial and factor markets. The Group continued to explore serving the regional real economy and made unremitting efforts to improve the customer experience, achieving and achieved satisfying results.

Creating business characteristics

— Established an integrated mechanism. In order to promote the integrated operation of the Yangtze River Delta more efficiently, the Bank coordinated the resources among 7 branches in the area, Head Office, branches and subsidiaries and established strategic leadership teams for the integration of Yangtze River Delta Region. The Bank set up the Yangtze River Delta Regional Integration Strategy Promotion Office as the business promotion organization. The relatively sound system and mechanism ensured the Bank's smooth and efficient operation of all kinds of work of the Yangtze River Delta integrated operation during the first half of the year. As at the end of the Reporting Period, the average daily balance of Renminbi corporate deposits of branches in the Yangtze River Delta increased by RMB58.5 billion over the previous year, representing a year-on-year increase of 69% more than that of the same period of the previous year, contributing 38.7% of the total incremental loan, up 4.2 percentage points. The Renminbi substantive corporate loans increased by RMB35.6 billion over the end of the previous year, representing a year-on-year increase of 336% more than that of the same period of the previous year, contributing 24.9% of the total incremental loan, up 9.6 percentage points.

— Deeply cultivated the businesses of the Free Trade Zone. During the first half of the year, the Bank actively integrated the Free Trade Zone businesses and accounted for unit businesses and the offshore businesses in separate books. The Bank identified its business characteristics and enhanced the market influence. In April, the Bank signed a comprehensive strategic cooperation agreement with the Shanghai Pudong New Area People's Government and held the unveiling ceremony of the Free Trade Zone Financial Innovation Joint Lab. At the same time, the Bank successfully held a free trade zone innovation business promotion conference in Shanghai. As at the end of the Reporting Period, the accumulated number of the Shanghai FTU opened by customers was 2,207, increasing by 800 or 56.86% over the end of the previous year. The net number of accounts was 1,816, representing an increase of 748 or 70.04% over the end of the previous year. Shanghai FTU settlement volume of foreign currency was RMB35.481 billion in total, increasing by 54.99% on a year-on-year basis. The Free Trade Zone businesses achieved rapid development.

— Focused on the technology and innovation driven inclusive businesses. Supporting the development of technology and innovation driven inclusive businesses was one of the key areas of the Yangtze River Delta's integrated business strategy of the Bank. During the first half of the year, the Bank formulated the technology financial service plan throughout the life cycle for science and technology enterprises and successfully held the press release conference. In addition, the Group's subsidiary, BoCom International, has established the technology and innovation equity investment fund to provide integrated financial services covering "Investment + Loans + IPO Sponsorship + Merger and Acquisition Financing + Wealth Management". The Bank expanded science and technology small and micro enterprises in a cluster project system. Currently, the Bank has implemented more than 40 technology financial projects in the Yangtze River Delta region to achieve full coverage of branches in the Yangtze River Delta region.

— Targeted the financial factor market. The Yangtze River Delta region is one of the most active regions in the domestic financial and factor market. The Bank seized opportunities actively for business development and extensively carried out Inter-bank coordination. In May, the Bank jointly hosted the 16th Shanghai Derivatives Energy Forum with the Shanghai Futures Exchange and the Shanghai International Energy Exchange Center. In June, the Bank also held the Shanghai Yangtze River Delta Regional Banking Cooperation Seminar in Shanghai, which significantly improved the Bank's influence within the industry.

— Expanded regional key projects. According to the three-year plan for the integration of the Yangtze River Delta, the Bank has undertaken 39 key customers and 86 key projects. As at the end of the Reporting Period, 7 branches in the region have established cooperative relationships with 33 key customers and built up connections with 25 key projects, including Hangzhou-Huangshan High-speed Railway, Jiaxing LNG Storage and Transportation Station, Taicang Port, Zhoushan International Petroleum Storage and Transportation Base. The projects have been financed, with a total amount of to RMB1.4 billion.

The future development direction

The Bank continues to rely on the integrated system and mechanism within the Group, takes the advantages and information advantages of the Head Office in Shanghai and uses Shanghai as an engine to further promote the integration of the Yangtze River Delta region. The Bank explores and optimizes talent sharing and benefit sharing mechanisms, strengthens express channels for regional businesses, product innovation and construction and improves the response speed and service level of key customers and key projects in the Yangtze River Delta region. By accelerating the business layout of key areas such as the free trade zone, science and technology, financial and factor markets, the Bank will continuously enhance the brand advantage in the Bank's coordinated development.

(II) Personal Banking Businesses

- **During the Reporting Period, the Group's profit before tax from personal banking businesses sector was RMB15.137 billion. Among them, the net interest income was RMB29.976 billion, and net fee and commission income was RMB13.217 billion;**
- **As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 9.30% over the end of the previous year to RMB1,941.732 billion. The balance of personal loans of the Group increased by 1.14% over the end of the previous year to RMB1,654.217 billion. The total number of individual customers in domestic branches increased by 0.80% over the end of the previous year.**
- **As at the end of the Reporting Period, the balance of personal non-performing loans was RMB18.732 billion and the personal non-performing loans ratio was 1.13%.**

The Group adhered to the "Customer-centric" business philosophy, focused on wealth management, constantly enriched the content of "Your Wealth Management Bank", strengthened technology empowerment, provided customers with comprehensive services with all-round, high efficiency and excellent experience**,** and promoted the high-quality development of personal financial services.

1. Personal deposits and loans businesses

The Group accelerated the innovation and development of liability businesses, enriched the types of local and foreign currency savings deposit products, promoted products such as individual large deposit certificates and promoted the steady development of personal deposit businesses.

The Group strictly implemented the national macro-control policies, supported resident's reasonable demand of housing for personal use and implemented differentiated management of mortgage loans. The Group optimized the process of "Benefit Loan", relied on Fintech and data analysis and application to expand the customer base and enhance the intelligent risk control capability. As at the end of the Reporting Period, the Group's personal housing mortgage loan balance increased by 5.97% to RMB1,067.683 billion over the end of the previous year. The balance of "Benefit Loan" increased by RMB2.267 billion to RMB9.141 billion over the end of the previous year.

2. Wealth management businesses

The Group actively promoted the integration of emerging technologies and wealth management expertise. Based on the application of big data analysis, the mobile banking online released the PLUS function of fixed fund investment, to provide customers with services including intelligent fixed investment plan, profit and loss reminder and quantitative selection of outperforming funds. The Group actively adapted to the trend of online customer transactions, continued to expand customer service with mobile banking live broadcast, one-on-one video, instant messaging and smart outbound calls. The scale of family wealth management businesses, private banking account businesses, agency trust and insurance businesses continued to grow, further enhancing the professional service capabilities of private banking.

As at the end of the Reporting Period, the individual financial assets under management (AUM) increased by 7.25% to RMB3,279.297 billion over the end of the previous year. The number of qualified customers of BOCOM FORTUNE, OTO FORTUNE and private banking increased by 2.09%, 9.29% and 12.48%, 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 5.84% over the end of the previous year.

3. Bank card businesses

The customer base of credit card businesses was gradually optimized. The proportion of mobile payment transactions during the first half of the year increased by 3 percentage points on a year-on-year basis. The Group actively responded to changes in the external market situation. Through various controls during pre-loan and disbursement stages, the Group proactively strengthened the balance of credit card business development and risk management and improved the collection efficiency and asset preservation ability. The Group also built and improved the intelligent marketing system and intelligent risk control platform to improve the human-machine collaboration capacity based on artificial intelligence. The Group optimized the platform of “Go Pay” APP and increased the size and activity of the APP customers. As at the end of the Reporting Period, the number of credit cards of domestic branches (including quasi-credit cards) reached 71.47 million. The accumulated consumption during the first half of the year reached RMB1,423.507 billion. The balance of corporate credit card overdrafts of the Group reached RMB454.677 billion and the credit card overdraft non-performing ratio was 2.49%.

Debit card businesses continued to promote the “Customer campaign of scan code payment” and the debit card function of password-free and signature-free with small amount payment. The Group also promoted “Security Pay” electronic debit card and “No Worry Card” featured value-added services in order to provide customers with safe and convenient payment service. As at the end of the Reporting Period, the number of issued Pacific Debit Cards of domestic branches reached 147.05 million, representing a net increase of 4.52 million over the end of the previous year. The accumulated consumption during the Reporting Period increased by 0.55% on a year-on-year basis with the same caliber to RMB1,141.3 billion.

4. Service and consumer protection

The Group insisted on building the "best bank with full channel service", optimized the service of the front, middle and back offices and business processes, improved the efficiency of service and business processing. As at the end of the Reporting Period, the proportion of outlets with extra-long queues[2] decreased by 8.27 percentage points over the end of the previous year. Based on protecting the legitimate rights and interests of consumers, the Group implemented full process management. The Group was awarded the A-level bank in the 2018 People's Bank of China Consumer Protection Rating.

(III) Inter-bank and Financial Market Businesses

- **During the Reporting Period, the Group's profit before tax of financial market treasury businesses was RMB8.610 billion, of which net interest income was RMB2.869 billion and net fee and commission income was RMB59 million.**

- **As at the end of the Reporting Period, the Group's financial investments amounted to RMB2,989.602 billion, representing an increase of 5.94% over the end of the previous year. During the Reporting Period, the securities investment yield increased 2 basis points on a year-on-year basis to 3.58%.**

The Group took full advantage of the characteristics of inter-bank and financial market business, complemented the advantages of traditional banking businesses by providing services such as investment transactions, asset management, settlement and clearing, and agency services. The Group would better satisfy the diversified financial service needs including the investment and financing of real economy, wealth management and risk mitigation.

1. Inter-bank businesses

The Group deepened the business cooperation of financial factor market and served the construction of financial infrastructure. Supporting the construction of Renminbi-denominated products such as Shanghai gold futures and Shanghai crude oil futures and expanding the global influence of Renminbi-denominated products, the Group was in the leading position in the Shanghai International Energy Center's crude oil futures deposit market. The Group assisted Shanghai Clearing House for the clearing of over-the-counter derivative transactions. The scale of Renminbi interest rate swap agent clearing and other major businesses ranked top in the market. The Group was awarded the "Excellent Member of Clearing" and the "Excellent Member of Settlement" by Shanghai Clearing House. During the Reporting Period, the average balance of financial factor market deposits increased by 11.13% to RMB191.7 billion over the previous year.

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[2] The long queue refers to the waiting time of more than 30 minutes, the proportion of the long queues = the number of outlets with more than 3 queues per day, the total number of outlets.

The Group strengthened the construction of Inter-bank platforms. As at the end of the Reporting Period, there were 1,028 cooperative corporate customers on Inter-bank platforms, representing an increase of 144 over the end of the previous year. There were 873 cooperative corporate customers on Inter-bank asset management platforms, representing an increase of 151 over the end of the previous year. The Group actively conducted the "Rural Credit Cooperatives Project" and supported financial services of "Agriculture, Rural areas and Farmers" and remote areas through Inter-bank cooperation. As at the end of the Reporting Period, the Group signed cooperation agreements with 21 provincial-level rural credit unions. As the first pilot commercial banks, the Group initiated local bond counter businesses in places such as Sichuan, Zhejiang and Beijing. The Group provided investment products with profitability, liquidity and stability to local residents and small-and-medium institutions.

The Group supported the construction of multi-level capital markets. During the Reporting Period, the Group cooperated with all domestic securities companies with securities brokerage qualifications to carry out third-party depository business cooperation. The number of customers for transactions with securities and future trading companies increased by 456.6 thousand over the end of the previous year. The balance of the deposit pledged as collateral of futures trading companies reached RMB99.0 billion, maintaining a market leading position. The average balance of low-cost liabilities of securities and future trading companies increased by RMB31.6 billion over the previous year.

2. Financial market businesses

The Group actively performed the role of a market maker in "Bond Connect" businesses and introduced foreign investors. During the Reporting Period, 128 "Bond Connect" transactions were completed, amounting to RMB10.233 billion. The Group actively developed the Renminbi bond lending businesses and signed master agreements for Renminbi bond lending businesses with 122 institutions. During the Reporting Period, the trading volume of Renminbi bonds of domestic branches reached RMB2.38 trillion. The foreign exchange transaction volume in the Inter-bank foreign exchange market reached USD942.856 billion. The accumulated Renminbi currency market transactions amount of domestic branches reached RMB19.22 trillion. The accumulated transaction amount of the foreign currency market reached USD344.810 billion.

The Group arranged different product positions quarterly, optimized the structure of bond and rationally optimized the duration of portfolio. As at the end of the Reporting Period, the Group's financial investment reached RMB2,989.602 billion, representing an increase of 5.94% over the end of the previous year. During the Reporting Period, the securities investment yield was 3.58%, representing a year-on-year increase of 2 basis points.

3. *Asset management businesses*

The off-balance-sheet asset management businesses steadily developed. Product innovation and upgrades were stable and sound. The Group established net-value product portfolio focusing on products of cash management, medium- and long-term conventional open-ended and close-ended wealth management products and featured by "Fixed income +" themed net-value products. During the Reporting Period, the average balance of net-value asset management products increased by RMB82.638 billion over the previous year, the proportion of which on off-balance-sheet asset management increased by 8.52 percentage points to 24.04% over the previous year. As at the end of the Reporting Period, the balance of off-balance sheet asset management products reached RMB818.366 billion, representing an increase of 6.33% over the end of the previous year.

4. *Precious metal businesses*

The Group was the first batch of silver futures market makers on the Shanghai Futures Exchange and became one of the two commercial bank market makers of silver futures. During the Reporting Period, the domestic branches achieved RMB72.605 billion in terms of volume of precious metal brokerage transactions. The sales volume of physical precious metal products amounted to RMB618 million. The accumulated volume of self-operated gold trading amounted to 4,206.22 tons, ranking Top 3 in Shanghai Gold Exchange in terms of self-operated gold trading and actively participating in trading. The Group won 11 prizes including the first prize of "Excellent Financial Members" for the year of 2018 by Shanghai Gold Exchange, and was awarded other prizes including "Special Contribution Award to Market Dealer" for the year of 2018 by Shanghai Futures Exchange, for the contribution in the promotion of the financial factor market serving the real economy.

(IV) "Online and Offline" Network Construction

- **During the Reporting Period, the profit per capita of the Group amounted to RMB989.3 thousand, representing an increase of 7.50% on a year-on-year basis. As at the end of the Reporting Period, the average deposit per outlet (excluding all-inclusive outlets) increased by 5.83% over the end of the previous year to RMB2.269 billion.**

- **During the Reporting Period, the total number of e-channels transactions in domestic banks reached 3.578 billion and the transaction amount reached RMB124.76 trillion. As at the end of the Reporting Period, the diversion rate of e-channels increased by 0.71 percentage point over the end of the previous year to 97.30%.**

- **As at the end of the Reporting Period, the total amount of domestic banking institutions' outlets decreased by 65 over the end of the previous year to 3,176, of which 11 were newly opened and 76 low-yield outlets were integrated.**

The Group adhered to the 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 of + 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 improved online financial service capabilities in consideration of user experience. The Group launched new functions such as online revenue and expenditure accounting books, credit card repayment to other banks and fixed investment PLUS. The Group also launched innovative products in enterprise mobile banking such as E-pay (receipt and payment with QR code), online foreign exchange settlement and sales. The Group launched mobile banking App, "Go Pay" App and one-stop ETC application service, and created an online closed-loop experience for customers. The number of audience of BoCom live broadcasters increased rapidly. During the Reporting Period, more than 130 programs were released and the number of audience increased by 412.99% on a year-on-year basis. As at the end of the Reporting Period, the Bank's mobile banking registered customers exceeded 79.73 million, representing an increase of 7.54% over the end of the previous year. During the Reporting Period, the number of mobile banking transactions reached 244 million, representing a year-on-year increase of 41.04%. The transaction amount increased by 26.20% to RMB6.60 trillion on a year-on-year basis.

Online banking. The Group built a financial mobile service platform namely "E-finance", strengthened the optimization and innovation of online settlement products in mobile services and scenario applications and enriched the customer service channels. During the Reporting Period, the number of corporate online banking users increased by 188.6 thousand over the end of the previous year. The Group continued to improve personal online banking service. The Group was the first in the industry to launch over-the-screen payment service. In order to provide a more convenient online trading platform for customers, the Group also continued to optimize experience of services such as asset management products purchase and online loans. As at the end of the Reporting Period, the number of personal online banking customers increased by 4.91% over the end of the previous year. The number of personal online banking transactions (excluding mobile banking) increased by 11.86% to 2.679 billion on a year-on-year basis.

2. *Offline network construction*

Physical outlets. The Group continued to optimize the network layout, maintain the offline layout advantages of the Bank, namely high coverage, multi-contact and excellent service. The Group also promoted the construction of intelligent outlets by integrating the intelligent machines and functions of outlets and creating an intelligent coordinated service model of outlets. The Group accelerated the reform and innovation, strengthened the construction of "One leader team, two staff teams" and improved the comprehensive operation and mobile service capabilities of outlets. As at the end of the Reporting Period, the total number of domestic banking institutions' outlets decreased by 65 to 3,176 over the end of the previous year, of which 11 were newly opened and 76 low-yield outlets were integrated. The Group's network covered 242 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities at 72.46%, representing an increase of 0.90 percentage point over the end of the previous year. The coverage ratio in Western China was 43.51%.

Self-service banking. The Group continued to increase the integration of inefficient self-service channels, reduce the cost of self-service channels, and improve overall business performance. As at the end of the Reporting Period, the total number of self-service devices in domestic branches reached 19.3 thousand and the total number of self-service banks was 1,992. During the Reporting Period, the number of self-service banking transactions reached 133 million and the amount of self-service banking transactions reached RMB1.52 trillion.

Relationship Manager. The Group further strengthened the construction of relationship manager team, increased resource incentives, optimized authorization process, improved the training system and promoted the comprehensive development of customer managers across sections. As at the end of the Reporting Period, the total number of relationship managers in domestic branches reached 21,876, accounting for 29.11%. The number of corporate relationship managers reached 10,166 and the number of retail relationship managers reached 11,710.

Strengthen Technology Empowerment and
Create Core Business Competitiveness of the Bank

The Bank actively embraced the transformation of Fintech. Based on intelligent transformation project ("New 531" project), the Group continued to increase investment in science and technology, strengthen the talent team building of Fintech, build digital and intelligent banks, improve core competitiveness and value creation and provide customers with high-quality services.

During 2019, the “New 531” project adhered to the philosophy of “Impress the Market, Impress the Customer, and Impress the User” and the overall framework of “1+2+5+N”. The Group promoted the implementation of 32 projects in areas including customer experience, business development, framework transformation, management improvement, and burden reduction and efficiency improvement. Some projects achieved progress and started to serve corporate customers. In the aspect of “1” technical framework, the Group achieved key breakthroughs in the dual-core heterogeneous project, migrated the debit card data of 17 provincial branches to the open platform, established the core framework system of “centralization + distribution”, successfully moved high-frequency transactions such as online payment from the host platform to the open platform, and comprehensively improved the ability to cope with the peak of customer transactions such as “Double 11” promotion. In the aspect of “2” supporting platforms, the Group built and deployed security operation centers, implemented situation-aware sandboxie, threat intelligence and other functions to provide effective security guarantee for customers. The Group could provide targeted service via big data analysis by maintaining asset catalog of external data and corporate data on the Group’s data management and utilization platform. In the aspect of “5” applications, the cloud banking based on the WeChat open platform has been promoted in 11 branches, with accumulated 770 thousand users and a sales amount of wealth management products of RMB101 million. BoCom Intelligent Financial Service Platform launched internet financial management products in more than 10 industries including property, pharmaceuticals and pension. There were nearly 200 corporate customers using these products online, achieving good market results. The Group built a life-cycle financial service platform named BoCom Live without Worry for the real estate industry and launched services including Repair without Worry, Change without Worry, Rent without Worry and Purchase without Worry. The intelligent risk control application system built a 360-degree overall view of risk portraits of customers and guaranteed customers' financial security. The cutting-edge technologies such as unified image recognition and unified biometrics recognition were successfully applied in corporate mobile banking and handheld devices. The Group provided efficient and convenient services including “Quick Sign” and “Benefit Loan”.

Meanwhile, the Bank continued to increase investment in information construction and strengthen the talent team building of Fintech. First, designated funds will be allocated for the “New 531” project, and investment in key areas of the project will be increased. The total investment in information construction will gradually increase to 10% of the operating expenses of the year. Second, the Group launched the “Three Major Projects” for the Fintech talent team. The Group launched the “10 thousand Fintech Talents Plan”, focusing on recruiting talents in IT research and development, big data management, analysis and mining, risk monitoring, system network and information security. The Group also promoted the “Fintech Management Trainees” project, positioned high-end talents in the Fintech and adopted the “Targeted recruitment + Targeted training” approach to directly participate in major technological innovation projects at the Head Office level, business sector level, department and branch level. The Group implemented the “Empowerment and Transformation of Stock Talents” project, improved the scientific and technological level and transformation ability of the stock talents, strengthened the training, communication and position transfer of talents at different levels in order to improve their abilities.

(V) Internationalization and Integrated Operation

1. Internationalization strategy

- **During the Reporting Period, net profit of the Group's overseas banking institutions increased by 48.02% on a year-on-year basis to RMB3.560 billion, accounting for 8.33% of the Group's total net profit, representing an increase by 2.43 percentage points on a year-on-year basis.**

- **As at the end of the Reporting Period, the total assets of the Group's overseas banking institutions increased by 4.60% over the end of the previous year to RMB1,118,414 million, accounting for 11.31% of the Group's total assets, representing an increase of 0.09 percentage point over the end of the previous year.**

- **As at the end of the Reporting Period, the non-performing loan balances of the Group's overseas banking institutions was RMB681 million, and the non-performing loans ratio was 0.18%.**

The Group 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 boarders, industries and markets and promoted high-quality development of internationalization.

Overseas service network

The landscape of overseas service network made a steady progress. The Prague branch of Czech was opened on 20 May. Toronto branch of Canada and the Johannesburg branch of South Africa are actively preparing for set-up. At the end of the Reporting Period, the Group established 23 overseas subsidiaries, branches and representative offices in 17 countries and regions, namely Hong Kong Branch/Bank of Communications (Hong Kong) Co., Ltd., New York Branch, Tokyo Branch, Singapore Branch, Seoul Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, London Branch/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, Prague Branch and Toronto Representative Office, with a total of 67 overseas business outlets (excluding representative offices). The Group established agency relationships with 1,126 banks in 132 countries and regions, set up 239 cross-border Renminbi Inter-bank accounts for 120 overseas Renminbi participating banks in 33 countries and regions, and opened 81 foreign currency settlement accounts in 26 major currencies with 62 banks in 31 countries and regions.

Domestic and overseas synergetic businesses

The Group took advantages of domestic and overseas synergetic cooperation, actively promoted the implementation of regional strategies for innovation, and expanded the financing channels and reduce financing costs for corporations. The Group closely cooperated with policy financial institutions, strengthened cross-border projects, shared customer information resources, enhanced projects of cross-border synergetic service, and steadily promoted the cross-border investment and financing businesses of "Going Global" enterprises.

Cross-border Renminbi transactions

The Group promoted financial communication between Guangdong-Hong Kong-Macao Greater Bay Area. The Group was the Chinese-funded bank whose overseas branch completed China's first Renminbi cross-border financing businesses under the real estate. The Group supported the development of private enterprises, strengthened the cooperation with cross-border Inter-bank payment clearing limited liability companies, supported Renminbi cross-border payment, and assisted in the construction of Shanghai International Financial Center. During the Reporting Period, domestic branches exchanged Renminbi capital across borders with 106 countries and regions, including 40 countries and regions along the "Belt and Road". The cross-border Renminbi settlement of domestic and overseas banking institutions reached RMB996.7 billion.

Offshore services

The Group actively promoted the internationalization strategy. All indicators maintained a steady growth trend. During the Reporting Period, the net operating income from offshore increased by 10.72% on a year-on-year basis to USD116.2155 million. The net income of offshore intermediary businesses increased by 7.9% on a year-on-year basis to USD66.7684 million. As at the end of the Reporting Period, the total amount of offshore assets was RMB131.925 billion. The loan balance was RMB77.668 billion and deposit balance was RMB89.360 billion.

2. Integrated operation

- **During the Reporting Period, net profit attributable to shareholders of the Bank from controlling subsidiaries (excluding Bank of Communications (UK) Co., Ltd., Bank of Communications (Luxembourg) Co., Ltd., Bank of Communications (Brazil) Co., Ltd. and Bank of Communications (Hong Kong) Co., Ltd., same applies hereinafter) amounted to RMB2.806 billion, representing a year-on-year increase of 14.48%, the proportion of which to the Group's net profit increased by 0.55 percentage point to 6.56% on a year-on-year basis.**

- **As at the end of the Reporting Period, the total assets of the controlling subsidiaries increased by 10.36% over the end of the previous year to RMB405.892 billion, the proportion of which to the total assets of the Group increased by 0.25 percentage point to 4.11% over the end of the previous year.**

The Group focused on the goal of "creating common value and providing the best service", established a development pattern based on commercial banking businesses with cooperation of businesses including trust, financial leasing, asset management, insurance, investment banking, and debt-to-equity swap. The efficiency of the Group's integrated operation constantly enhanced.

Bank of Communications Financial Leasing Co., Ltd. adhered to the development strategy of "professional, internalization, differentiation and characteristics" and continuously promoted aviation and shipping businesses. The assets of 236 aircraft and 401 ships amounted to RMB141.594 billion, accounting for 59.63% of the total leasing assets. As at the end of the Reporting Period, the balance of assets increased by 7.51% over the end of the previous year to RMB249.144 billion.

Bank of Communications International Trust Co., Ltd. adhered to the origin and actively developed businesses including active management, asset securitization and family trusts. As at the end of the Reporting Period, the assets under management increased by 0.98% over the end of the previous year to RMB891.255 billion. Net profit (attributable to shareholders of the parent company) increased by 18.22% on a year-on-year basis to RMB532 million. During the year, the issuance of publicly-funded credit ABS was RMB48.8 billion, ranking second in the industry. It was rated as Class A by Trust Industry Association for four consecutive years.

Bank of Communications Schroder Fund Management Co., Ltd. had outstanding performance in various public funds. Multiple funds including BoCom Schroder Growth 30, BoCom Economy New Driver and BoCom Dividend Optimization had remarkable performance during the first half of the year, ranking top 10% of the industry. As at the end of the Reporting Period, assets under management amounted to RMB446.2 billion (including its two subsidiaries). During the Reporting Period, it was awarded the "Golden Bull Fund Management Company" by *China Securities Journal*, and the "2018 Top Ten Star Fund Companies" and "Star Fund Company with Five-Year Continuous Return" by *Securities Times*.

BoCommlife Insurance Company Ltd. actively improved investment capabilities and enhanced investment management mechanisms. During the Reporting Period, total assets exceeded RMB48.0 billion, representing an increase of 19% over the end of the previous year. Original premium income increased by 91% on a year-on-year basis to RMB8.8 billion. Regular premium of new insurance increased by 80% on a year-on-year basis. Business structure was optimized. The 13-month renewal rate of insurance with bank as agent exceeded 95%. The regular premium businesses achieved high quality.

China BoCom Insurance Co., Ltd. was committed to building the Group's global professional service platform of the general insurance and firmly promoted the high quality of underwriting industry. During the Reporting Period, the net loss ratio of insurance businesses was 28.44%, outperforming the market average.

BOCOM Financial Assets Investment Co., Ltd. mainly operated in debt-to-equity business. It increased transaction volume, expanded business, enhanced quality and served the real economy. It completed the first "unlisted, non-public" corporate-bond-to-preference-share transaction and the first market-oriented debt-to-equity swap project of a private enterprise. As at the end of the Reporting Period, a total of 35 projects were put into operation, with a total amount of RMB20.564 billion, including capital of RMB20.071 billion from designated capital reserve reduction.

BOCOM Wealth Management Assists the Group in Building the "Best Wealth Management Bank"

On 4 January 2019, the CBIRC approved the establishment of BOCOM Wealth Management Co., Ltd. (referred to as "BOCOM Wealth Management"). According to the regulatory requirements, the Group actively carried out various preparatory work and received the approval of the CBIRC on 28 May. On 13 June, BOCOM Wealth Management held the unveiling ceremony at the Shanghai Lujiazui Forum. BOCOM Wealth Management became one of the authorized wealth management subsidiaries of the banks.

BOCOM Wealth Management has established a sound corporate governance structure and an organizational structure with the segregation of front and middle stage as well as the segregation of investment and transaction. The first product "No. 1 BOCOM Wealth Management Wenxiang Opening once in One Year" was launched successfully. The product was sold online and offline through all channels with good publicity and market response. In two days, all product quotas and additional quotas were sold out, with a total of RMB3.5 billion, impressing the market and the industry. Only three products in the industry formally completed the regulatory declaration in the name of subsidiaries and obtained registration codes for sale, of which this product became the first compliant product.

BOCOM Wealth Management will build the first batch of products in the near future around the six themes including cash management, inclusive finance, commercial pension, science and technology investment, Shanghai factor market linkage and integration development of Yangtze River Delta to promote the brand of "BOCOM Wealth Management" and enhance the market influence. BOCOM Wealth Management will also launched the Yangtze River Delta Integrated Development Index to promote the development of the real economy in the Yangtze River Delta region. In the future, BOCOM Wealth Management will fully exercise the advantages of the wealth management subsidiary of banking department in the aspects including asset, product, channel, investment and research as well as risk control, innovate and forge ahead, conscientiously implement the requirements of compliance management and risk control, strengthen technology empowerment, improve core competencies and facilitate the Group's construction of the "Best Wealth Management Bank".

II. FINANCIAL STATEMENT ANALYSIS

(I) Analysis on Key Income Statement Items

1. Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB1.489 billion on a year-on-year basis, representing an increase of 3.14% to RMB48.959 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)

	For the six months ended 30 June	
	2019	2018
Net interest income	**70,062**	60,658
Net non-interest income	**48,252**	41,375
Including: Net fee and commission income	**23,122**	21,182
Net operating income	**118,314**	102,033
Credit impairment loss	**(21,544)**	(16,663)
Other asset impairment losses	**(6)**	(3)
Insurance business expenses	**(7,878)**	(3,723)
Other operating costs	**(39,927)**	(34,174)
Including: Operating costs	**(32,705)**	(28,573)
Profit before tax	**48,959**	47,470
Income tax expense	**(5,811)**	(6,476)
Net profit	**43,148**	40,994

2. Net interest income

During the Reporting Period, the Group's net interest income increased by RMB9.404 billion on a year-on-year basis to RMB70.062 billion, accounting for 59.22% 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 costs 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 six months ended 30 June 2019			For the six months ended 30 June 2018		
	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	828,368	5,958	1.45	938,141	6,785	1.46
Due from banks and other financial institutions	808,954	12,419	3.10	831,837	12,868	3.12
Loans and advances to customers and receivables	4,872,256	119,865	4.96	4,602,049	109,686	4.81
Including: Corporate loans and receivables	3,070,718	71,326	4.68	2,998,226	66,890	4.50
Individual loans	1,595,479	44,866	5.67	1,460,221	39,316	5.43
Discounted bills	206,059	3,673	3.59	143,602	3,480	4.89
Investment securities	2,459,873	43,620	3.58	2,333,251	41,207	3.56
Interest-bearing assets	8,969,451	181,862	4.09	8,705,278	170,546	3.95
Non-interest-bearing assets	812,686			652,648		
Total assets	9,782,137			9,357,926		
Liabilities and Shareholders' Equity						
Due to customers	5,927,890	70,047	2.38	5,681,819	63,620	2.26
Including: Corporate deposits	4,031,516	46,949	2.35	3,902,427	42,465	2.19
Individual deposits	1,896,374	23,098	2.46	1,779,392	21,155	2.40
Due to banks and other financial institutions	1,967,523	28,772	2.95	2,124,818	35,401	3.36
Debt securities issued and others	730,836	12,981	3.58	553,702	10,867	3.96
Interest-bearing liabilities	8,626,249	111,800	2.61	8,360,339	109,888	2.65
Shareholders' equity and non interest-bearing liabilities	1,155,888			997,587		
Total Liabilities and Shareholders' Equity	9,782,137			9,357,926		
Net interest income		70,062			60,658	
Net interest spread[1]			1.48			1.30
Net interest margin[2]			1.58			1.41
Net interest spread[1, 3]			1.67			1.46
Net interest margin[2, 3]			1.76			1.57

Notes:

1. Represented the difference between the annualized average rate of return on total average interest-bearing assets and the annualized average cost of total average interest-bearing liabilities.
2. Represented the annualized net interest income to total average interest-bearing assets.
3. Taken into account the tax exemption on the interest income from bonds.

During the Reporting Period, the Group's net interest income increased by 15.50% on a year-on-year basis. The net interest spread increased by 18 basis points on a year-on-year basis to 1.48%. The net interest margin increased by 17 basis points on a year-to-year basis to 1.58%. The net interest spread and net interest margin in the second quarter decreased by 2 basis points and 3 basis points respectively as compared with those in the first quarter.

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

(in millions of RMB)

	Comparison between January to June 2019 and January to June 2018 Increase/(Decrease) due to		
	Amount	**Interest rate**	**Net increase/ (decrease)**
Interest-bearing assets			
Cash and balances with central banks	(795)	(32)	(827)
Due from banks and other financial institutions	(354)	(95)	(449)
Loans and advances to customers	6,445	3,734	10,179
Investment securities	2,235	178	2,413
Changes in interest income	7,531	3,785	11,316
Interest-bearing liabilities			
Due to customers	2,758	3,669	6,427
Due to banks and other financial institutions	(2,621)	(4,008)	(6,629)
Debt securities issued and others	3,478	(1,364)	2,114
Changes in interest expense	3,615	(1,703)	1,912
Changes in net interest income	3,916	5,488	9,404

During the Reporting Period, the Group's net interest income increased by RMB9.404 billion on a year-on-year basis, of which the increase of RMB3.916 billion was due to changes in the average balances of assets and liabilities and the increase of RMB5.488 billion was due to changes in the annualized average rate of return and annualized average cost ratio.

(1) Interest income

During the Reporting Period, the Group's interest income increased by RMB11.316 billion or 6.64% on a year-on-year basis to RMB181.862 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 RMB10.179 billion or 9.28% on a year-on-year basis to RMB119.865 billion, which was largely due to the impact on the average balance of loans and advances to customers increasing by 5.87% on a year-on-year basis and the average rate of return increasing by 15 basis points on a year-on-year basis.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB2.413 billion or 5.86% on a year-on-year basis to RMB43.620 billion, which was largely due to the year-on-year increase of 5.43% 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 RMB0.827 billion or 12.19% on a year-on-year basis to RMB5.958 billion, which was largely due to the year-on-year basis decrease of 11.70% in the average balances of cash and balances with central banks.

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

During the Reporting Period, the interest income from balances due from banks and other financial institutions decreased by RMB0.449 billion or 3.49% on a year-on-year basis to RMB12.419 billion, which was largely due to the year-on-year decrease of 2.75% in the average balances due from banks and other financial institutions.

(2) Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB1.912 billion or 1.74% on a year-on-year basis to RMB111.800 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 RMB6.427 billion or 10.10% on a year-on-year basis to RMB70.047 billion, accounting for 62.65% of total interest expenses. The increase in interest expenses of due to customers was largely due to a year-on-year increase of 4.33% in average balances of customer deposits and a year-on-year increase of 12 basis points in the annualized average rate of cost of due to customers.

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

During the Reporting Period, interest expenses on balances due to banks and other financial institutions decreased by RMB6.629 billion or 18.73% on a year-on-year basis to RMB28.772 billion, which was largely due to a year-on-year basis decrease of 41 basis points in the annualized average rate of cost of balances due to banks and other financial institutions and a year-on-year decrease of 7.40% in average balances of deposits.

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

During the Reporting Period, interest expenses on debt securities issued and other interest-bearing liabilities increased by RMB2.114 billion or 19.45% on a year-on-year basis to RMB12.981 billion, which was largely due to a year-on-year increase of 31.99% in average balance of debt securities 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 model with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB1.940 billion or 9.16% on a year-on-year basis to RMB23.122 billion. Bank cards and management services were the main drivers of the Group's net fee and commission income.

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

(in millions of RMB)

	For the six months ended 30 June	
	2019	2018
Bank cards	**10,213**	9,301
Management services	**7,372**	6,511
Investment banking	**2,632**	2,470
Agency services	**2,274**	1,736
Guarantee and commitment	**1,437**	1,400
Settlement services	**1,024**	1,170
Others	**118**	158
Total fee and commission income	**25,070**	22,746
Less: fee and commission expenses	**(1,948)**	(1,564)
Net fee and commission income	**23,122**	21,182

Fee income from bank card services increased by RMB0.912 billion or 9.81% on a year-on-year basis to RMB10.213 billion, mainly due to an increase of card consumption businesses.

Fee income from management services increased by RMB0.861 billion or 13.22% on a year-on-year basis to RMB7.372 billion, mainly due to the increase in the income of personal wealth management investment products.

Fee income from investment banking increased by RMB0.162 billion or 6.56% on a year-on-year basis to RMB2.632 billion, mainly due to an increase in consulting services.

Fee income from agency services increased by RMB0.538 billion or 30.99% on a year-on-year basis to RMB2.274 billion, mainly due to an increase in the fee income from insurance brokerage services.

Fee income from settlement services decreased by RMB0.146 billion or 12.48% to RMB1.024 billion.

4. *Credit impairment losses*

During the Reporting Period, the Group's impairment losses on credit was RMB21.544 billion, including that the credit impairment losses on loans increased by RMB4.923 billion or 28.69% on a year-on-year basis to RMB22.085 billion. During the Reporting Period, credit cost ratio of the Group increased by 0.19 percentage point on a year-on-year basis to 0.82%.

5. *Operating cost*

During the Reporting Period, the Group's operating costs increased by RMB4.132 billion or 14.46% on a year-on-year basis to RMB32.705 billion. The Group's cost-to-income ratio was 29.05%, representing a year-on-year decrease of 0.21 percentage point. If grossed up the tax exemption impact of income, e.g. bond interests, the cost-income will decrease by around 2 percentage points compared with 29.05%.

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

(in millions of RMB)

	For the six months ended 30 June 2019	
	2019	2018
Staff costs and welfare	**13,570**	12,967
Operating expenses	**15,101**	12,810
Depreciation and amortization	**4,034**	2,796
Total operating costs	**32,705**	28,573

6. Income tax

During the Reporting Period, the Group's income tax expenses decreased by RMB0.665 billion or 10.27% on a year-on-year basis to RMB5.811 billion. The effective tax rate of 11.87% was lower than the statutory tax rate of 25%, which was mainly due to the tax exemption on interest income from treasury bonds and local treasury 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 RMB355.437 billion or 3.73% over the end of the previous year to RMB9,886.608 billion.

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

(in millions of RMB unless otherwise stated)

	30 June 2019		31 December 2018	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	5,013,630	50.71	4,742,372	49.76
Financial investments	2,989,602	30.24	2,821,909	29.61
Cash and balances with central banks	802,956	8.12	840,171	8.81
Lendings to banks and other financial institutions	786,782	7.96	848,067	8.90
Others	293,638	2.97	278,652	2.92
Total assets	9,886,608	100.00	9,531,171	100.00

(1) Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB276.384 billion or 5.69% over the end of the previous year to RMB5,130.612 billion, among which the Renminbi loans from domestic branches increased by RMB222.719 billion or 5.26% over the end of the previous year.

Loans concentration by industry

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

(in millions of RMB unless otherwise stated)

	30 June 2019		31 December 2018	
	Balance	**Percentage (%)**	Balance	Percentage (%)
Mining	**117,501**	**2.29**	119,091	2.45
Manufacturing	**612,185**	**11.93**	581,412	11.98
– Petroleum and chemical	**111,967**	**2.18**	104,806	2.16
– Electronics	**117,573**	**2.29**	95,858	1.97
– Steel	**32,773**	**0.64**	33,241	0.68
– Machinery	**94,733**	**1.85**	93,828	1.93
– Textile and clothing	**28,823**	**0.56**	29,146	0.60
– Other manufacturing	**226,316**	**4.41**	224,533	4.64
Electricity, gas and water production and supply	**205,487**	**4.01**	186,117	3.83
Construction	**154,961**	**3.02**	114,577	2.36
Transportation, storage and postal services	**590,007**	**11.49**	573,151	11.82
Telecommunication, IT services and software	**34,324**	**0.67**	28,682	0.59
Wholesale and retail	**241,410**	**4.71**	246,706	5.08
Accommodation and catering	**35,702**	**0.70**	34,486	0.71
Finance	**109,974**	**2.14**	98,342	2.03
Real estate	**247,113**	**4.82**	216,536	4.46
Services	**448,900**	**8.75**	413,716	8.52
Water conservancy, environmental and other public utilities	**273,767**	**5.34**	263,235	5.42
Education, science, culture and public health	**89,985**	**1.75**	89,436	1.84
Others	**93,031**	**1.81**	96,428	1.99
Discounted bills	**222,048**	**4.33**	156,686	3.23
Total corporate loans	**3,476,395**	**67.76**	3,218,601	66.31
Total individual loans	**1,654,217**	**32.24**	1,635,627	33.69
Total customer loans	**5,130,612**	**100.00**	4,854,228	100.00

As at the end of the Reporting Period, the balance of the Group's corporate loans increase by RMB257.794 billion or 8.01% over the end of the previous year to RMB3,476.395 billion. Among them, the four most concentrated industries were manufacturing, transportation, storage and postal services, services and water conservancy, environmental and other public utilities, which accounted for 55.37% of total corporate loans.

As at the end of the Reporting Period, the balance of the Group's individual loans increased by RMB18.590 billion or 1.14% over the end of the previous year to RMB1,654.217 billion. The proportion of personal loans to total loans and advances to customers decreased by 1.45 percentage points over the end of the previous year to 32.24%.

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 4.48% of the Group's net capital, and the total loans of Top 10 customers accounted for 20.06% of the Group's net capital. 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)

	30 June 2019		
	Type of industry	**Loan balances**	**Percentage of total loans and advances (%)**
Customer A	**Manufacturing – Electronics**	**37,284**	**0.74**
Customer B	**Transportation, storage and postal services**	**35,363**	**0.69**
Customer C	**Electricity, gas and water production and supply**	**28,800**	**0.56**
Customer D	**Transportation, storage and postal services**	**12,302**	**0.24**
Customer E	**Transportation, storage and postal services**	**10,895**	**0.21**
Customer F	**Construction**	**10,000**	**0.19**
Customer G	**Services**	**9,850**	**0.19**
Customer H	**Transportation, storage and postal services**	**8,786**	**0.17**
Customer I	**Transportation, storage and postal services**	**6,834**	**0.13**
Customer J	**Transportation, storage and postal services**	**6,764**	**0.13**
Total of Top 10 Customers		**166,878**	**3.25**

Loan concentration by geography

The Group's credit customers were mainly located in the 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 36.78%, 15.88% and 8.33% respectively, and the loan balances for the above three regions increased by 3.75%, 3.44% and 12.31% respectively over the end of the previous year.

Loan quality

As at the end of the Reporting Period, the impaired loan ratio decreased by 0.02 percentage point over the end of the previous year to 1.47%. The provision coverage of impaired loans increased by 0.40 percentage point over the end of the previous year to 173.53%.

The table below illustrates certain information on the Group's non-performing loans and overdue loans for more than 90 days on the dates indicated:

(in millions of RMB unless otherwise stated)

	30 June 2019	31 December 2018
Non-performing loans	**75,508**	72,512
Overdue loans for more than 90 days	**65,267**	63,321
Percentage of non-performing loans to gross amount of loans and advances to customers (%)	**1.47**	1.49

(2) Financial investments

As at the end of the Reporting Period, the Group's net balance of financial investments increased by RMB167.693 billion or 5.94% over the end of the previous year to RMB2,989.602 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)

	30 June 2019	31 December 2018
Bonds	**2,467,846**	2,369,521
Equity instruments and others	**521,756**	452,388
Total	**2,989,602**	2,821,909

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

(in millions of RMB unless otherwise stated)

	30 June 2019		31 December 2018	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial investments at fair value through profit and loss	**449,304**	**15.03**	376,386	13.34
Financial investments at amortized cost	**1,978,430**	**66.18**	2,000,505	70.89
Financial investments at fair value through other comprehensive income	**561,868**	**18.79**	445,018	15.77
Total	**2,989,602**	**100.00**	2,821,909	100.00

As at the end of the Reporting Period, the balance of the Group's bond investments increased by RMB98.325 billion or 4.15% over the end of the previous year to RMB2,467.846 billion. Under the current market environment with large credit differentiation, the Group's investment securities will be mainly based on local bonds and treasury bonds in terms of bond types. The Group will appropriately invest in products such as credit bonds of key enterprise customers and high-rated corporations. The Group will better support private enterprises and pay close attention to the risk of default in the duration. The Group will continue to strengthen the research and judgment in macroeconomic policy, optimize the structure of remaining bond investment, properly control the duration of bond portfolios and guard against long-term interest rate risks.

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)

	30 June 2019		31 December 2018	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Government and central banks	**1,654,446**	**67.04**	1,511,839	63.81
Public sector entities	**34,001**	**1.38**	34,651	1.46
Banks and other financial institutions	**655,806**	**26.57**	696,168	29.38
Corporate entities	**123,593**	**5.01**	126,863	5.35
Total	**2,467,846**	**100.00**	2,369,521	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to RMB655.806 billion, including policy bank bonds of RMB291.595 billion and banks and non-bank financial institutions bonds of RMB364.211 billion, which accounted for 44.46% and 55.54% 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	1.27
2	2018 policy bank bonds	6,510	4.82	24/01/2021	1.17
3	2017 policy bank bonds	6,330	4.39	08/09/2027	1.11
4	2017 policy bank bonds	5,690	4.44	09/11/2022	1.02
5	2015 policy bank bonds	5,653	3.74	10/09/2025	0.95
6	2018 policy bank bonds	5,341	4.98	12/01/2025	0.99
7	2018 policy bank bonds	4,500	4.83	22/01/2021	0.81
8	2018 policy bank bonds	4,480	4.53	07/02/2020	0.80
9	2018 policy bank bonds	4,400	4.97	29/01/2023	0.81
10	2016 policy bank bonds	3,864	2.79	27/07/2019	0.70

2. Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB336.997 billion or 3.82% over the end of the previous year to RMB9,162.860 billion. Among them, due to customers increased by RMB330.239 billion or 5.77% over the end of the previous year, which accounted for 66.08% of total liabilities and represented an increase of 1.22 percentage points over the end of the previous year. Balance of due to banks and other financial institutions decreased by RMB209.774 billion or 9.70% over the end of the previous year, which accounted for 21.31% of total liabilities and represented a decrease of 3.19 percentage points over the end of the previous year.

Due to customers

Due to customers were the Group's primary source of funding. As at the end of the Reporting Period, the Group's due to customer balance increased by RMB330.239 billion or 5.77% over the end of the previous year to RMB6,054.728 billion. In terms of the Group's customer structure, the proportion of corporate deposits was 67.87%, representing a decrease of 1.03 percentage points over the end of the previous year. The proportion of individual deposits was 32.07%, representing an increase of 1.04 percentage points over the end of the previous year. In terms of deposit tenure, the proportion of demand deposits decreased by 0.67 percentage point over the end of the previous year to 41.89%, while the proportion of time deposits increased by 0.68 percentage point over the end of the previous year to 58.05%.

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

(in millions of RMB)

	30 June 2019	31 December 2018
Corporate deposits	**4,109,438**	3,944,098
Including: Corporate demand deposits	**1,822,126**	1,748,857
Corporate time deposits	**2,287,312**	2,195,241
Individual deposits	**1,941,732**	1,776,488
Including: Individual demand deposits	**714,387**	687,393
Individual time deposits	**1,227,345**	1,089,095

(III) Analysis on Key Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB62.191 billion over the end of the previous year to RMB181.301 billion.

The net cash inflows from operating activities decreased by RMB73.262 billion on a year-on-year basis to RMB2.945 billion, which mainly resulted from a year-on-year increase of net cash outflows from loans and advances and loans to banks and other financial institutions.

The net cash outflows from investing activities increased by RMB9.288 billion on a year-on-year basis to RMB79.088 billion, which mainly due to a year-on-year increase in net cash outflows related to asset purchase and construction activities.

The net cash inflows from financing activities decreased by RMB0.976 billion on a year-on-year basis to RMB13.816 billion, which was mainly resulted from a year-on-year decrease of cash inflow from capital absorbed by the subsidiaries.

(IV) Segment Analysis

1. *Operating results by geographical segments*

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

(in millions of RMB)

	For the six months ended 30 June			
	2019		2018	
	Profit before tax	**Net operating income[1]**	Profit before tax	Net operating income[1]
Northern China	**7,127**	**11,607**	8,113	10,688
North Eastern China	**(547)**	**3,447**	(1,535)	3,439
Eastern China	**18,043**	**46,882**	15,970	36,987
Central and Southern China	**13,241**	**21,025**	12,541	18,651
Western China	**4,947**	**9,332**	3,830	8,342
Overseas	**4,850**	**7,321**	3,551	5,952
Head Office	**1,298**	**18,700**	5,000	17,974
Total[2]	**48,959**	**118,314**	47,470	102,033

Notes:

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

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

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

(in millions of RMB)

	30 June 2019		31 December 2018	
	Deposit balances	**Loans and advances balances**	Deposit balances	Loans and advances balances
Northern China	**1,025,701**	**650,053**	994,799	619,891
North Eastern China	**302,620**	**206,241**	301,526	205,989
Eastern China	**2,165,927**	**1,815,856**	2,040,424	1,710,884
Central and Southern China	**1,423,522**	**1,034,907**	1,292,776	941,511
Western China	**693,217**	**509,681**	652,735	480,670
Overseas	**426,390**	**380,033**	424,431	355,681
Head Office	**17,351**	**533,841**	17,798	539,602
Total	**6,054,728**	**5,130,612**	5,724,489	4,854,228

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 largest source of profit for the Group, accounting for 47.57% of the Group's profit before tax.

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

(in millions of RMB)

	For the six months ended 30 June			
	2019		2018	
	Profit before tax	**Net operating income**	Profit before tax	Net operating income
Corporate banking	**23,290**	**51,730**	25,517	48,681
Personal banking	**15,137**	**44,460**	11,127	35,556
Treasury businesses	**8,610**	**9,817**	9,005	10,493
Other businesses	**1,922**	**12,307**	1,821	7,303
Total	**48,959**	**118,314**	47,470	102,033

(V) Capital Adequacy Ratio

1. *Measurement method of the 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 ended the Advanced Approach of Capital Management parallel period and expanded the application scope.

According to the implementation scope of the Advanced Approach of Capital Management approved by the CBIRC, the credit risk which met the regulatory requirements was assessed by the internal rating-based approach, the market risk by the internal model approach, and 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 operation risk not covered by the standardized approach was assessed by the basic-indicator approach. During the Reporting Period, the CBIRC approved the internal rating-based approached used by the Group's domestic and overseas branches (subsidiaries) financial institutions, and the internal rating-based approach for credit exposures used by overseas branches (subsidiaries) and Bank of Communications Financial Leasing Co., Ltd.

2. *Measurement scope of capital adequacy ratio*

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

3. *Measurement result of capital adequacy ratio*

As at the end of the Reporting Period, pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) issued by the CBIRC, the Group's capital adequacy ratio, Tier 1 capital adequacy ratio and core Tier 1 capital adequacy ratio were 13.84%, 11.86%, and 10.86% respectively, all of which met the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

Item	The Group	The Bank
Net core Tier 1 Capital	653,117	573,694
Net Tier 1 capital	713,196	633,570
Net capital	831,689	748,594
Core Tier 1 capital adequacy ratio (%)	10.86	10.37
Tier 1 capital adequacy ratio (%)	11.86	11.45
Capital adequacy ratio (%)	13.84	13.53

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

4. Risk-weighted assets

The table below states the Group's risk weighted assets in accordance with the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation). The credit risk-weighted assets which met the regulatory requirements was assessed by the internal rating-based approach, the market risk-weighted assets by the internal model approach, the operational risk-weighted assets by the standardized approach. The credit risk-weighted assets not covered by the internal rating-based approach was assessed by the weighted approach. The market risk-weighted assets not covered by the internal rating-based approach was assessed by the standardized approach. The operation risk-weighted assets not covered by the standardized approach was assessed by the basic-indicator approach.

(in millions of RMB)

Item	30 June 2019
Credit risk-weighted asset	5,494,906
Market risk-weighted asset	181,886
Operational risk-weighted asset	334,632
Additional risk-weighted assets due to use of capital floor	–
Total risk-weighted assets	**6,011,424**

5. Credit risk exposure

(1) Exposure to risk under the internal rating-based approach

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

(in millions of RMB)

Item	30 June 2019
Corporate risk exposure	3,808,730
Financial institution risk exposure	1,141,221
Retail risk exposure	1,996,255
Total	**6,946,206**

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

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

(in millions of RMB)

Item	30 June 2019
On-balance-sheet credit risk	3,768,231
Including: Asset securitization	23,203
Off-balance-sheet credit risk	41,249
Counterparty credit risk	83,591
Total credit risk exposure not covered under the internal rating approach	**3,893,071**

6. *Market risk capital requirement*

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

(in millions of RMB)

Risk type	Capital requirement
Market risk under internal model approach	9,865
Market risk not covered under internal model approach	4,686
Total	**14,551**

7. *Value at risk (VaR)*

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

(in millions of RMB)

	January to June 2019	
Item name	Value at risk (VaR)	Stressed value at risk (sVaR)
VaR of market risk as at the end of the Reporting Period	1,054	1,799
Maximum VaR during the Reporting Period	1,509	1,913
Minimum VaR during the Reporting Period	1,020	1,613
Average VaR during the Reporting Period	1,126	1,788

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

(VI) Leverage Ratio

The Group calculated the leverage ratio pursuant to the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC. As at the end of the Reporting Period, the Group's leverage ratio was 6.73%, which met the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

Item	30 June 2019	31 March 2019	31 December 2018	30 September 2018
Net Tier 1 Capital	713,196	715,124	694,832	679,152
Balance of adjusted on-and off-balance sheet assets	10,594,418	10,490,765	10,242,926	10,095,931
Leverage ratio (%)	6.73	6.82	6.78	6.73

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

(VII) Liquidity Coverage Ratio

The liquidity coverage ratio is the ratio of qualified high-quality liquid assets to net cash outflows in the following 30 days. The aim is to ensure that commercial banks have sufficient qualified and high-quality liquid assets to meet the liquidity needs of at least 30 days in the future by settling these assets under the liquidity stress scenarios subject to regulatory requirements. The Group's qualified high-quality liquid assets mainly include cash, reserves that can be withdrawn from the central bank under stress scenarios and bonds that meet the definition of primary and secondary assets in the *Administrative Measures for Liquidity Risk Management of Commercial Banks*. According to the *Administrative Measures for Liquidity Risk Management of Commercial Banks*, commercial banks with an asset scale not less than RMB200 billion should always meet the minimum regulatory standards with a liquidity coverage ratio not less than 100%.

The daily average liquidity coverage ratio of the Group during the second quarter of 2019 was 125.62% (the daily average within the quarter is the arithmetic average of daily data of the quarter, the number of average of daily data is 91). The ratio increased by 4.31 percentage points over the last quarter mainly due to decrease in net cash outflows. For more details about the liquidity coverage ratio during the second quarter, please refer to "Supplementary Information on Capital Adequacy Ratio, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio".

(VIII) Net Stable Funding Ratio

The net stable funding ratio is the ratio of available stable funds to the required stable funds. The aim is to ensure that commercial banks have sufficient sources of stable fund to meet the demand for stable funds from all types of assets and off-balance-sheet exposures. The available stable funds refer to the sum of the products of the book value of various capital and liability items of commercial banks and their corresponding available stable fund coefficients. The required stable funds equal to the products of the book value of various asset items of commercial banks and the corresponding required stable fund coefficients plus the product of the off-balance-sheet risk exposure and the corresponding required stable fund coefficients. According to the *Administrative Measures for Liquidity Risk Management of Commercial Banks*, commercial banks with an asset scale not less than RMB200.0 billion should always meet the minimum regulatory standards with a net stable funding ratio not less than 100%.

The Group's net stable funding ratio during the fourth quarter of 2018 was 114.00%. The net stable funding ratio during the first quarter of 2019 was 114.75%, representing an increase of 0.75 percentage point over the previous quarter. This was mainly due to the increase in deposits from retail and small business customers. The net stable funding ratio during the second quarter of 2019 was 113.40%, representing a decrease of 1.35 percentage points over the previous quarter. This was mainly due to the increase in loans and securities. For more details about the net stable funding ratio during the last three quarters, please refer to "Supplementary Information on Capital Adequacy Ratio, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio".

(IX) Others

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

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

III. BUSINESS INNOVATION AND NEW PRODUCTS

(I) Improve Business Innovation Mechanisms

First, the Bank formulated *The Innovation Index Evaluation Method of Provincial Branches in 2019* to evaluate and announce each branch's innovation index, which was based on the innovation benefits, innovation efficiency and innovation ability of each branch, straightforwardly showing the innovation level of each branch. Second, aiming at the three stages in the management of innovative product during the lifecycle, namely, the construction stage, the promotion stage and the outcome stage, the Bank increased input of resources, stimulated new energy and developed new drivers. Third, the Bank set up an innovation incubation fund to support extensive incubation of Fintech innovation projects and organized activities such as innovation incubation competitions. Fourth, aiming at new technologies such as big data, artificial intelligence, internet of things, wearable devices and block chain, the Bank built an innovation laboratory, collected innovative experimental projects from all over the Bank and selected high-quality project teams to into the laboratory.

(II) Corporate Banking Business Innovation

1. Cash management businesses

To optimize industry segmentation solutions and improve the comprehensive service level of receipt, payment and settlement, the Bank made every effort to promote the establishment of intelligent ecological construction and scenario application innovation of cash management and launched Intelligent Financial Service Platform, Enterprise Online Trading Platform, E-pay, BoCom Pay and other key products. The Bank created the global cash management service plan, launched the convenient service mode of one-click connection between banks and enterprises, provided integrated global cash management services for onshore and offshore, domestic and overseas businesses to and expand the scope of global cash management services. The Bank also focused on the improvement of customer service experience of cash management by building professional support teams of headquarters and branches, strengthening the online and green channel service operation and maintenance support ability, transforming and outputting the advantages of IT technology and professional experience service.

2. Investment banking businesses

The Bank gave full play to the advantages of overseas bond underwriting and helped the People's Bank of China issue one-month and six-month central bank bills for the first time, totaling RMB30.0 billion. By offering active support to the financing of private enterprises, the Bank successfully set up two Credit Risk Mitigation Warrant (CRMW) under the bond financing support tools of private enterprises. The Bank also successfully held the first road show of series activities such as "BoCom Investment Bank into the City".

3. Inclusive financial businesses

In order to improve the product system, on the basis of optimizing the functions of existing online products, the Bank adopted the combination of "online evaluation credit approval + offline standardization verification investigation" to develop and launch product of "Online Mortgage Loan". As at the end of the Reporting Period, 1,579 customers got the loan and the loan balance was RMB1.6 billion. The Bank innovated tripartite cooperation model, cooperated with China Ping An Insurance (Group) Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. to explore "Premium Loans". The Bank also cooperated with China National Investment & Guaranty Co., Ltd. to explore "Guaranteeing upon Loan". Additionally, the Bank innovated the remote service model for small and micro customers, set up the outbound team based on customer's hierarchical classification, initially formed a outbound team of 30 persons and coordinated online outbound calls and offline outlets. During the first half of the year, the total number of outbound calls was 390 thousand and successfully developed 22 thousand potential customers, 1,753 households were transferred to the branch for approval. The actual amount of credit granted was RMB14.05 billion and the withdrawal amount was RMB5.11 billion.

4. Asset custody businesses

The Bank actively carried out pension financial services and successfully entered the list of professional annuity custodians in 15 provinces and cities. The Bank actively participated in the pilot innovation businesses of depositary receipts in capital market and obtained the qualification of CDR depository banks.

(III) Personal Financial Business Innovation

1. Credit card businesses

The Bank built an intelligent marketing system and launched three functions of active intelligent marketing, APP intelligent marketing and business intelligence marketing, gradually setting up an automated and intelligent marketing decision-making model and a customer-centric integrated business model. The Bank strengthened human-computer collaboration based on artificial intelligence and independently developed and upgraded the intelligent robot Athena 2.0. As at the end of the Reporting Period, the average daily production capacity of one silent seat supplemented with intelligent robots was equivalent to 10 telephone seats. The solution rate of intelligent seats increased by 5.5 percentage points over the end of the previous year to 40.5%.

The Bank relied on technology platforms including uniform rules engine and data middle platform to establish a full coverage risk data mart by sharing a risk monitoring and reporting system and a new generation of risk control decision engine, which formed a comprehensive and unified risk management system to further enhance the ability of anti-fraud with pre-warning and in-event warning. The deferred fraud rate of application dropped by 0.24 basis points annually in June compared with those in May.

The Bank continued to explore series of theme credit cards such as Y-POWER Youth and its campus version and launched the “Burning” cards combined with the 100th anniversary of the “Youth Day”. Meanwhile, the Bank launched two city cards in Chongqing and Suzhou to fill the gap in the local market.

2. Wealth management businesses

The Bank focused on the diversified wealth management needs of customers and innovatively launched products such as “Hui Tian Xi” US dollar deposits, large certificate of pension deposit and pension wealth management products. The Bank continued to enrich the net worth of wealth management products system and added products such as “OTO Wenxiang” and “OTO Ruixiang”, launched the new function of “Scheduled Investment in Funding PLUS”, integrated big data quantification technology with professional wealth management capabilities and helped customers reduce risk of timing and improved the success rate of investment through disciplinary investment.

The Bank also focused on the experience of customers’ foreign exchange services. The Bank introduced value-added services such as visas, overseas study and tourism according to the needs of overseas travel and overseas study. The Bank integrated foreign currency deposits with wealth management, foreign exchange settlement, cross-border remittance, deposit certificates and information services as well as various types of financial services such as trading products to create a one-stop cross-border financial service system.

3. Online service

The Bank continued to expand the functions of mobile banking, launched new functions such as online income and expenditure account and money saving plan 2.0 to improve the construction of life and cross-border scenarios. As at the end of the Reporting Period, the number of mobile banking registered customers reached 79.7373 million, representing an increase of 7.54% over the end of the previous year. The number of mobile banking transactions reached 244 million, representing an increase of 41.04% on a year-on-year basis.

During the Reporting Period, as the first mobile banking live broadcast platform in the industry, the Bank's "BoCom Live Broadcast" platform focused on investment and financial education, key product introduction, preferential welfare information, guidance for study abroad and one-stop financial services. The platform planned, produced and broadcasted a series of live programs. The number of people watching increased by 413.4% on a year-on-year basis to 344 thousand. In the "2019 Digital Marketing Competition of Banking Industry" hosted by China Financial Certification Center, "BoCom Live Broadcast" won the gold prize for creative communications.

The Bank constantly innovated personalized service model. The Bank launched the ETC online application function and added a personal homepage module in mobile banking. Employees can customize the recommended activities, products, functions, poster backgrounds and share them with one click, which established a "never off-line" marketing model with all staff. The Bank continuously optimized long-tail customer service to make them one of the important sources of high-end customers by relying on financial technology and the two-wheel drive of "Finance + Data" as well as synergies of two-line services of offline channels.

(IV) Business Innovation in Inter-bank and Financial Markets

1. Asset management businesses

The Bank accelerated the transformation of net worth in two ways. One is to consolidate and expand cash management products. The other is strengthening the characteristics of the theme product investment, continuously enriching the product's term characteristics, investment strategies and product functions and actively expanding the product distribution target. During the Reporting Period, the Group successfully launched 13 net-value products including OTO Ruixiang Bond Stable 1901 Themed Fund, OTO Ruixiang Bond Intesified 1902 Themed Fund, OTO Wenxiang Series opening once in 6 months, OTO Wenxiang Series opening once in one year, Private Banking Xinxiang Series opening once in one year, OTO Hengxiang Series and Pension Net-value product. The net value product system covered cash management, regular open, fixed-term closed and subject-type regular open products and took the lead in completing the whole product system layout in the industry.

2. Precious metal businesses

The Bank obtained the qualification of the first batch of silver futures market makers on the Shanghai Futures Exchange and became one of the two commercial bank market makers of Silver Futures.

IV. RISK MANAGEMENT

During the first half of 2019, the Group took "Full coverage, Differentiation, Specialization, Intelligence and Accountability" as its goal, deepened the reform of risk credit management, improved the comprehensive risk management framework. As at the end of the Reporting Period, the main asset quality indicators were stable and non-performing loans ratio decreased by 2 basis points over the beginning of the year and the provision coverage of impaired loan increased slightly over the beginning of the year.

(I) Risk Appetite

The Group adhered to the bottom line of compliance, insisted on the prudential style of risk management, conscientiously implemented external regulatory requirements, actively served the real economy, strictly controlled all kinds of risks, constantly and comprehensively deepened the reform and prevented the occurrence of systematic risks. During the first half of 2019, the overall implementation of risk appetite was satisfactory.

(II) Risk Management Framework

The Board of Directors of the Group assumes the ultimate responsibility and serves the highest function of decision-making for the Group's risk management and control of the Group's risk management through its Risk Management and Related Party Transaction Control Committee. The 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 and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit and Investment Review and High-risk Asset Review Committee were also established and performed their respective duties.

Each provincial branch, overseas branch, subsidiary and directly operating institutions correspondingly established simplified and practical Risk Management Committees referring to the aforementioned framework. In addition to the Plenary Meeting of the Comprehensive Risk Management Committee, the provincial branches also set up the meetings of the Comprehensive Risk Management Committee as the main carrier for the leader team and staff team members to research on preventing systematic regional risks and making decisions on risk management significant events of their own units.

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

(III) Risk Management Tool

The Group emphasized importance on the establishment and application of risk management tools, information systems and econometric models. The Group used financial technology to assist risk management. The Group also actively explored the application of big data, artificial intelligence, cloud computing and graph computing in the field of risk management, initiated the construction of the Group's risk data application in ecological system and created a unified risk monitoring system covering the entire Group.

The Group established a complete system in implementation of Advanced Measurement Approach of Capital Management covering areas such as policy procedure building, module developing and management, data accumulation and normalization, system design and implementation, business management and assessment application, independent verification and audit and professional training. With the approval from regulatory authorities, the Group adopted a 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 standardized approach for operational risk to measure capital requirements. In 2018, the Group was approved by the China Banking and Insurance Regulatory Commission to end the parallel phase of advanced capital management methods and expand the scope of implementation.

(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 guidance for loan disbursement investigation, reporting, business review and approval, distribution of fund, duration management and overdue non-performing loan management, all of which reduced the credit risk to an acceptable level and achieved a balance between risks and returns.

The Group was determined to implement the decisions strategy of the central government and the State Council. In response to State's policies and market fluctuations, the Group issued and dynamically updated an outline regarding the risk of credit authorization policy and guidelines on industrial or regional direction, promoted financial services to the real economy and constantly optimized credit assets structure. During the first half of 2019, the company's loan investment structure was in line with the macroeconomic operation characteristics and the Bank's policy requirements.

The Group deepened the reform of risk credit management. The Group optimized processes of application, approval, the post-loan management and the post-investment management, full process management, and system support to improve the efficiency of credit management. The Group also improved the risk monitoring system, strengthened the unified management of risk measurement and built a unified risk management system for the Group as a whole.

The Group emphasized on risk management in key areas and conducted risk investigations on key areas such as Sino-US trade friction, real estate industry, pharmaceutical manufacturing and chemical industry. The Group focused on key institutions to implement key controls. The Group also established a continuous monitoring mechanism for major projects and key customers to achieve risk mitigation in advance.

The Group put efforts on risks mitigation. The Group implemented the accountability for the disposals and preservation of major projects and actively dealt with such disposals. During the first half of the year, the total amount of non-performing loans decreased by RMB27.38 billion.

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

As at the end of the Reporting Period, the Group's balance of non-performing loans was RMB75.508 billion and the non-performing loans ratio was 1.47%, representing an increase of RMB2.996 billion or 0.02 percentage point decrease over the end of the previous year. 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)

	30 June 2019		31 December 2018		31 December 2017	
Categories	**Balance**	**Proportion (%)**	Balance	Proportion (%)	Balance	Proportion (%)
Pass loan	**4,935,926**	**96.21**	4,662,605	96.06	4,378,840	95.62
Special mention loan	**119,178**	**2.32**	119,111	2.45	131,910	2.88
Total performing loan balance	**5,055,104**	**98.53**	4,781,716	98.51	4,510,750	98.50
Sub-standard loan	**14,643**	**0.29**	13,711	0.28	18,723	0.41
Doubtful loan	**42,278**	**0.82**	38,456	0.79	24,865	0.54
Loss loan	**18,587**	**0.36**	20,345	0.42	24,918	0.55
Total non-performing loan balance	**75,508**	**1.47**	72,512	1.49	68,506	1.50
Total	**5,130,612**	**100.00**	4,854,228	100.00	4,579,256	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 (%)	**First half year of 2019**	2018	2017
Pass loan	**0.90**	1.85	2.09
Special mention loan	**16.81**	30.01	21.62
Sub-standard loan	**40.89**	88.62	53.59
Doubtful loan	**8.19**	15.36	26.86

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 was the risk of loss of on-and off-balance sheet businesses due to adverse changes in market prices (such as interest rates, exchange rates, commodity prices and stock prices). Interest rate risk and exchange rate risk (including gold) are the major market risks encountered by the Group.

The Group used an internal model method for exchange rate risk and the general interest rate risk of trading accounts and a standardized method of measurement for market risks not covered by the internal model method. The internal model method used historical simulation to measure the value at risk (VaR) and the stress value at risk (SVaR), with a historical observation period of 1 year, a holding period of 10 working days and a one-tailed confidence interval of 99%.

The Group controlled and prevented market risks and improved the level of market risk management by establishing and optimizing the segregation of duties, clear system processes, improving measurement systems and timely monitoring and analyzing. The objective of market risk management was to proactively identify, measure, monitor, control and report market risk according to the risk appetite determined by the Board of Directors, to control market risk within an affordable range through a variety of methods and means such as quota management, risk hedging and risk transfer and to maximize risk-adjusted returns on this basis.

During the Reporting Period, the Group continued to improve the market risk management system, undertook the advantages of information technology in market risk management, improved the level of management automation, strengthened the risk management of overseas banks, continuously optimized the market risk management information system, continuously promoted the construction of large middle-end system of market risk and set the valuation model of new business products, parameters and market data. The Group also optimized market risk management models and configurations, independently validated new configuration models and conducted regular data quality checks.

The Group continued to promote the application of the results derived from market risk measurement into management's practice. Daily capital transaction positions of the whole Bank and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, using the historical simulation method, the Group quantified market risk and measured VaR on a daily basis from different perspectives, such as different risk factors and different investment portfolios and products. The results were also applied to capital measurement using the internal model-based approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results revealed that the market risk measurement model was able to capture the changes in financial market in a timely manner and objectively reflected market risk encountered by the Group. Meanwhile, the Group closely followed new developments in risk monitoring of domestic and foreign markets, actively participated in the quantitative measurement organized by the CBIRC, provided feedback and suggestions in a timely manner.

(VI) Liquidity Risk Management

The governance structure of the Group's liquidity risk management includes decision-making body composed of the Board of Directors and its Risk Management and Related Transaction Control Committee, senior management and its Market and Liquidity Risk Management Committee, supervisory body composed of the Supervisory Board and the Audit Oversight Board, the executive body composed of the Asset and Liabilities Management Department, the Financial Markets Business Centre, the Risk Management Department, the Operation Management Department, various branches, various subsidiary bodies and various business administrations of head office.

The Group's liquidity risk management objective was to establish and improve the liquidity risk management system and to effectively identify, measure, monitor and control the liquidity risk of the legal person and group level, subsidiary bodies, branches and lines of businesses, ensuring that liquidity needs could be met at a reasonable cost in a timely manner.

The Group annually determined liquidity risk appetite based on factors such as business strategy, business characteristics, financial strength, financing capabilities, overall risk appetite and market impact. According to the liquidity risk appetite, the Group developed liquidity risk management strategies, policies and procedures in written forms. Liquidity risk management strategies and policies covered businesses both on-and off-balance sheet, as well as all business units, branches and affiliates within and outside the country that might have a significant impact on liquidity risk. The strategies and policies also included liquidity risk management in normal and stressful situations.

During the Reporting Period, the Group actively implemented the requirements of the *(Administrative Measures) on Liquidity Risk Management of Commercial Banks* issued by CBIRC, continued to carry out the consolidation and promotion of liquidity risk management, and effectively balanced safety, 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 such as liquidity coverage ratio, liquidity ratio, and net stable funding ratio. In accordance with regulatory policy requirements and the need for deepening reform across the Bank, the Group further strengthened the on-and off-balance sheet liquidity risk management by estimating, measuring and analyzing cash flows, coordinating financing and liquidity management of high quality asset, continuously monitoring and ensuring liquidity security during daytime and liquidity limits were under control and performed regular liquidity risk stress tests by considering the inter relationship of different risks and liquidity risk and the impact of market liquidity risk on bank's liquidity risk. The test result showed that the Bank's liquidity risks under various pressure scenarios were under control.

(VII) Operational Risk Management

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

During the Reporting Period, the Group strengthened operational risk management. The Group improved the operational risk management system and risk assessment mechanism and conducted operational risk and control assessment for key processes. The Group also established a domestic and overseas integrated business continuity management system and extended the coverage of the outsourcing risk assessment mechanism to the whole Group.

(VIII) Legal Compliance and Anti-Money Laundering

During the Reporting Period, the Group effectively conducted different legal compliance, continued to improve the long-term mechanism of overseas compliance, continuously strengthened the Group's consolidation management of legal compliance risk, actively promoted the construction of legal compliance system and continued to strengthen the law and compliance implementation.

The Group practiced risk-based anti-money laundering management requirements, improved internal control system of anti-money laundering, emphasized all employees' anti-money laundering job responsibilities, optimized anti-money laundering system functions, promoted intelligent projects, enhanced anti-money laundering technical support and capacity.

(IX) Reputation Risk

The Group established and improved the reputation risk management framework. Negative comments from various stakeholders regarding the Group's operation, management, any other behaviors or external events were well managed. Situations regarding reputation risk were appropriately handled.

The Group continued to improve reputation risk management system and mechanism. The Group intensified the identification, warning, assessment and monitoring of reputation risk, tracked and monitored the occurrence and changes of reputation risk factors in real time and promptly adjusted corresponding strategy and measures. During the Reporting Period, negative public comments were well responded. Reputation risk was under control. No event occurred regarding significant reputation risk.

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

The Group established cross-industry and cross-border risk management system with "Centralized Management, Clear Task Allocation, Complete and Adequate System Tools, IT Support, Quantitative Risk, and Consolidation of Substantially Controlled Entities". The Group promoted all subsidiaries and overseas institutions to prevent extra risks arising from cross-industry and cross-border operations under both the Group's standardized requirements and the respective requirements from local regulatory governing bodies.

During the Reporting Period, the Group strengthened the assessment and disposal of cross-border credit risks. The Group also strengthened consolidation management, improved procedures and measures, developed management systems and strictly managed affiliated institutions. The Group strengthened the management of country risk and focused on improving risk management and controls for high-risk and relatively high-risk countries.

The Group did not note any insider trading that could damage the sustainable operation in respect of regulatory arbitrage, risk transfer or transactions without genuine purposes or not at market price transactions.

(XI) Management of Large Exposure Risk

The Group conscientiously implemented the requirements of the CBIRC on the management of large exposure risk, emphasized the importance on the management of large exposure risk, formulated relevant policies, improved management structure and clearly defined requirements. During the Reporting Period, the Group's large exposure risk indicators met the regulatory requirements.

V. OVERVIEW OF MAJOR SUBSIDIARIES

Bank of Communications Schroder Fund Management Co., Ltd. It was set up in August 2005 with a registered capital of RMB200 million, jointly contributed by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5% respectively. The primary businesses include the fund raising, fund sales, asset management and other businesses licensed by the CSRC.

As at the end of the Reporting Period, the company's total assets and net assets were RMB3.995 billion and RMB3.334 billion respectively. The company's net profits during the Reporting Period were RMB295 million.

Bank of Communications International Trust Co., Ltd. It officially opened in October 2007 with a registered capital of RMB5.765 billion, of which the Bank and Hubei Provincial Communications Investment Group Co., Ltd. contributed 85% and 15% respectively. The business scope includes fund trusts, chattel trust, real estate trusts, securities trusts, other property or property rights trusts. It also engages in investment fund business as promoters of investment fund or fund management company. The business scope also includes merger and acquisition and restructuring of operating corporate assets or project financing, corporate finance, financial advisory services. Furthermore, the company also conducts securities underwriting services entrusted by the State Council, intermediary services, consulting and credit investigation. It provides custody services and safety box services. It also carries out businesses of Inter-bank deposits and withdrawals, loans, leasing, investments and guarantees with the use of fixed assets it provides Inter-bank leading and borrowings.

As at the end of the Reporting Period, the company's total assets and the assets under management (AUM) were RMB12.824 billion and RMB891.255 billion respectively. The company's net profits during the Reporting Period were RMB626 million.

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

As at the end of the Reporting Period, the company's total assets and net assets were RMB249.144 billion and RMB23.083 billion respectively. The company's net profits during the Reporting Period were RMB1.334 billion.

BoCommLife Insurance Company Limited. It was set up in January 2010 with a registered capital of RMB5.1 billion, of which the Bank and the Commonwealth Bank of Australia contributed 62.50% and 37.50% respectively. The business scope includes life insurance, health insurance, accident insurance and reinsurance businesses of the aforementioned insurances (excluding statutory insurance businesses) operated in the Shanghai administrative region, as well as provinces, autonomous regions and municipalities directly under the Central Government where the branches were established.

As at the end of the Reporting Period, the company's total assets and net assets were RMB48.269 billion and RMB6.105 billion respectively. The company's net profits during the Reporting Period were RMB220 million.

BoCom International Holdings Company Limited. It was set up on 3 June 1998 (formerly known as Communications Securities Co., Ltd.). It changed its name to BoCom International Holdings Company Limited on 2 May 2007. It was listed on the main board of Hong Kong Stock Exchange on 19 May 2017. As at the end of the Reporting Period, The Bank's shareholding in BoCom International Holdings Company Limited was 73.14%. The main business of BoCom International is divided into four major sections, namely, securities brokerage and margin financing, corporate finance and underwriting, asset management and consulting, and investment and loan.

For the operation result and related information of the company, please refer to the result announcement published on the Hong Kong Stock Exchange on 26 August 2019.

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

As at the end of the Reporting Period, the company's total assets and net assets were HKD786 million and HKD569 million respectively. The company's net profits during the Reporting Period were HKD5.15 million.

BOCOM Financial Asset Investment Co., Ltd. As a wholly-owned subsidiary of the Bank, it was set up in December 2017 with a registered capital of RMB10.0 billion. The business scope includes focusing on debt-to-equity conversion and supporting services, raising funds from qualified social investors to implement debt-to-equity conversion in accordance with the laws and regulations, issuing financial bonds, special funds for debt-to-equity conversion and other businesses approved by the CBIRC.

As at the end of the Reporting Period, the company's total assets and net assets were RMB32.310 billion and RMB10.218 billion respectively. The company's net profits during the Reporting Period were RMB160 million.

BOCOM Wealth Management Co., Ltd. As a wholly-owned subsidiary of the Bank, it was set up in June 2019 with a registered capital of RMB8.0 billion. The business scope includes issuing public offering wealth management products, issuing private wealth management products, and wealth management advisory and consulting.

As at the end of the Reporting Period, the company's total assets and net assets were RMB8.002 billion and RMB8.002 billion respectively. The company's net profits during the Reporting Period were RMB2 million.

Dayi BoCom Xingmin Rural Bank Co., Ltd. It officially opened in September 2008, with a registered capital of RMB60.00 million. The Bank holds 61% of its shares.

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

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

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

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

As at the end of the Reporting Period, the four rural banks' total assets, net assets, the balance due to customers and the balance of loans to customers were RMB7.561 billion, RMB757 million, RMB6.338 billion and RMB5.054 billion respectively.

VI. OUTLOOK

During the second half of 2019, the external situation remains complex and evolving. The uncertainty of Sino-US trade friction increases. However, China is still at the window of strategic opportunities. Macroeconomic situation sustains long-term development with good momentum along with new economy driver. Overall, opportunities and challenges exist alongside in the banking industry.

On one hand, China's economy is in the vital stage of transforming the development mode, optimizing the economic structure and transforming the growth momentum. The supply-side structural reform achieved solid progress. The real economy are deeply integrated with internet, big data and artificial intelligence. Policies such as the pilot reform of financial services of free trade zones, private enterprises and small and micro enterprises are implemented and achieve progressive result. On the other hand, banking industry faces with greater challenges in stable development and risk mitigation. Challenges include the complicated and severe external environment, the pains of domestic economic transformation and upgrading, the emerging structural contradictions in high-quality development, the considerable amount of difficulties in the real economy and the shortcomings of the people's livelihood.

During the second half of 2019, under the landscape of "development strategy" and the requirement of high-quality development, the Group will continue to actively seize opportunities, explore key areas closely related to the needs of the real economy and people's aspiration to live a better life. The Group will develop the service capabilities according to the new economy form and the new financial environment. The Group will focus on the following areas. First, to strengthen the research and judgement of situation and policy research and seize the opportunity to promote development, the Group will strengthen the research and early estimation of risks and opportunities, improve policy flexibility and coordination, encourage business units to adapt to local conditions and enhance the ability to develop distinctive features. Second, to enhance the ability of asset allocation and serve the real economy in a better way, the Group will identify and respond to the actual needs of the real economy, strengthen abilities in response to strategies of key regions, support the high-quality development of private enterprises, inclusive enterprises, small and macro enterprises and the manufacturing industry. The Group will also take the advantages of internationalization and integration, and enhance the service capabilities in new fields and new forms. Third, to continuously promote technology empowerment and enhance comprehensive customer service capabilities, the Group will build scenario application, system and platform for customers. The Group will obtain new customers via scenario application and attract customer via online service. The Group will also enhance the innovation of products, deepen data management and strengthen support. Fourth, to deepen the reform of credit risk management and risk mitigation. The Group will reinforce the responsibility for non-performing assets disposal, strengthen credit risk control, accelerate the construction of case prevention and compliance online operation and risk management capabilities of inclusive businesses and safeguard the bottom line.

BOCOM-HSBC STRATEGIC COOPERATION

During the Reporting Period, the Bank and HSBC practiced the consensus of "deepening strategic cooperation and creating shared value" with continuous cooperation in multi-dimensions, levels and directions, improving the quality and efficiency of financial services and creating new drivers.

Senior Management of both parties maintained close communications. During the Reporting Period, the banks held the 17th Summit Conference and the 1st Executive Chairman Meeting in 2019, further reinforcing the cooperative consensus and establishing cooperative targets.

The quality and effectiveness of the global business cooperation increased steadily. Under the "BoCom-HSBC Global Business Strategic Cooperation" framework, Mr. Ng Siu On, consultant of BoCom-HSBC Strategic Cooperation, discussed the promotion of business cooperation in key areas by holding four seminars regarding the business cooperation between domestic and oversea branches and one meeting regarding the promotion of the "Belt and Road" business cooperation. Relying on the "1+1 Global Financial Services" framework, both parties cooperated in areas including overseas syndication and bond issuance, treasury businesses and refinancing projects and custody and distribution of fund, which maintained the momentum of found cooperation.

— Response to China related strategies — The two banks cooperated on four syndicated loans in the Guangdong-Hong Kong-Macao Greater Bay Area, amounting to HKD39.0 billion. In order to support the "Going Global" of Chinese corporations, both parties collaboratively to provide foreign currency financing to a Chinese funded corporation, amounting to HKD30.0 billion.

— Overseas businesses cooperation — During the Reporting Period, the two banks worked together in Hong Kong area on 7 syndicated loans and 17 bond issuances, amounting to USD20.12 billion approximately, which represented an increase of 45% on a year-on-year basis. Both banks also cooperated on two syndicated loans of USD5.597 billion in Australia and four syndicated loans in Europe.

— Treasury businesses and refinancing projects cooperation — The two banks cooperated on 736 transactions amounting to USD15.82 billion in treasury businesses overseas and 20 transactions amounting to USD38.84 million in risk participation businesses. HSBC participated in the bond issuance projects of BoCom Leasing, the Bank's subsidiary and Hong Kong Branch, amounting to USD3.185 billion. HSBC also participated the issuance of certificates of deposits of the Macao Branch, Singapore Branch and London Branch, amounting to USD6.468 billion.

— Custody and distribution of fund cooperation — The custody cooperation of both parties reached RMB26.453 billion. The Bank domestically distributed 20 HSBC JinTrust Funds of RMB2.424 billion. Hong Kong Branch of the Bank distributed 38 HSBC Global Investment Funds of HKD0.154 billion.

— Public service project cooperation — In phase 2 of the "BoCom-HSBC Shanghai Yi Le Action Plan" (from May 2018 to March 2019), both banks established special community funds in 103 communities of 9 streets in Shanghai, benefiting 90 thousand community residents. Both banks actively participated in "serving the elderly" and jointly practiced corporate social responsibilities.

"Technology Cooperation and Exchange" (TCE) promoted the sharing of resource and experience. During the Reporting Period, both parties initiated communication on 26 subjects on business communication, risk compliance, macro study and Fintech. For the first time, the Bank launched overseas training program for the "Elite Plan" project which was open to grassroots staff.

As the Bank and HSBC steps into the 15th year of cooperation in 2019, both banks will enhance the quality and effectiveness of cooperation and create shared value by improving the mechanism of cooperation and communication, expanding areas of cooperation, exploring cooperation opportunities and promoting the communication and sharing of resource and experience.

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.

	30 June 2019		Changes (+/-) during the Reporting Period					31 December 2018	
	Number of shares (share)	Percentage (%)	Newly issued	Bonus share	Conversion from reserves	Others	Sub-total	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	–	–	–	–	–	–	–	–	–
II. Shares not subject to sales restrictions	74,262,726,645	100.00	–	–	–	–	–	74,262,726,645	100.00
1. Renminbi ordinary shares	39,250,864,015	52.85	–	–	–	–	–	39,250,864,015	52.85
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
III. Total shares	**74,262,726,645**	**100.00**	**-**	**-**	**-**	**-**	**-**	**74,262,726,645**	**100.00**

II. SHAREHOLDERS OF ORDINARY SHARES

As at the end of the Reporting Period, the total number of shareholders of ordinary shares of the Bank was 344,210, of which 309,622 were shareholders of A shares and 34,588 were shareholders of H shares.

(I) Shareholdings of Top 10 Ordinary Shareholders as at the end of the Reporting Period[1]

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	Nature of Shareholders
The Ministry of Finance of the People's Republic of China	–	15,148,693,829	20.40	A Share	Nil	The State
	–	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited[2]	5,201,230	14,965,489,762	20.15	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited[3]	–	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund[4]	(742,627,266)	1,134,886,185	1.53	A Share	Nil	The State
	–	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	–	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.[5]	–	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.[5]	–	745,305,404	1.00	A Share	Nil	State-owned legal person
CITIC Securities Co., Ltd.- Social Security Fund Share Flexible Portfolio[5]	742,627,266	742,627,266	1.00	A Share	Nil	Others

Notes:

1. The relevant data and information is extracted from the Bank's register of members at the Registrar and Transfer Office.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure forms of interests filed with the Hong Kong Stock Exchange by HSBC Holdings plc, **HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued**. HSBC beneficially held 249,218,915 more H shares than shown on the Bank's register of members. The discrepancy is due to a purchase of H shares by HSBC from the secondary market in 2007 and a bonus share issued by the Bank. Those extra shares have been registered under 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 SFO" for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the Bank's register of members, the SSF held 1,134,886,185 A shares and 1,405,555,555 H shares of the Bank as at the end of the Reporting Period. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,651,231,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 623,454,000 H shares were indirectly held by certain asset managers (including Hong Kong Stock Connect). In May 2019, the SSF transferred 742,627,266 A shares, representing 1% of total share capital, to the designated account of decrease of shares,"CITIC Securities Co., Ltd. — Social Security Fund Share Flexible Portfolio" (the 10th largest shareholder set out in the table above). **As at the end of the Reporting Period, the SSF held a total of 10,934,300,783 A shares and H shares of the Bank, representing 14.72% of the Bank's total ordinary shares issued.**

5. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert as defined under *Provisional Measures on Shareholdings Administration of Commercial Banks*. CITIC Securities Co., Ltd. — Social Security Fund Share Flexible Portfolio is the designated account for reduction of holding of the SSF. The Bank is not aware of the existence of any related relationship among the above shareholders, or whether they are parties acting in concert as defined in *Provisional Measures on Shareholdings Administration of Commercial Banks*.

(II) Controlling Shareholders/Actual Shareholders

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

(III) Institutional Shareholders Holding 10% or more of the Issued Share Capital of the Bank[1]

Name of institutional shareholders	Person in charge or Legal representative	Date of incorporation	Organization Code/Business Registration/Unified Social Credit Code	Registered Capital	Main responsibilities or management activities
The Ministry of Finance of the People's Republic of China	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.
The Hong Kong and Shanghai Banking Corporation Limited	Fan Ning[2]	1865	00173611-000	N/A[3]	Primarily provide local and international banking services and related financial services in Asia-Pacific region.
The National Council for Social Security Fund	Lou Ji Wei	August 2000	12100000717800822N	RMB8 million	Under the management of Ministry of Finance and an independent legal entity responsible for managing and operating national social security fund.

Note:

1. Excluding HKSCC Nominees Limited.
2. According to the announcement of HSBC Holdings plc, Mr. Fan Ning has no longer served as Chief Executive Officer and Director of HSBC since 5 August 2019.
3. 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 Banks*, 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 end of the Reporting Period are as follows:

Name of Shareholder	Controlling Shareholder	Actual Controller	Parties acting in concert	Ultimate Beneficiary
The Ministry of Finance of the People's Republic of China	N/A	N/A	Nil	N/A
The Hong Kong and Shanghai Banking Corporation Limited	HSBC Asia Holdings Limited	HSBC Holdings plc	Nil	HSBC Holdings plc
The National Council of Social Security Fund	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.

(IV) Other Substantial Shareholders

In accordance with *Provisional Measures on the Shareholdings Administration of Commercial Banks*, substantial shareholders of the Bank other than the Ministry of Finance, HSBC and SSF are as follow:

1. China National Tobacco Corporation. According to the 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 RMB0.582 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. 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.

5. 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.

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.

(V) Substantial Shareholders and Holders of Interest or Short Positions Required to be Disclosed under Division 2 and 3 OF Part XV of the Securities and Futures Ordinance

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

Name of substantial shareholders	Capacity	Number of A shares	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	1,134,886,185[3]	Long position	2.89	1.53

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	9,056,787,332[3]	Long position	25.87	12.20
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC Holding Plc	Interests 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 9,056,787,332 H shares and 1,877,513,451 A shares of the Bank (Please refer to the tables and notes in Shareholdings of Top 10 Ordinary Shareholders for details.), representing 12.20% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. HSBC Holding plc wholly owns HSBC Asia Holdings Limited, which wholly owns 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 was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the *SFO*.

I. INFORMATION OF PREFERENCE SHAREHOLDERS

As at the end of the Reporting Period, the total number of domestic preference shareholders was 42 and that of overseas preference shareholders was 1.

(I) Shareholdings of Top 10 Domestic Preference Shareholders 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 – Shanghai 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

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

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

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

Notes:

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

II. DIVIDEND DISTRIBUTION OF PREFERENCE SHARES

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 26th meeting of the 8th Session of Board of Directors of the Bank was held on 29 April 2019, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares was considered and approved.

The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111.11, 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 income tax of USD13,611,111.11 was withheld by the Bank on behalf of overseas preference shareholders. The above dividends were fully settled in cash on 29 July 2019.

The dividend on domestic preference shares were calculated at the nominal dividend yield of 3.90% and amounted to RMB1,755,000,000, which would be distributed on 9 September 2019.

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

III. REDEMPTION AND CONVERSION OF PREFERENCE SHARES

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

IV. RESTORATION AND EXERCISE OF VOTING RIGHTS

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

V. ACCOUNTING POLICY FOR PREFERENCE SHARES AND ITS RATIONALE

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

I. MEMBERS OF BOARD OF DIRECTORS

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

Name	Position	Name	Position
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	Liu Haoyang	Non-executive Director
Hou Weidong	Executive Director and Executive Vice President	Li Jian	Independent Non-executive Director
Wang Taiyin	Non-executive Director	Liu Li	Independent Non-executive Director
Song Guobin	Non-executive Director	Jason Yeung Chi Wai	Independent Non-executive Director
He Zhaobin	Non-executive Director	Raymond Woo Chin Wan	Independent Non-executive Director
Chan Siu Chung	Non-executive Director (designated)	Cai Haoyi	Independent Non-executive Director
Song Hongjun	Non-executive Director	Shi Lei	Independent Non-executive Director (designated)
Chen Junkui	Non-executive Director		

Notes:

1. The qualifications of the designated Directors are pending for approval of the CBIRC.
2. Mr. Wu Wei has no longer served as the Executive Director, Executive Vice President and Chief Financial Officer of the Bank since 22 August 2019.
3. Ms. Helen Wong Pik Kuen has no longer served as the Non-executive Director since 15 August 2019.

II. MEMBERS OF THE BOARD OF SUPERVISORS

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

Name	Position	Name	Position
Feng Xiaodong	Shareholder Supervisor	Chen Hanwen	External Supervisor
Wang Xueqing	Shareholder Supervisor	Chen Qing	Employee Supervisor
Tang Xinyu	External Supervisor	Du Yarong	Employee Supervisor
Xia Zhihua	External Supervisor	Guan Xingshe	Employee Supervisor
Li Yao	External Supervisor	Wang Xuewu	Employee Supervisor

III. SENIOR MANAGEMENT

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

Name	Position	Name	Position
Ren Deqi	President	Gu Sheng	Secretary of the Board of Directors
Hou Weidong	Executive Vice President	Xu Han	Chief Business Officer (Retail and Private Business Sector)
Yin Jiuyong	Executive Vice President (designated)	Tu Hong	Chief Business Officer (Interbank and Market Business Sector)
Lyu Jiajin	Executive Vice President	Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant
Guo Mang	Executive Vice President		

Notes:

1. Mr. Yin Jiuyong was elected as the Executive Vice President of the Bank in accordance with the resolution at the 2nd meeting of the 9th Session of the Board of Directors of the Bank. His qualification is pending for approval of the CBIRC.
2. Mr. Wu Wei has no longer served as the Executive Vice President and Chief Financial Officer of the Bank since 22 August 2019.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Newly Appointed/Elected

Name	New Position	Change
Chan Siu Chung (designated)	Non-executive Director	Elected at General Meeting
Song Hongjun	Non-executive Director	Elected at General Meeting
Chen Junkui	Non-executive Director	Elected at General Meeting
Shi Lei (designated)	Independent Non-executive Director	Elected at General Meeting
Feng Xiaodong	Shareholder Supervisor	Elected at General Meeting
Chen Hanwen	External Supervisor	Elected at General Meeting
Wang Xuewu	Employee Supervisor	Elected at the Employee Representative Meeting
Yin Jiuyong (designated)	Executive Vice President	Appointed by the Board of Directors
Lyu Jiajin	Executive Vice President	Appointed by the Board of Directors

Resigned/Retired

Name	Ex-position	Change
Peng Chun	Ex-Chairman of the Board of Directors and Ex-Executive Director	Resigned (due to job arrangement)
Peter Wong Tung Shun	Ex-Vice Chairman of the Board of Directors and Ex-Non-executive Director	Retired (due to election of new session of the Board of Directors)
Wu Wei	Ex-Executive Director, Ex-Vice President and Ex-Chief Financial Officer	Resigned (due to job arrangement)
Helen Wong Pik Kuen	Ex-Non-executive Director	Resigned (due to personal reason)
Liu Hanxing	Ex-Non-executive Director	Retired (due to election of new session of the Board of Directors)
Luo Mingde	Ex-Non-executive Director	Retired (due to election of new session of the Board of Directors)
Yu Yongshun	Ex-Independent Non-executive Director	Retired (due to election of new session of the Board of Directors)
Song Shuguang	Ex-Chairman of the Board of Supervisors	Resigned (due to job arrangement)
Gu Huizhong	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Supervisors)
Zhao Yuguo	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Supervisors)
Liu Mingxing	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Supervisors)
Zhang Lili	Ex-Shareholder Supervisor	Retired (due to election of new session of the Board of Supervisors)
Xu Ming	Ex-Employee Supervisor	Retired (due to election of new session of the Board of Supervisors)
Fu Wanjun	Ex-Chief Business Officer (Corporate and Institutional Business Sector)	Resigned (due to job arrangement)

V. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Changes of shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of share change
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	A Share	–	–	–	–
		H Share	100,000	–	100,000	–
Hou Weidong	Executive Director and Executive Vice President	A Share	80,000	–	80,000	–
		H Share	20,000	–	20,000	–
Wang Taiyin	Non-executive Director	A Share	80,000	–	80,000	–
		H Share	50,000	–	50,000	–
Song Guobin	Non-executive Director	A Share	20,000	–	20,000	–
		H Share	–	–	–	–
He Zhaobin	Non-executive Director	A Share	20,000	–	20,000	–
		H Share	–	–	–	–
Chan Siu Chung (designated)	Non-executive Director	A Share	–	–	–	–
		H Share	49,357	–	49,357	–
Chen Qing	Employee Supervisor	A Share	40,000	–	40,000	–
		H Share	20,000	–	20,000	–
Du Yarong	Employee Supervisor	A Share	60,000	–	60,000	–
		H Share	20,000	–	20,000	–
Wang Xuewu	Employee Supervisor	A Share	25,000	–	25,000	–
		H Share	–	–	–	–
Guo Mang	Executive Vice President	A Share	50,000	–	50,000	–
		H Share	–	–	–	–
Gu Sheng	Secretary of the Board of Directors	A Share	66,100	–	66,100	–
		H Share	21,000	–	21,000	–
Xu Han	Chief Business Officer (Retail and Private Business Sector)	A Share	50,000	–	50,000	–
		H Share	30,000	–	30,000	–
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	A Share	–	–	–	–
		H Share	50,000	–	50,000	–
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	A Share	–	–	–	–
		H Share	30,000	–	30,000	–

Directors, Supervisors and Senior Management Resigned/Retired

Name	Position	Class of shares	Number of shares held at the beginning of the Reporting Period (share)	Changes of shareholdings during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of share change
Peng Chun	Ex-Chairman of the Board of Directors and Ex-Executive Director	A Share	250,000	–	250,000	–
		H Share	50,000	–	50,000	–
Wu Wei	Ex-Executive Director, Ex-Executive Vice President and Ex-Chief Financial Officer	A Share	96,000	–	96,000	–
		H Share	20,000	–	20,000	–
Song Shuguang	Ex-Chairman of the Board of Supervisors	A Share	130,000	–	130,000	–
		H Share	50,000	–	50,000	–
Xu Ming	Ex-Employee Supervisor	A Share	70,000	–	70,000	–
		H Share	–	–	–	–
Fu Wanjun	Ex-Chief Business Officer (Corporate and Institutional Business Sector)	A Share	71,300	–	71,300	–
		H Share	–	–	–	–

Additionally, Mr. Chan Siu Chung, the designated Director of the Bank, held 98 shares of H shares of BoCom International Holdings Company Limited. Save as disclosed above, as at the end of the Reporting Period, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the *SFO*), which were required to be filed to the Bank and the Hong Kong stock Exchange pursuant to Divisions 7 and 8 of Part XV of the *SFO*, or which were required to be recorded in the register as kept pursuant to Section 352 of the *SFO*, or which were required, pursuant to the *Model Code* to be filed to the Bank and the Hong Kong Stock Exchange.

VI. INFORMATION OF EMPLOYEES AND THE ENTITIES

As at the end of the Reporting Period, the Bank had a total of 86,425 domestic and overseas employees, of which 83,959 employees were based in domestic branches and 2,466 were local employees in overseas branches. There were 3,380 employees in the Bank's major subsidiaries.

(I) Employees' Remuneration Policy

Under the nationwide deepening reform and the Group's strategic goals, the Bank actively promoted the mechanism innovation of employees, remuneration and assessment. The Group continued to optimize the remuneration and performance management system which was based on "position and the integration of position value and performance value", highlighted the value creation and performance-oriented assessment concept and motivated staff incentives and enhanced input and output efficiency of resources.

(II) Employees' Training Management

During the Reporting Period, the Bank closely focused on the new interpretation of the "186" Strategic Landscape, strengthened the training of cadres and talents. The Bank carried out the special trainings for persons in charge from institutions under the Bank, thematic training courses on Party Construction for the newly appointed Party committee secretaries from institutions under the Bank, innovative trainings on overseas operation and management for persons in charge from institutions under the Bank as well as trainings on talent plan, professional experts, management trainees and trainings for cadres from village regions. The Bank promoted the construction of educational training system, and enhanced the educational training basis on training resources, programs, methods, foundation and systems used. The Bank also strengthened the management and innovation of educational training to improve the accuracy, effectiveness and precision of the training. During the Reporting Period, the Bank organized over 2,700 trainings of various kinds for more than 500 thousand employees.

	Information of Employees and the Entities 30 June 2019					
	Assets (in millions of RMB)	**Proportion (%)**	**Entities**	**Proportion (%)**	**Employees**	**Proportion (%)**
Northern China	1,163,007	11.76	489	15.08	11,064	12.80
North Eastern China	355,952	3.60	382	11.78	8,837	10.23
Eastern China	2,851,510	28.84	1,139	35.12	33,948	39.28
Central and Southern China	1,566,735	15.85	684	21.09	17,620	20.39
Western China	727,453	7.36	481	14.83	9,666	11.18
Overseas	1,063,300	10.75	67	2.07	2,466	2.85
Head Office	4,220,242	42.69	1	0.03	2,824	3.27
Eliminated and unallocated assets	(2,061,591)	(20.85)	–	–	–	–
Total	9,886,608	100.00	3,243	100.00	86,425	100.00

CORPORATE SOCIAL RESPONSIBILITIES

During the Reporting Period, based on the strong belief in "harmony and integrity, the constant pursuit of excellence and the commitment to growing together with the society", the Bank performed the role of corporate citizenship integrated the concepts of corporate social responsibility into management practice, proactively fulfilled its corporate social responsibilities and strived for the coordination of economic, environmental and social benefit, aiming at maximizing the benefits of shareholders, customers, employees and other stakeholders. During the Reporting Period, the Bank has obtained the assessment results as "Good" in the assessment of the effectiveness of the State's Targeted Poverty Alleviation Office.

I. TARGETED POVERTY ALLEVIATION

During the Reporting Period, the Bank actively put the State's targeted poverty alleviation policies into practice, firmly promoted the poverty alleviation work and achieved remarkable results. As at the end of the Reporting Period, the Bank's balance of loans on targeted financial poverty alleviation was RMB27.334 billion (including loans to those still in poverty alleviation, out of poverty alleviation, industries and projects for poverty alleviation and loans for promoting services for the poor), increased by RMB1.013 billion, or 3.85%, over the end of the previous year, in which the Bank contributed in 23 poverty alleviation donation projects and the total donation amounted to RMB25.0556 million.

(I). The Group Strengthened Organizational Leadership, and Set up Long-term Poverty Alleviation Mechanisms. During the period from April to May, the Bank's President, Mr. Ren Deqi, led a team to conduct in-depth site visit for poverty alleviation twice, including advising poverty alleviation initiatives and visiting households in poverty. During the Reporting Period, the Bank organised poverty alleviation conference, formulated annual work plan and established various poverty alleviation policies, published the *Opinions on Improving Financial Targeted Poverty Alleviation from 2019 to 2020*. The Bank also appointed 5 poverty alleviation cadres to perform supporting work in poverty alleviation regions.

(II). The Group Promoted Project Implementation and Enhanced Poverty Alleviation Effectiveness. During the Reporting Period, the Bank invested a total of RMB21.80 million in 3 designated poverty alleviation counties. A total of RMB7.80 million was invested in the construction project of Nanyang Mountain Quinoa Poverty Alleviation Industrial Park in Tianzhu County, Gansu Province. A total of RMB2.70 million was invested in the construction project of "Poverty Alleviation Workshop" for special agricultural products processing, and a total of RMB4.00 million was invested in the construction project of teachers' accommodation building of Primary School in Litang County, Sichuan Province. A total of RMB0.70 million was invested in the project of forage base in Qudeng County. A total of RMB2.00 million was invested in the purchase project of remote network teaching machine and a total of RMB2.00 million was invested in the purchase project of medical equipment in Hunyuan County, Shanxi Province. A total of RMB1.60 million was invested in the installation project of geography laboratory in County Middle School and a total of RMB0.60 million was invested in the research and development project to university students who returned to their hometown. A total of RMB0.40 million was invested in the construction project of miscellaneous grain processing plant.

(III). The Group Innovated Poverty Alleviation Model and Step up Efforts to Introduce Support Funds and Help the Sales of Agricultural Products to the 3 Designated Poverty Alleviation Counties. During the Reporting Period, the Bank used resources of corporate customers to introduce donated funds to the practical project of "Two No-worries and Three Guarantees" in poverty alleviation counties. The Bank also developed strategic cooperation with Suning Group, a large private enterprise, in e-commerce poverty alleviation and strengthened cooperation and shared resources in the application of business platforms, technical training, group procurement and other aspects. In addition, the Bank strengthened its support for poverty alleviation through education, formulated a program of poverty alleviation for student loans and offered a 30% discount to eligible applicants on the loan rate as the benchmark interest rate of the same period.

II. ECONOMIC RESPONSIBILITY

During the Reporting Period, the Bank proactively put the State's macro-economic policies into practice, took the initiative actively implemented overall policies. Based on small and micro enterprises, the Group promoted the steady development of the real economy.

(I). The Bank Set Clear Objectives and Strengthened Overall Deployment. The Bank formulated business development plans, adhered to problem-oriented, optimized top-level design, and successively issued *Notice on Further Strengthening Financial Services of Small and Micro Enterprises and Opinions on Implementing Regulatory Requirements and Promoting Inclusive Financial Services in 2019*. The Bank established a supervisory mechanism for business in different industries and categories.

(II). The Bank Focused on Customers and Consolidated Business Foundation. The Bank innovated products and service modes to enhance customer loyalty, strengthened internal and external cooperation to serve customers, promoted financial services in key areas such as inclusive agriculture-related finance and financial targeted poverty alleviation, adhered to the balance of "quantity" and "price" to solve the problem of "Difficult Financing and Expensive Financing. The Bank improved guidance on assessment, strengthened institutional and team building to enhance support, and strengthened data management as well as system support.

(III). The Bank Promoted Channel Transformation and Enhanced Synergy Efficiency. The Bank strengthened online channels, adhered to "Online-based, Mobile First" and accelerated online and offline channel integration.

(IV). The Bank Strengthened Risk Prevention and Control to Achieve High-quality Development. The Bank performed well in the management of microfinance investment in 2019, promoted the dynamic management of microfinance special authorization, strengthened the construction of risk control capabilities and deepened the structural reform.

As at the end of the Reporting Period, the balance of the Bank's small and micro enterprise loans of inclusive finance was RMB137.567 billion, with a net increase of RMB29.434 billion, or 27.22% over the end of the previous year, representing a completion of 90.57% of the annual plan. The number of loan clients increased by 16,623 over the end of the previous year to 87,612, representing a completion of 75.56% of the annual plan. The non-performing loans ratio was 3.68%, representing a decrease of 1.69 percentage points over the end of the previous year. During the first half year, the average price of new loans was 4.63%, with a year-on-year decrease of 58 basis points. The average daily balance on corporate deposits was RMB146.967 billion, representing a net increase of RMB63.432 billion or 75.93% over the end of the previous year.

III. ENVIRONMENTAL RESPONSIBILITY

During the Reporting Period, the Bank actively implemented the concept of green development, deepened the construction of the green credit policy system, carried out the self-assessment of green credit, continued to strengthen the emphasis on green credit and took various measures to fulfill environmental responsibilities. As at the end of the Reporting Period, according to the special statistics of green loans by the People's Bank of China, the balance of energy-saving and environmental protection projects and service loans of the Bank was RMB275.982 billion, with an increase of RMB36.878 billion over the end of the previous year.

(I). The Bank Integrated the Green Development Concept into the Policy of Asset Business Investment. In the *Guidelines of Policy and Investment in Industry (Region) of Bank of Communications 2019*, the Bank separately formulated investment policies for energy-saving and environmental protection industries, clearly defined preferred customers and focused to support the sub-areas of water pollution control, solid waste treatment air pollution control and environmental monitoring providing supporting services with clear policy orientation and clear control standards.

(II). The Bank Conscientiously Carried out the Self-assessment of Green Credit in 2018, Completed the *Self-evaluation Report on the Implementation of Green Credit of Bank of Communications and the Key Indicators Table for Implementation of Green Credit*. During the Reporting Period, the Bank was awarded "Excellent Unit for Overall Evaluation of Green Banks" by the China Banking Association.

(III). The Bank Improved the Assessment Mechanism to Ensure the Implementation of Green Credit Requirements. The Bank incorporated the green credit assessment into the management performance assessment methods of the Corporate Business Department and Inclusive Finance Development Committee and Beijing Administrative Department (Group Customer Department) of the Head Office, which further enhanced the front office's emphasis on green credit and product innovation with responsibilities to promote the common development of green credit of the Bank.

(IV). The Bank Strengthened to Construct the "Trinity" Network. As at the end of the Reporting Period, the total of domestic banking institutions outlets decreased by 65 over the end of the previous year to 3,176, of which 11 were newly opened and 76 low-yield ones were integrated. The Bank's network covered 242 cities at or above the prefectural level, with the coverage ratio of 72.46% at prefecture and municipal-level cities, which increased by 0.9 percentage point over the end of the previous year. In particular, the coverage ratio in Western China was 43.51%. The Bank focused on channel mobility and intelligent construction, increased the allocation of online channel resources and strived to create mobile advantages. As at the end of the Reporting Period, the diversion rate and replacement rate of domestic e-channels increased by 0.71 and 5.6 percentage points over the end of the previous year, respectively, reaching 97.3% and 96.64%, respectively.

IV. SOCIAL RESPONSIBILITY

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

(I). The Bank Cared People's Livelihood. First, the Bank served medical health care. The Bank strengthened support to top 100 public hospitals and third-class hospitals, and followed up with the State's initiatives to support community family services such as old-age care and kindergartens and the business needs with the combination of medicine and nursing. Second, the Bank supported the education industry. The Bank increased credit resources to the traditional high-quality college customers and followed up the business needs with investment of social forces in education and the integration of industry and education. Third, the Bank paid attention to gas and water. The Bank strengthened the overall cooperation with the national gas, water group and the leading enterprises in the whole industry chain, increased the coverage of local customers with monopoly advantages and expanded the customer groups in the industry.

(II). The Bank Served Customers. The Bank facilitated the development of channel transformation. The Bank made efforts to improve the comprehensive operation and mobile service capabilities of outlets, promoted the construction of lighter and intelligent outlets, strengthened the management and control of outlets area, further diversified the number of outlet operators, optimized the functions of self-service machines and introduced artificial intelligence technologies such as face recognition to enhance customer experience in stores.

(III). The Bank Cared Employees. First, the Bank improved the employee career development system by enhancing the “management + professional” dual-channel professional growth system to provide staff with the career path of “vertically promotable and horizontally transformable”. The Bank continuously deepened the reform of personnel compensation system, promoted the optimization of position, ranked of A and B level employees, and established salary system of “Salary + Range” to improve the income level of employees. The Bank strengthened the training of financial science and technology compound talents, focused on building “FINTECH Talent Pool” and “10 Thousand Fintech People Plan” and started the first recruitment of “Fintech Management Trainees”. The Bank continuously promoted the talent training work such as talent plan, management trainees, elite plan and reserves projects for Head Office. The Bank conducted classified trainings and made different learning path for different groups, cared for staffs’ learning and career development and let employees share the achievements and develop with the Bank together. Second, the Bank visited staff. On the eve of the Spring Festival, the Bank paid RMB8.818 million to 2,789 staff members with major diseases and staff members enjoying benefits package as cadres for poverty alleviation. Third, the Bank promoted the work-life balance of employees. The Bank enriched the employee’s leisure life by hosting the “Charming Lady” selection of cheongsam, ecological micro-landscape production competition and “Home” ice sports game in Northern China region in 2019. Fourth, the Bank paid attention to the development of female employees. The Women’s Workers’ Committee of the Trade Union of Head Office invited hospital experts to give lectures on women’s psychological care knowledge to effectively show the care for female employees.

(IV). The Bank Played an Active Role in Public Welfare. During the Reporting Period, the Bank actively participated in various social public welfare and continued to invest in elderly care and educational assistants. The Bank approved a total of 30 donation projects, amounting to RMB28.3556 million.

I. CORPORATE GOVERNANCE

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

In compliance with the *Corporate Governance Code* in Appendix 14 of the Hong Kong Listing Rules, as for Code A.2.1, on 9 April 2019, due to job arrangement of national finance, Mr. Peng Chun resigned as the Chairman of the Board of Directors and Executive Director of the Bank and Chairman of the Strategy Committee of the Board of Directors (Inclusive Finance Development Committee). During the transitional period of Mr. Peng's resignation, Mr. Ren Deqi, Vice Chairman of the Board of Directors, Executive Director and President of the Bank, took over the duties of the Chairman of the Board of Directors and Chairman of the Strategy Committee of the Board of Directors (Inclusive Financial Development Committee). As for Code A.5.1, prior to the approval by the CBIRC of the newly designated Mr. Shi Lei as an Independent Non-executive Director of the Bank, the number of Independent Non-executive Directors in the Board of Directors' Remuneration Committee does not account for the majority. On 15 August 2019, after the resignation of Ms. Helen Wong Pik Kuen as a Non-executive Director of the Bank and a member of the Board of Directors' Remuneration Committee, the Board of Directors' Personnel Remuneration Committee consisted of one Non-executive Director and two Independent Non-executive Directors, which was in accordance with Rule 3.25 of the Hong Kong Listing Rules and Code A.5.1 of the *Code of Corporate Governance*. Save as disclosed above, the Board of Directors confirmed that the Bank fully complied with the principles and provisions under the *Code of Corporate Governance* as set out in Appendix 14 of the Hong Kong Listing Rules, and adhered to majority of the recommended best practices as set out in the *Code of Corporate Governance* during the Reporting Period.

II. SHAREHOLDER'S GENERAL MEETING

On 4 January 2019, the Bank held the 2019 First Extraordinary General Meeting, that reviewed and approved 5 proposals including the election of Mr. Wu Wei as an Executive Director, the issuance of Tier 2 capital bonds, the remuneration plan of the Directors of 2017, the remuneration plan of the Supervisors of 2017, and amendments to the *Authorization to the Board of Directors by the General Meeting*.

On 20 May 2019, the Bank held the 2019 Second Extraordinary General Meeting, that reviewed and approved the proposal in respect of the issuance of write-down non-fixed-term capital bonds.

On 21 June 2019, the Bank held the 2018 Annual General Meeting, the 2019 First Class A Shareholders' Meeting and 2019 First Class H Shareholders' Meeting. During the 2018 Annual General Meeting, 12 proposals were reviewed and approved, including the 2018 Report of the Board of Directors, the 2018 Report of the Board of Supervisors, the 2018 Financial Report and the appointment and re-election of Directors. The 2019 First Class A Shareholders' Meeting and 2019 First Class H Shareholders' Meeting both reviewed and approved the proposal of the extension of the effective and authorized period of the resolutions of the public issuance of A share convertible corporate bonds.

The resolution announcements for all Shareholders' General Meetings have been disclosed on the websites of SSE, HKEx News and the Bank, and are published via media designated by the CSRC.

III. PROFIT DISTRIBUTION

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

Pursuant to 2018 Profit Distribution Plan approved at the 2018 Annual General Meeting on 21 June 2019, a cash dividend of RMB0.30 (before tax) for each share, totaling RMB22.279 billion, calculated based on the total share capital of ordinary shares of RMB74.263 billion as at 31 December 2018 was approved. The aforementioned dividend were distributed to shareholders of A share and shareholders of H share on 9 July 2019 and 25 July 2019 respectively.

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

The Bank will not distribute an interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2019.

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

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

IV. COMMITMENT

The Bank's 2017 Annual General Meeting of Shareholders reviewed and 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. Meanwhile, 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.

V. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Bank did not involve in any material litigation and arbitration. As at the end of the Reporting Period, the amount of pending litigation, where the Group was the defendant or third party, was approximately RMB4.263 billion. The Bank is of the view that these litigations will not have any material negative effect on the financial position of the Bank.

VI. 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 or 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.

VII. 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.

VIII. 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 the report.

IX. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(I) Material Trust, Sub-Contract and Lease

During the Reporting Period, the Bank 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 Bank during the ordinary course of business. During the Reporting Period, the Bank 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 Bank did not enter into any other material contracts.

X. ENVIRONMENTAL INFORMATION

Please refer to the corporate social responsibilities section for the details of the Bank's performance of environmental responsibility during the Reporting Period.

XI. AUDIT COMMITTEE

The setup of Audit Committee of the Bank strictly complied with Hong Kong Listing Rules. The Audit Committee is mainly responsible for proposing the appointments, change or removal of the Group's auditors, monitoring the Group's internal audit system and implementation, acting as the communication channels between the Group's internal and external auditors, reviewing the Bank's financial information and disclosure, examining the Group's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Group's internal controls. As at the date of this report, the Audit Committee under the Board of Directors comprised 7 members, including Mr. Liu Li, Mr. Wang Taiyin, Mr. He Zhaobin, Mr. Chen Junkui, Ms. Li Jian, Mr. Jason Yeung Chi Wai and Mr. Raymond Woo Chin Wan. Mr. Liu Li, an Independent Non-executive Director, served as the Chairman of the Audit Committee. The Audit Committee and Senior Management reviewed the Bank's accounting policies and practices and discussed issues relating to internal controls and financial reporting including reviewing this Report.

XII. PURCHASE, SALE OR REPURCHASE OF LISTED SECURITIES OF THE BANK

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

XIII. 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 *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in the Appendix 10 of the Hong Kong Listing Rules. The Bank adopted a set of codes of conduct for securities trading by the Directors and Supervisors no less stringent than the standards set out in the above rules. During the Reporting Period, all the Directors, Supervisors and Senior Management of the Bank confirmed that the securities transactions conducted by them are in compliance with the above rules.

XIV. APPOINTMENT OF ACCOUNTING FIRM

With the approval at the 2018 Annual General Meeting, the Bank has continued to appoint PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Group in accordance with China Accounting Standards, the internal control and other related professional services and appoint PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Bank in accordance with IFRSs and to provide other related professional services. The term of appointment starts upon the approval on the date of the Bank's 2018 Annual General Meeting, and ceases at the end of day of 2019 Annual General Meeting. The overall remuneration is RMB34.445 million.

XV. OTHER SIGNIFICANT EVENTS

(I) In January 2019, the Bank's 2019 First Extraordinary General Meeting reviewed and approved the issuance of qualified write-down Tier 2 capital bonds with an aggregate amount of no more than RMB80.0 billion. The resolution of the issuance plan is effective from the date of approval by the shareholders' meeting to 31 December 2020. Approved by the regulatory authorities, the Bank has successfully issued RMB40.0 billion of Tier 2 capital bonds in the national interbank bond market. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 4 January, 24 June, 4 July and 16 August 2019.

(II) In March 2019, the Board of Directors of the Bank reviewed and approved the issuance of ordinary financial bonds with a total amount of no more than RMB90.0 billion. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 29 March 2019.

(III) In March 2019, the Board of Directors of the Bank reviewed and approved to inject capital of no more than RMB5.5 billion to BOCOM Leasing, a wholly-owned subsidiary of the Bank. Meanwhile, the Board of Directors of the Bank approved BOCOM Leasing to inject capital of no more than RMB5.5 billion to BOCOM Aviation and Shipping, a wholly-owned subsidiary of BOCOM Leasing. The above matter is subject to the approval of the relevant regulatory authorities. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 29 March 2019.

(IV) In April 2019, the Bank received notice from the SSF, the substantial shareholder of the Bank, that the SSF plans to sell not exceeding 1,485,254,533 A Shares in aggregate, not exceeding 2% of the total current issued ordinary share of the Bank, within a six-month period by way of call auction or block trade transfer. Currently, SSF has not reduced any of its shares in the Bank. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 2 April and 24 July 2019.

(V) In May 2019, the 2019 Second Extraordinary General Meeting of the Bank reviewed and approved the proposal in respect of the issuance of write-down undated capital bonds with a total amount of no more than RMB40.0 billion or equivalent foreign currency. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 20 May and 19 July 2019.

(VI) In June 2019, the Bank's wholly-owned subsidiary, BOCOM Wealth Management Co., Ltd. officially commenced business and operation. The company has a registered capital of RMB8.0 billion and is mainly engaged in issuance of publicly-offered asset management products, issuance of privately-offered asset management products, asset management advisory and consulting services. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 31 May 2018, 7 January, 29 May, and 13 June 2019.

(VII) In June 2019, the 2018 Annual General Meeting, 2019 First Class A Shareholders' Meeting and 2019 First Class H Shareholders' Meeting reviewed and approved the proposal of the extension of the effective and authorized period of the resolutions of the public issuance of A share convertible corporate bonds. For related details, please refer to the announcements of the Bank published on the website of the SSE and the website of the Hong Kong Stock Exchange on 21 June 2019.

XVI. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

With the approval from the regulatory authorities, the Bank successfully issued RMB40.0 billion of Tier-2 capital bonds in the national inter-bank bond market. The bookkeeping record of the Tier-2 capital bonds was filed on 14 August 2019. The issuance was completed on 16 August 2019 with a total issuance of RMB40.0 billion with two types. The first type was the Tier-2 capital bonds with 10-year fixed rate. The issuer has the right of redemption with pre-conditions at the end of the fifth year. Such issuance was RMB30.0 billion with coupon rate of 4.10%. The second type was the Tier-2 capital bonds with 15-year fixed rate. The issuer has the right of redemption with preconditions at the end of the tenth year. The issuance was RMB10.0 billion with coupon rate of 4.49%.

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

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, Zhejiang, China
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	East Third Tower, Financial City, Guanshanhu District, Guiyang City, Guizhou Province
32	Yunnan Provincial Branch	No. 397 Baita Road, Panlong District, Kunming City, Yunnan Province
33	Shaanxi Provincial Branch	No. 88 Xixin Street, Xincheng District, Xi’an City, Shaanxi Province
34	Gansu Provincial Branch	No. 129 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province
35	Ningxia Hui Autonomous Region Branch	No. 296 MinZu North Street, Xingqing District, YinChuan City, NingXia Hui Autonomous Region
36	Xinjiang Uygur Autonomous Region Branch	No. 16 Dongfeng Road, Tianshan District, Urumqi, Xinjiang Uygur Autonomous Region
37	Qinghai Provincial Branch	No. 29 Wusi West Road, Chengxi District, Xining City, Qinghai Province

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

List of Overseas Banking Institutions

No.	Name	Address
1	Hong Kong Branch/Bank of Communications (Hong Kong) Limited	20 Pedder Street, Central, Hong Kong
2	New York Branch	One Exchange Plaza 55 Broadway, 31st & 32nd Floor, New York NY 10006-3008, U.S.A.
	San Francisco Branch	575 Market Street, 38th Floor, San Francisco, CA 94105, U.S.A.
3	Tokyo Branch	Sanyo Group Building, 1-3-5 Nihombashi, Chuo-ku, Tokyo, Japan
4	Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower
5	Seoul Branch	6th Floor Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea
6	Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
7	Macau Branch	16th Floor, AIA Tower, No. 251A-301, Avenida Commercial De Macau
8	Ho Chi Minh City Branch	17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC, VN
9	Sydney Branch	Level 27, 363 George Street Sydney NSW 2000 Australia
	Brisbane Branch	Level 35, 71 Eagle Street, Brisbane, Australia
	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) Co., Ltd.	4th Floor, 1 Bartholomew Lane, London EC2N 2AX UK
12	Luxemburg Branch/Bank of Communications (Luxembourg) Co., Ltd.	7 Ruede la Chapelle, Luxembourg, L-325
13	Toronto Representative Office	Suite 2460, 22 Adelaide Street West, Toronto, ON M5H 4E3
14	Bank of Communications (Luxembourg) S.A. Paris Branch	90, Avenue des Champs-Elysees, 75008, Paris, France
15	Bank of Communications (Luxembourg) S.A. Rome Branch	3rd floor, Piazza Barberini 52, Rome. 00187
16	Bank of Communications (Brazil) Co., Ltd.	Praca Pio X, 98. 7 andar 20091 040 Rio de Janeiro RJ, Brazil
17	Prague Branch	7th floor, RUSTONKA R2, Rohanske nabrezi 693/10, Prague 8, 186 00, Czech Republic

List of Major Subsidiaries

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

Report on Review of Interim Financial Information

pwc 羅兵咸永道

TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 94 to 194, which comprises the interim condensed consolidated statement of financial position of Bank of Communications Co., Ltd (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2019

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

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

	Notes	Six months ended 30 June 2019	2018
Interest income		181,862	170,546
Interest expense		(111,800)	(109,888)
Net interest income	4	70,062	60,658
Fee and commission income	5	25,070	22,746
Fee and commission expense	6	(1,948)	(1,564)
Net fee and commission income		23,122	21,182
Net gains arising from trading activities	7	8,289	8,273
Net gains arising from financial investments		328	17
Including: Net gains on derecognition of financial assets measured at amortised cost		*87*	*17*
Share of profits of associates and joint ventures		292	140
Insurance business income		8,311	4,122
Other operating income	8	7,910	7,641
Credit impairment losses	9	(21,544)	(16,663)
Other assets impairment losses	10	(6)	(3)
Insurance business expense		(7,878)	(3,723)
Other operating expenses	11	(39,927)	(34,174)
Profit before tax		48,959	47,470
Income tax	14	(5,811)	(6,476)
Net profit for the period		43,148	40,994

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

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

	Notes	Six months ended 30 June 2019	2018
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Loans and advances to customers at FVOCI			
Net gains recorded in equity		*(901)*	*182*
Net gains reclassified from equity to profit or loss		–	–
Debt instruments at FVOCI			
Net gains recorded in equity		*1,741*	*1,276*
Net gains reclassified from equity to profit or loss		*(181)*	*4*
Effective portion of gains or losses on hedging instruments in a cash flow hedge			
Changes in fair value recorded in equity		*110*	*94*
Changes in fair value reclassified from equity to profit or loss		*(171)*	*(59)*
Others		16	(5)
Translation difference on foreign operations		141	344
		755	1,836
Items that will not be reclassified subsequently to profit or loss:			
Net gains on equity investments designated at FVOCI		99	161
Actuarial gains/(losses) on pension benefits		3	(15)
Changes in fair value attributable to changes in the credit risk of financial liability designated at FVPL		74	6
Other comprehensive income for the period	38	931	1,988
Comprehensive income for the period		44,079	42,982
Net profit attributable to:			
Shareholders of the Bank		42,749	40,771
Non-controlling interests		399	223
		43,148	40,994
Total comprehensive income attributable to:			
Shareholders of the Bank		43,651	42,713
Non-controlling interests		428	269
		44,079	42,982
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	15	0.54	0.51

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 30 June 2019	As at 31 December 2018
ASSETS			
Cash and balances with central banks	16	802,956	840,171
Due from and placements with banks and other financial institutions	17	786,782	848,067
Derivative financial assets	19	19,676	30,730
Loans and advances to customers	20	5,013,630	4,742,372
Financial investments at FVPL	18	449,304	376,386
Financial investments at amortised cost	21	1,978,430	2,000,505
Financial investments at FVOCI	21	561,868	445,018
Investments in associates and joint ventures	22	4,384	3,653
Property and equipment	23	165,727	153,286
Deferred income tax assets	24	23,125	21,975
Other assets	25	80,726	69,008
Total assets		9,886,608	9,531,171
LIABILITIES			
Due to and placements from banks and other financial institutions	26	1,952,519	2,162,293
Financial liabilities at FVPL	27	28,465	23,109
Derivative financial liabilities	19	23,956	28,105
Due to customers	28	6,135,448	5,793,324
Certificates of deposit issued	29	489,167	366,753
Current tax liabilities		5,798	2,279
Deferred income tax liabilities	24	670	598
Debt securities issued	30	337,972	317,688
Other liabilities	31	188,865	131,714
Total liabilities		9,162,860	8,825,863
EQUITY			
Share capital	32	74,263	74,263
Preference shares	33	59,876	59,876
Capital surplus	32	113,663	113,663
Other reserves		325,323	321,442
Retained earnings		143,365	129,161
Equity attributable to shareholders of the Bank		716,490	698,405
Non-controlling interests		7,258	6,903
Total equity		723,748	705,308
Total equity and liabilities		9,886,608	9,531,171

The consolidated financial statements were approved and authorised for issuance by the Board of Directors on 27 August 2019 and signed on its behalf by:

Vice Chairman, Executive Director and President: Ren Deqi *Executive Director and Vice President: Hou Weidong*

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

UNAUDITED INTERIM CONDENSED 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	Revaluation reserve for the changes in credit risk of the financial liabilities measured at FVPL	Effective portion of gains or losses on hedging instruments in a cash flow hedge	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 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
Impact of adoption of IFRS 16	–	–	–	–	–	–	–	–	–	–	–	–	(616)	(616)	(7)	(623)
Balance at 1 January 2019 (restated)	74,263	59,876	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	128,545	697,789	6,896	704,685
Net profit for the period	–	–	–	–	–	–	–	–	–	–	–	–	42,749	42,749	399	43,148
Other comprehensive income	–	–	–	–	–	–	754	74	(61)	116	3	16	–	902	29	931
Total comprehensive income	–	–	–	–	–	–	754	74	(61)	116	3	16	42,749	43,651	428	44,079
Dividends paid to ordinary shares	–	–	–	–	–	–	–	–	–	–	–	–	(22,279)	(22,279)	(66)	(22,345)
Dividends paid to preference shares	–	–	–	–	–	–	–	–	–	–	–	–	(2,671)	(2,671)	–	(2,671)
Transfer to reserves	–	–	–	110	19	2,850	–	–	–	–	–	–	(2,979)	–	–	–
Balance at 30 June 2019	74,263	59,876	113,663	64,626	139,815	117,131	2,151	54	(37)	209	13	1,361	143,365	716,490	7,258	723,748
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 of adoption of IFRS 9	–	–	–	–	–	–	1,891	(6)	–	–	–	–	(28,257)	(26,372)	(54)	(26,426)
Balance at 1 January 2018 (restated)	74,263	59,876	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the period	–	–	–	–	–	–	–	–	–	–	–	–	40,771	40,771	223	40,994
Other comprehensive income	–	–	–	–	–	–	1,566	6	35	355	(15)	(5)	–	1,942	46	1,988
Total comprehensive income	–	–	–	–	–	–	1,566	6	35	355	(15)	(5)	40,771	42,713	269	42,982
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,125	1,125
Dividends paid to ordinary shares	–	–	–	–	–	–	–	–	–	–	–	–	(21,209)	(21,209)	(59)	(21,268)
Dividends paid to preference shares	–	–	–	–	–	–	–	–	–	–	–	–	(2,618)	(2,618)	–	(2,618)
Transfer to reserves	–	–	–	102	24	9,158	–	–	–	–	–	–	(9,284)	–	–	–
Transferred from other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–	(4)	(4)	(1)	(5)
Balance at 30 June 2018	74,263	59,876	113,663	57,563	139,791	113,628	1,092	–	42	(1,520)	20	1,322	103,913	663,653	6,408	670,061

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	Six months ended 30 June 2019	2018
Cash flows from operating activities:			
Net profit before tax:		48,959	47,470
Adjustments for:			
Provision for/(reversal of) ECL allowance		21,544	16,603
Provision for/(reversal of) other assets impairment losses		6	3
Provision for/(reversal of) insurance contracts reserve		5,807	(1,379)
Depreciation and amortisation		6,758	4,958
Provision for/(reversal of) outstanding litigation and unsettled obligation		180	(12)
Net profit on the disposal of fixed and foreclosed assets		(132)	(11)
Interest income from financial investments		(43,620)	(41,207)
Unwind of discount on allowances during the period		(728)	(927)
Fair value losses/(gains)		1,258	(5,052)
Share of profits of associates and joint ventures		(292)	(140)
Net gains arising from financial investments		(328)	(17)
Interest expense on debt securities issued		5,783	5,494
Operating cash flows before movements in operating assets and liabilities		45,195	25,843
Net decrease in mandatory reserve deposits		6,191	37,371
Net decrease in due from and placements with banks and other financial institutions		28,733	53,491
Net increase in financial investments at FVPL		(53,576)	(41,753)
Net increase in loans and advances to customers		(294,368)	(244,317)
Net (increase)/decrease in other assets		(7,327)	2,732
Net decrease in due to and placements from banks and other financial institutions		(192,977)	(113,390)
Net increase/(decrease) in financial liabilities at FVPL		2,250	(5,404)
Net increase in due to customers and certificates of deposit issued		456,798	355,885
Net increase in other liabilities		15,786	13,064
Net increase in value-added tax and surcharges payable		669	802
Income tax paid		(4,429)	(8,117)
Net cash flows from operating activities		2,945	76,207

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

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

	Notes	Six months ended 30 June 2019	2018
Cash flows from investing activities:			
Purchase of financial investments		(435,027)	(527,983)
Disposal or redemption of financial investments		329,261	427,821
Dividends received		353	109
Interest received from financial investments		43,824	42,136
Acquisition of intangible assets and other assets		(490)	(204)
Disposal of intangible assets and other assets		214	112
Purchase and construction of property and equipment		(18,964)	(11,981)
Disposal of property and equipment		1,741	190
Net cash flows from investing activities		(79,088)	(69,800)
Cash flows from financing activities:			
Cash received on debt securities issued		27,182	21,056
Cash payments for distribution of dividends, profits or interest expenses		(2,949)	(1,310)
Repayment of principals of debt securities issued		(10,408)	(4,895)
Dividends paid to non-controlling interests		(9)	(59)
Net cash flows from financing activities		13,816	14,792
Effect of exchange rate changes on cash and cash equivalents		136	931
Net (decrease)/increase in cash and cash equivalents		(62,191)	22,130
Cash and cash equivalents at the beginning of the period		243,492	228,919
Cash and cash equivalents at the end of the period	39	181,301	251,049
Net cash flows from operating activities include:			
Interest received		140,703	125,667
Interest paid		(110,951)	(98,254)

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

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a 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 242 branches in Mainland China and 23 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

2.1 Basis of preparation

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

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

These unaudited interim condensed consolidated financial statements of the Group should be read in conjunction with the 2018 annual consolidated financial statements.

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

Except as described below, the Group's accounting policies applied in preparing these unaudited interim condensed consolidated financial statements are consistent with those policies applied in preparing the 2018 annual consolidated financial statements.

2.1.1 Changes in accounting policies

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 recognise leases in balance sheet. For lessees, the new leasing standards will recognise substantially all the leases in balance sheet as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognise the right-of-use assets and leasing liabilities, and exemptions are applicable to short-term and low-value leases only. Meanwhile, the new standards 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 has adopted the standards for annual periods beginning on or after 1 January 2019 and used the simple transition methods stated in the standards without restating the comparative amount for the year before the first adoption. On the first day of implementation, the Group measured 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 stock leases 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies *(Continued)*

IFRS 16 (Continued)

The major impacts of adopting the new standards on the financial statements are as follows:

Consolidated balance sheet

1 January 2019	Before restatement	Restated amount	After restatement
Other assets	69,008	6,423	75,431
Other liabilities	131,714	7,046	138,760
Retained earnings	129,161	(616)	128,545
Non-controlling interests	6,903	(7)	6,896

On 1 January 2019, the group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. Reconciliation is as below:

	The Group
Operating lease commitments disclosed as at 31 December 2018	12,345
Discounted using the lessee’s incremental borrowing rate of the date of initial application	7,674
Less: short-term or low-value leases recognised on a straight-line basis as expense	(630)
Lease liabilities recognised as at 1 January 2019	7,044

The Group’s leasing activities and accounting treatment

Lease refers to a contract in which the lessor transfers the right of use of the assets to the lessee for a certain period of time to obtain the consideration.

As Lessee

The Group recognises the right-of-use asset on the start date of the lease term and recognises the lease liability at the present value of the remaining lease payments. The lease payments include fixed payments and payments to be made in the case that it is reasonably determined that the purchase option will be exercised or the lease option will be terminated. The variable rent determined based on a certain portion of sales is not included in the lease payments and is recognised in profit or loss when incurred.

The Group's right-of-use assets include leased properties, venues, parking lots, advertising spaces, vehicles and equipment. The right-of-use asset is initially measured at cost, which includes the initial measurement of the lease liability, the lease payments already paid on or before the lease start date, the initial direct costs etc., and deducts any lease incentives. The asset is depreciated over the remaining useful life of the leased asset if Group could reasonably determine the ownership of the leased asset at the expiration of the lease term; if it is not possible to reasonably determine whether the ownership of the leased asset can be obtained at the expiration of the lease term, the right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. When the recoverable value is lower than the book value of the right-of-use asset, the Group reduces its book value to the recoverable value.

As for the short-term leases with a lease term less than 12 months and low-value asset leases with a lower value of individual assets, the Group will not recognise the right-of-use assets or lease liabilities, and the relevant rental expenses are recognised in the profit and loss or in the related assets costs on the straight-line basis for each period of the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies *(Continued)*

IFRS 16 (Continued)

As Lessor (Continued)

When the Group lease out its own buildings and properties, equipment and transportation vehicles, the rental income arising from operating leases is recognised on the straight-line basis over the lease term. Variable rent determined based on a certain proportion of sales will be recognised by the Group in rental income when incurred.

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.

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.

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.

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.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments to 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.

Except the above-mentioned impact of IFRS 16, the adoption of the new IFRSs and amendments to IFRSs above does not have a material effect on the Group's operating results, financial position or other comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

		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.
IFRS 17	Insurance Contracts	1 January 2021

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.

IFRS 17
IFRS 17 – Insurance Contracts was issued in May 2017 as a replacement for IFRS 4. 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 recognising changes in discount rates either in the statement of profit or loss 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.

Except for the above-mentioned impact of 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 Critical accounting estimates and judgments in applying accounting policies

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

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 (Office of Case Prevention Leadership Team)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.

3.1 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 and placements with 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 the Subordinate Risk Management Department (Office of Case Prevention Leadership Team)at Head Office 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, Pacific Credit Card Centre, Credit Authorisation Department and Risk Management Department (Office of Case Prevention Leadership Team), which are responsible for the standardised management of corporate and retail credit businesses in terms of guidance on 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 raising the proposed 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 manager 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. The Group manages NPLs mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantor; (4) litigation or arbitration.

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)

For retail credit assets, the Group manages 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 formulating manuals for individual loans and small-enterprise loans, identifies and reveals material potential risks on a timely manner through strengthening risk monitoring and early-warning, and understands and forecasts the quality trends so as to adopt targeted risk control measures in advance by using stress testing and quality migration analysis. In addition, the Group continues to carry out fast response mechanism to address emergencies properly and maintains a list to manage those 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 type. With regard to retail credit customers with overdue loans, different approaches are adopted to collect such loans based on their overdue days.

Credit Card Centre of 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. It reinforces data cross-validation to enhance risk prevention in the approval process, tightens credit line to high risk customers through subsequent credit investigation and enters into the collection process earlier than scheduled, effectively improves collection result through reasonable allocation of available resources, and optimises data analytic system to further enhance the 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 approves credits of different levels 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 liquidity resource. 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 investments include fund trust schemes and asset management plans set up by banking financial institutions. 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 beneficiary right, the ultimate borrowers of the targeted asset management plan, and issuers of inter-bank wealth management products, 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, the internal and 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.

For the six months ended 30 June 2019

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk management *(Continued)*

(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.

(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.

3.1.2 Expected credit loss ("ECL")

The Group measures the ECL of financial instruments measured at amortised cost or fair value through other comprehensive income. The Group divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Group measures the ECL of a financial instrument in a way that reflects:

(1) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(2) the time value of money;

(3) 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Stage classification

The Group divides them into 3 stages. Stage 1 is "financial assets without significant increase in credit risk since initial recognition", at which the Group only needs to measure ECL in the 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.

Definition of default and credit-impaired

Financial instruments are credit-impaired when 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 of the asset is more than 90 days past due;

(2) The issuer or obligor is in significant financial difficulty, or has already become insolvent;

(3) It is becoming probable that the obligor 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.

A significant increase in credit risk

The Group assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Group considers all reasonable and supportable information which reflects whether there have been significant changes in credit risk, including that which is forward-looking. Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

(1) Principal or interest of the instrument is more than 30 days past due;

(2) Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Group's credit accessing standards or significant downgrading occurs as compared with initially recognised internal rating, such as low risk financial instruments are downgraded by 3 to 6 grades;

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

(4) Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Group.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques

The Group recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted weighted average product of "probability of default (PD)", "loss given default (LGD)", "exposure at default (EAD)" in three scenarios, which are defined as follows:

Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.

Exposure at default (EAD) 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 likely 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 (LGD) represents the percentage of amount of loss to be incurred 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.

Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default (LGD) in ECL calculation throughout the Group.

Forward-looking information: scenarios and weights of economic indicators

The Group has established a macro-economic conductive forecast model driven by Gross Domestic Product (GDP) growth rate to yearly forecast values of 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. These three scenarios apply to all portfolios.

The Group quarterly examines the effectiveness of macro-economic indicator forecasts and the predicted value or the weights of scenarios will be adjusted to calibrate. As at 30 June 2019, the effect on ECL allowance by adjusting the weights of scenarios is not significant.

Estimation of ECL: the impairment model

The impairment models adopt a top down approach. Through grouping, 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 indicator 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. On the one hand, 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, on the other hand, 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 credit exposures with higher possibility of risk spreading among group entities and credit exposures to borrowers which need to be positively and properly managed to achieve overcapacity reduction. These adjustments do not have a significant impact on the net profit of current period.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Expected credit loss ("ECL") *(Continued)*

Description of parameters, assumptions and estimation techniques (Continued)

Grouping of instruments with similar risk characteristics

To calculate the relevance between ECL allowance modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, so 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 for modelling purposes. Non-retail assets of the Group are mainly grouped according to industries, while retail assets are mainly grouped based on product types, repayment methods and so on.

3.1.3 Maximum exposure to credit risk

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

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

	Maximum exposure to credit risk	
	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers	–	494
Derivative financial instruments	19,676	30,730
Debt securities	106,792	132,875
Fund investment and other asset management scheme	256,879	187,554
Precious metal contracts	38,769	37,232
Loans to banks and other financial institutions	9,818	8,393
Total	431,934	397,278

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.3 Maximum exposure to credit risk *(Continued)*

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

The Group categorises 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.

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 30 June 2019										As at 31 December 2018
	Low risk	Medium risk	High risk	Impaired	Domestic branches	Overseas and subsidiaries	Group total	Allowance	Group carrying amount	Group carrying amount
On-balance sheet item										
Cash and balances with central banks (Stage 1)	764,958	–	–	–	764,958	25,239	790,197	–	790,197	825,506
Loans and advances to customers (Corporate)										
–at amortised cost	1,603,667	903,908	113,919	53,801	2,675,295	551,427	3,226,722	(104,937)	3,121,785	2,931,520
Stage 1	1,603,264	875,961	2,708	–	2,481,933	542,298	3,024,231	(24,993)	2,999,238	2,825,633
Stage 2	403	27,947	111,211	–	139,561	6,412	145,973	(43,637)	102,336	85,317
Stage 3	–	–	–	53,801	53,801	2,717	56,518	(36,307)	20,211	20,570
–FVOCI	138,956	102,279	8,180	258	249,673	–	249,673	–	249,673	184,184
Stage 1	138,956	99,889	4,097	–	242,942	–	242,942	–	242,942	177,711
Stage 2	–	2,390	4,083	–	6,473	–	6,473	–	6,473	6,448
Stage 3	–	–	–	258	258	–	258	–	258	25
Loans and advances to customers (Individuals)										
–at amortised cost	1,186,895	387,941	23,710	18,528	1,617,074	37,143	1,654,217	(24,999)	1,629,218	1,614,169
Stage 1	1,186,658	386,882	15,722	–	1,589,262	36,826	1,626,088	(7,137)	1,618,951	1,604,705
Stage 2	237	1,059	7,988	–	9,284	113	9,397	(2,674)	6,723	5,570
Stage 3	–	–	–	18,528	18,528	204	18,732	(15,188)	3,544	3,894
Due from banks and other financial institutions (Stage 1)	533,852	3,576	–	–	537,428	251,015	788,443	(1,661)	786,782	848,067
Financial investments at amortised cost	1,902,380	37,388	–	1,080	1,940,848	40,913	1,981,761	(3,331)	1,978,430	2,000,505
Stage 1	1,902,380	37,388	–	–	1,939,768	40,604	1,980,372	(2,704)	1,977,668	1,999,905
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	1,080	1,080	309	1,389	(627)	762	600
Financial investments at FVOCI	167,669	1,255	–	–	168,924	384,433	553,357	–	553,357	437,630
Stage 1	167,669	1,255	–	–	168,924	384,433	553,357	–	553,357	437,630
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–	–
Other financial assets – amortised cost	2	23,923	272	1,382	25,579	15,791	41,370	(2,672)	38,698	25,838
Stage 1	1	23,914	–	–	23,915	15,791	39,706	(1,703)	38,003	25,251
Stage 2	1	9	272	–	282	–	282	(84)	198	131
Stage 3	–	–	–	1,382	1,382	–	1,382	(885)	497	456
On-balance sheet total	6,298,379	1,460,270	146,081	75,049	7,979,779	1,305,961	9,285,740	(137,600)	9,148,140	8,867,419
Financial guarantees and credit related commitments										
Stage 1	1,054,253	300,623	1,737	–	1,356,613	71,910	1,428,523	(3,926)	1,424,597	1,446,824
Stage 2	–	2,489	2,636	–	5,125	272	5,397	(158)	5,239	4,313
Off-balance sheet total	1,054,253	303,112	4,373	–	1,361,738	72,182	1,433,920	(4,084)	1,429,836	1,451,137
Total	7,352,632	1,763,382	150,454	75,049	9,341,517	1,378,143	10,719,660	(141,684)	10,577,976	10,318,556

(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 and pledges

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals or pledges. The Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges 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 and pledges 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 or pledge types. The principal types of collaterals and pledges for corporate loans and individual loans are as follows:

Collaterals and pledges	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	65%
Properties	70%
Land use rights	70%
Vehicles	50%

(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 and pledges (Continued)

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 and pledges from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

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

Collaterals and pledges 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
As at 30 June 2019				
Credit-impaired assets				
Loans and advances to customers				
Loans to corporate entities	56,776	(36,306)	20,470	16,709
Loans to individuals	18,732	(15,188)	3,544	13,245
Financial investments	1,389	(627)	762	1,041

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 December 2018				
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	(952)	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.

For the six months ended 30 June 2019

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 CREDIT RISK *(Continued)*

3.1.4 Derivative instruments

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

Credit risk-weighted amounts

	As at 30 June 2019	As at 31 December 2018
Counterparty credit risk-weighted amount	36,376	26,895

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.

3.1.5 Foreclosed assets

	As at 30 June 2019	As at 31 December 2018
Buildings	924	913
Land use rights	20	20
Others	15	19
Gross	959	952
Less: Impairment allowances	(130)	(128)
Net	829	824

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.

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Concentration risk analysis for financial assets with credit risk exposure

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

Geographical sectors

	Mainland China	Hong Kong	Others	Total
As at 30 June 2019				
Financial assets				
Balances with central banks	766,168	2,387	21,642	790,197
Due from and placements with banks and other financial institutions	611,294	78,937	96,551	786,782
Derivative financial assets	13,625	4,295	1,756	19,676
Financial investments at FVPL	304,998	5,127	102,133	412,258
Loans and advances to customers	4,634,029	205,568	174,033	5,013,630
Financial investments at FVOCI	251,981	67,122	234,254	553,357
Financial investments at amortised cost	1,942,155	4,536	31,739	1,978,430
Other financial assets	30,484	14,149	4,561	49,194
	8,554,734	382,121	666,669	9,603,524
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	631,175	10,643	14,284	656,102
Credit-related commitments and other credit-related commitments	730,563	34,030	13,225	777,818
	1,361,738	44,673	27,509	1,433,920

	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 and placements with 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 at FVPL	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 at FVOCI	110,740	80,452	246,438	437,630
Financial investments 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
Credit-related commitments and other credit-related commitments	766,769	36,213	15,452	818,434
	1,372,638	47,808	35,772	1,456,218

For the six months ended 30 June 2019

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

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

	As at 30 June 2019		As at 31 December 2018	
		%		%
Northern China (1)	650,053	12.67	619,891	12.77
North Eastern China (2)	206,241	4.02	205,989	4.24
Eastern China (3)	2,349,697	45.80	2,250,486	46.36
Central and Southern China (4)	1,034,907	20.17	941,511	19.40
Western China (5)	509,681	9.93	480,670	9.90
Overseas (6)	380,033	7.41	355,681	7.33
Gross amount of loans and advances	5,130,612	100.00	4,854,228	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, Melbourne, Prague and other overseas affiliates.

For the six months ended 30 June 2019

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(b) Industry analysis

	As at 30 June 2019	%	As at 31 December 2018	%
Corporate loans				
Mining	117,501	2.29	119,091	2.45
Manufacturing				
– *Petroleum and chemical*	111,967	2.18	104,806	2.16
– *Electronics*	117,573	2.29	95,858	1.97
– *Steel*	32,773	0.64	33,241	0.68
– *Machinery*	94,733	1.85	93,828	1.93
– *Textile and clothing*	28,823	0.56	29,146	0.60
– *Other manufacturing*	226,316	4.41	224,533	4.64
Electricity, gas and water production and supply	205,487	4.01	186,117	3.83
Construction	154,961	3.02	114,577	2.36
Transportation, storage and postal service	590,007	11.49	573,151	11.82
Telecommunication, computer service and software	34,324	0.67	28,682	0.59
Wholesale and retail	241,410	4.71	246,706	5.08
Accommodation and catering	35,702	0.70	34,486	0.71
Financial institutions	109,974	2.14	98,342	2.03
Real estate	247,113	4.82	216,536	4.46
Services	448,900	8.75	413,716	8.52
Water conservancy, environmental and other public services	273,767	5.34	263,235	5.42
Education, science, culture and public health	89,985	1.75	89,436	1.84
Others	93,031	1.81	96,428	1.99
Discounted bills	222,048	4.33	156,686	3.23
Total corporate loans	3,476,395	67.76	3,218,601	66.31
Individual loans				
Mortgages	1,067,683	20.81	1,007,528	20.75
Credit cards	454,677	8.86	505,190	10.41
Others	131,857	2.57	122,909	2.53
Total individual loans	1,654,217	32.24	1,635,627	33.69
Gross amount of loans and advances before impairment allowances	5,130,612	100.00	4,854,228	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:

For the six months ended 30 June 2019

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 VaR

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

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

Items	Six months ended 30 June 2019			
	30 June 2019	Average	Maximum	Minimum
VaR	617	607	674	545
Including: Interest rate risk	182	181	209	145
Foreign exchange risk	669	656	695	597

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

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 30 June 2019 and 31 December 2018, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Expected changes in net profit	
	As at 30 June 2019	As at 31 December 2018
+100 basis points parallel shift in yield curves	12,477	14,029
-100 basis points parallel shift in yield curves	(12,477)	(14,029)

The table below illustrates the impact to other comprehensive income of the coming year of the Group based on the structure of interest bearing assets and liabilities as at 30 June 2019 and 31 December 2018, caused by a parallel shift of 100 basis points of RMB, USD and HKD interest rates.

	Changes in other comprehensive income	
	As at 30 June 2019	As at 31 December 2018
+100 basis points parallel shift in yield curves	(8,886)	(5,572)
-100 basis points parallel shift in yield curves	8,116	5,740

(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 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)	
	Six months ended 30 June 2019	Six months ended 30 June 2018
5% appreciation of RMB	(2,064)	(1,755)
5% depreciation of RMB	2,064	1,755

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rate against HKD and USD by 5% on the Group's other comprehensive income:

	Changes in other comprehensive income	
	As at 30 June 2019	As at 31 December 2018
5% appreciation of RMB	(956)	(891)
5% depreciation of RMB	956	891

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.

(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)*

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.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2019							
Assets							
Cash and balances with central banks	782,994	–	–	–	–	19,962	802,956
Due from and placements with banks and other financial institutions	255,225	95,119	287,270	131,364	11,461	6,343	786,782
Derivative financial assets	–	–	–	–	–	19,676	19,676
Financial investments at FVPL	25,098	19,818	49,769	28,406	30,409	295,804	449,304
Loans and advances to customers	2,164,798	561,726	1,825,616	135,547	54,029	271,914	5,013,630
Financial investments at FVOCI	77,180	141,636	72,511	191,873	64,944	13,724	561,868
Financial investments at amortised cost	30,781	50,305	201,494	1,134,944	533,343	27,563	1,978,430
Other assets	486	–	–	–	–	273,476	273,962
Total assets	3,336,562	868,604	2,436,660	1,622,134	694,186	928,462	9,886,608
Liabilities							
Due to and placements from banks and other financial institutions	(832,763)	(311,597)	(734,536)	(41,584)	(22,554)	(9,485)	(1,952,519)
Financial liabilities at FVPL	(2,865)	(5,447)	(8,158)	(10,907)	–	(1,088)	(28,465)
Derivative financial liabilities	–	–	–	–	–	(23,956)	(23,956)
Due to customers	(3,169,017)	(667,320)	(1,238,110)	(945,382)	(19,941)	(95,678)	(6,135,448)
Other liabilities	(61,503)	(58,648)	(399,906)	(194,321)	(144,015)	(164,079)	(1,022,472)
Total liabilities	(4,066,148)	(1,043,012)	(2,380,710)	(1,192,194)	(186,510)	(294,286)	(9,162,860)
Total interest sensitivity gap	(729,586)	(174,408)	55,950	429,940	507,676	634,176	723,748

(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 and placements with 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 at FVPL	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 at FVOCI	50,183	123,857	80,836	125,220	53,657	11,265	445,018
Financial investments at amortised costs	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 and placements from banks and other financial institutions	(776,575)	(325,116)	(955,468)	(46,009)	(26,521)	(32,604)	(2,162,293)
Financial liabilities at FVPL	(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

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in USD, HKD and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates and changes on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitors the exposure regularly. As at 30 June 2019, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.8747 (31 December 2018: RMB6.8632) and 1 HK dollar to RMB0.87966 (31 December 2018: RMB0.8762). The tables below summarise the Group's exposure to foreign exchange risk at the end of the period/year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, categorised by the original currency.

	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total
As at 30 June 2019					
Assets					
Cash and balances with central banks	758,351	27,927	3,246	13,432	802,956
Due from and placements with banks and other financial institutions	392,619	370,860	9,519	13,784	786,782
Derivative financial assets	16,901	987	1,412	376	19,676
Financial investments at FVPL	397,148	33,442	1,746	16,968	449,304
Loans and advances to customers	4,471,873	316,494	154,223	71,040	5,013,630
Financial investments at FVOCI	213,212	247,397	51,513	49,746	561,868
Financial investments at amortised cost	1,958,728	16,876	–	2,826	1,978,430
Other assets	133,712	131,367	7,357	1,526	273,962
Total assets	8,342,544	1,145,350	229,016	169,698	9,886,608
Liabilities					
Due to and placements from banks and other financial institutions	(1,495,800)	(399,145)	(13,482)	(44,092)	(1,952,519)
Financial liabilities at FVPL	(3,503)	(1,445)	(11,656)	(11,861)	(28,465)
Derivative financial liabilities	(18,695)	(2,981)	(1,951)	(329)	(23,956)
Due to customers	(5,437,879)	(438,441)	(223,579)	(35,549)	(6,135,448)
Other liabilities	(779,388)	(201,890)	(19,738)	(21,456)	(1,022,472)
Total liabilities	(7,735,265)	(1,043,902)	(270,406)	(113,287)	(9,162,860)
Net position	607,279	101,448	(41,390)	56,411	723,748
Financial guarantees and credit-related commitments	1,267,431	126,967	23,462	16,060	1,433,920

For the six months ended 30 June 2019
(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 2018					
Assets					
Cash and balances with central banks	784,959	30,993	3,390	20,829	840,171
Due from and placements with 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 at FVPL	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 at FVOCI	157,284	199,484	45,069	43,181	445,018
Financial investments at amortised costs	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 and placements from banks and other financial institutions	(1,776,123)	(332,360)	(2,364)	(51,446)	(2,162,293)
Financial liabilities at FVPL	(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

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 occurs when the Group cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfill other payment obligations, or meet the other funding needs in regular business development. The Group's liquidity risk mainly comes from depositors' early or centralized withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. As at 30 June 2019, 13.0% (31 December 2018: 14.0%) of the Group's total RMB denominated due to customers and 5.0% (31 December 2018: 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 implements centralized management of liquidity risk and, on the basis of forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.

- 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 arranging of asset maturity structures and multi-level liquidity portfolios.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

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

	Overdue	Undated	On Demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 30 June 2019									
Liabilities									
Due to and placements from banks and other financial institutions	–	–	(467,799)	(368,065)	(315,181)	(752,999)	(45,509)	(28,697)	(1,978,250)
Non-derivative financial liabilities at FVPL	–	–	(885)	(2,894)	(5,574)	(8,409)	(11,149)	–	(28,911)
Due to customers	–	–	(2,546,036)	(656,718)	(688,037)	(1,298,914)	(1,013,631)	(23,468)	(6,226,804)
Certificates of deposit issued	–	–	–	(57,837)	(54,256)	(373,408)	(12,748)	–	(498,249)
Debt securities issued	–	–	–	(5,355)	(7,970)	(39,072)	(209,872)	(127,893)	(390,162)
Other financial liabilities	–	–	(69,375)	(160)	(109)	(1,745)	(8,292)	(28,873)	(108,554)
Total liabilities (contractual maturity dates)	–	–	(3,084,095)	(1,091,029)	(1,071,127)	(2,474,547)	(1,301,201)	(208,931)	(9,230,930)
Assets									
Cash and balances with central banks	–	704,239	98,407	–	310	–	–	–	802,956
Due from and placements with banks and other financial institutions	–	–	77,823	177,977	96,225	295,365	138,434	15,660	801,484
Non-derivative financial assets at FVPL	458	289,054	5,089	8,542	11,722	52,014	55,668	58,431	480,978
Loans and advances to customers	48,057	–	–	719,037	356,677	1,324,518	1,568,372	2,812,607	6,829,268
Financial investments at FVOCI	–	8,511	–	42,514	27,061	100,447	340,524	70,852	589,909
Financial investments at amortised cost	762	–	–	29,442	48,829	256,068	1,331,286	605,058	2,271,445
Other financial assets	891	–	42,304	–	–	–	–	–	43,195
Assets held for managing liquidity risk (contractual maturity dates)	50,168	1,001,804	223,623	977,512	540,824	2,028,412	3,434,284	3,562,608	11,819,235
Net position	50,168	1,001,804	(2,860,472)	(113,517)	(530,303)	(446,135)	2,133,083	3,353,677	2,588,305

(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 2018									
Liabilities									
Due to and placements from 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 FVPL	–	–	(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	–	–	(52,322)	(247)	(237)	(903)	(6,096)	(26,029)	(85,834)
Total liabilities (contractual maturity dates)	–	–	(2,935,235)	(960,654)	(848,231)	(2,901,547)	(983,843)	(267,597)	(8,897,107)
Assets									
Cash and balances with central banks	–	713,376	126,424	–	371	–	–	–	840,171
Due from and placements with banks and other financial institutions	–	–	93,517	335,541	68,165	208,480	145,585	5,471	856,759
Non-derivative financial assets at FVPL	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 at FVOCI	–	7,388	–	12,314	28,455	114,936	252,017	63,611	478,721
Financial investments at amortised costs	600	–	–	39,005	55,896	266,384	1,375,516	557,879	2,295,280
Other financial assets	781	–	34,679	–	–	–	–	–	35,460
Assets held for managing liquidity risk (contractual maturity dates)	38,792	915,602	262,852	1,075,086	450,694	1,948,391	3,365,746	3,256,170	11,313,333
Net position	38,792	915,602	(2,672,383)	114,432	(397,537)	(953,156)	2,381,903	2,988,573	2,416,226

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and settlement, placements with 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 30 June 2019						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	2	–	1	–	–	3
– Interest rate contracts and others	145	246	948	2,196	69	3,604
Total	147	246	949	2,196	69	3,607
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts	(174)	(77)	(1,787)	–	–	(2,038)
– Interest rate contracts and others	(151)	(328)	(1,283)	(3,860)	(574)	(6,196)
Total	(325)	(405)	(3,070)	(3,860)	(574)	(8,234)

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

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

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at 31 December 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)

(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 30 June 2019						
Derivative financial instruments held for trading						
– Foreign exchange and commodity contracts						
– Outflow	(951,915)	(636,080)	(1,308,363)	(72,243)	(1,660)	(2,970,261)
– Inflow	953,509	635,502	1,303,171	72,053	3,402	2,967,637
Total	1,594	(578)	(5,192)	(190)	1,742	(2,624)

	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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Maturity analysis

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

	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 30 June 2019									
Assets									
Cash and balances with central banks	98,407	–	310	–	–	–	–	704,239	802,956
Due from and placements with banks and other financial institutions	77,823	177,884	95,855	290,380	133,256	11,584	–	–	786,782
Derivative financial assets	–	4,617	2,696	8,352	2,958	1,053	–	–	19,676
Financial investments at FVPL	5,089	8,471	11,338	48,838	42,453	43,603	458	289,054	449,304
Loans and advances to customers	–	698,389	325,143	1,206,740	1,115,048	1,628,789	39,521	–	5,013,630
Financial investments at FVOCI	–	42,304	26,595	94,398	323,238	66,822	–	8,511	561,868
Financial investments at amortised cost	–	28,673	44,965	218,229	1,152,449	533,352	762	–	1,978,430
Other assets	59,654	–	18	7,569	19,871	3,571	891	182,388	273,962
Total assets	240,973	960,338	506,920	1,874,506	2,789,273	2,288,774	41,632	1,184,192	9,886,608
Liabilities									
Due to and placements from banks and other financial institutions	(467,799)	(367,660)	(313,592)	(738,876)	(41,866)	(22,726)	–	–	(1,952,519)
Financial liabilities at FVPL	(885)	(2,869)	(5,494)	(8,183)	(11,034)	–	–	–	(28,465)
Derivative financial liabilities	–	(4,340)	(2,645)	(11,255)	(4,218)	(1,498)	–	–	(23,956)
Due to customers	(2,545,033)	(652,504)	(681,432)	(1,268,883)	(967,606)	(19,990)	–	–	(6,135,448)
Other liabilities	(67,124)	(87,965)	(75,108)	(405,489)	(235,904)	(150,882)	–	–	(1,022,472)
Total liabilities	(3,080,841)	(1,115,338)	(1,078,271)	(2,432,686)	(1,260,628)	(195,096)	–	–	(9,162,860)
Net amount on liquidity gap	(2,839,868)	(155,000)	(571,351)	(558,180)	1,528,645	2,093,678	41,632	1,184,192	723,748

For the six months ended 30 June 2019
(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 2018									
Assets									
Cash and balances with central banks	126,424	–	371	–	–	–	–	713,376	840,171
Due from and placements with 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 at FVPL	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 at FVOCI	–	13,348	27,707	106,691	232,364	57,520	–	7,388	445,018
Financial investments at amortised costs	–	38,084	52,330	227,158	1,187,867	494,466	600	–	2,000,505
Other assets	54,240	–	165	499	21,311	1,309	781	169,617	247,922
Total assets	282,316	1,060,184	421,362	1,794,395	2,734,457	2,124,546	28,692	1,085,219	9,531,171
Liabilities									
Due to and placements from banks and other financial institutions	(438,924)	(354,689)	(329,637)	(966,127)	(46,308)	(26,608)	–	–	(2,162,293)
Financial liabilities at FVPL	(865)	(2,968)	(5,801)	(5,978)	(7,497)	–	–	–	(23,109)
Derivative financial liabilities	–	(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	(50,084)	(53,268)	(118,200)	(238,444)	(214,200)	(144,836)	–	–	(819,032)
Total liabilities	(2,932,647)	(970,293)	(857,289)	(2,874,178)	(944,210)	(247,246)	–	–	(8,825,863)
Net amount on liquidity gap	(2,650,331)	89,891	(435,927)	(1,079,783)	1,790,247	1,877,300	28,692	1,085,219	705,308

3.3.6 Off-balance sheet items

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

	Up to 1 year	1 – 5 years	Over 5 years	Total
As at 30 June 2019				
Credit-related commitments and other credit-related commitments	752,456	22,912	2,450	777,818
Guarantees, acceptances and letters of credit	540,100	114,416	1,586	656,102
Total	1,292,556	137,328	4,036	1,433,920
As at 31 December 2018				
Credit-related commitments and other 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

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 deposit without quotations from active market, precious metals, the second tier capital bonds and debt instruments trading in inter-bank market. The fair value of RMB denominated bonds is determined based on the valuation result from the China Securities Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-Scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange or the settlement prices of the Shanghai Futures Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates, early redemption rate and counterparty's credit spreads; main parameters used in Black-Scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads, etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For Loans and 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 and take into account unobservable inputs such as Discount for Lack of Marketability (DLOM). The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(b) Financial instruments not measured at fair value

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

	As at 30 June 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments at amortised cost	1,978,430	2,006,887	2,000,505	2,013,818
Financial liabilities				
Debt securities issued	(314,070)	(317,311)	(301,151)	(304,328)

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 response to changes in interest rates set by the PBOC and other regulatory bodies.

Fair value hierarchy of financial instruments not measured at fair value

As at 30 June 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments at amortised cost	8,921	1,809,929	188,037	2,006,887
Financial liabilities				
Debt securities issued	–	(317,311)	–	(317,311)

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments at amortised cost	14,022	1,793,650	206,146	2,013,818
Financial liabilities				
Debt securities issued	–	(304,328)	–	(304,328)

For the six months ended 30 June 2019

(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.

As at 30 June 2019	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Debt securities				
– Governments and central banks	2,555	6,784	–	9,339
– Public sector entities	–	2,004	–	2,004
– Banks and other financial institutions	2,605	68,923	265	71,793
– Corporate entities	1,684	18,553	3,364	23,601
Fund investments	72	247,259	4,564	251,895
Trust and other asset management plan	–	3,022	2,017	5,039
Equity securities and others	2,398	47	34,601	37,046
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	15,602	–	15,602
– Interest rate contracts and others	–	3,093	981	4,074
Precious metal contracts	–	38,769	–	38,769
Loans to banks and other financial institutions	–	9,818	–	9,818
	9,314	413,874	45,792	468,980
Financial assets at FVOCI				
Investments in debt instruments measured at FVOCI				
– Governments and central banks	25,554	118,499	–	144,053
– Public sector entities	–	3,463	–	3,463
– Banks and other financial institutions	91,591	244,788	–	336,379
– Corporate entities	38,460	30,306	696	69,462
Investments in equity instruments designated at FVOCI	2,145	–	6,366	8,511
Loans and advances to customers designated at FVOCI	–	249,657	16	249,673
	157,750	646,713	7,078	811,541
Total assets	167,064	1,060,587	52,870	1,280,521
Financial liabilities at FVPL				
– Certificates of deposit issued	–	(15,718)	–	(15,718)
– Financial liabilities related to precious metal contracts	–	(12,747)	–	(12,747)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(18,529)	–	(18,529)
– Interest rate contracts and others	–	(5,427)	–	(5,427)
Debt securities issued	–	(23,902)	–	(23,902)
Total liabilities	–	(76,323)	–	(76,323)

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(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)

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
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	47	180,846	6,670	187,563
Equity securities and others	1,099	–	9,233	10,332
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	26,441	–	26,441
– Interest rate contracts and others	–	3,308	981	4,289
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 FVPL	–	–	494	494
	7,888	378,672	21,050	407,610
Financial assets at FVOCI				
Investments in debt instruments measured at FVOCI				
– Governments and central banks	28,115	38,506	–	66,621
– Public sector entities	124	3,575	–	3,699
– Banks and other financial institutions	152,355	159,984	–	312,339
– Corporate entities	29,900	24,690	381	54,971
Investments in equity instruments designated at FVOCI	2,096	–	5,292	7,388
Loans and advances to customers designated at FVOCI	–	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 FVPL				
– Certificates of deposit issued	–	(11,660)	–	(11,660)
– Financial liabilities related to precious metal contracts	–	(11,449)	–	(11,449)
Derivative financial instruments				
– Foreign exchange and commodity contracts	–	(25,640)	–	(25,640)
– Interest rate contracts and others	–	(2,465)	–	(2,465)
Debt securities issued	–	(16,537)	–	(16,537)
Total liabilities	–	(67,751)	–	(67,751)

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 FVPL	Financial assets at FVOCI
Balance at 1 January 2019	21,050	5,698
Total gains or losses		
– Net gains/(losses) arising from trading activities	1,248	(1)
– Other comprehensive income	–	74
Additions	27,650	1,472
Disposals and settlement	(1,561)	(165)
Transfer to other levels	(2,595)	–
Balance at 30 June 2019	45,792	7,078
Total gains/(losses) for consolidated financial assets/liabilities held at 30 June 2019		
– Realised gains/(losses)	15	(1)
– Unrealised gains/(losses)	1,233	74

	Financial assets at FVPL	Financial assets at FVOCI
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)
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)

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 to book ratio and marketability discounts.

As at 30 June 2019, 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.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Offsetting financial assets and financial liabilities

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

As at 30 June 2019, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements is not material to the Group.

4 NET INTEREST INCOME

	Six months ended 30 June	
	2019	2018
Interest income		
Loans and advances to customers	119,865	109,686
Financial investments	43,620	41,207
Due from and placements with banks and other financial institutions	12,419	12,868
Balances with central banks	5,958	6,785
	181,862	170,546
Interest expense		
Due to customers	(70,047)	(63,620)
Due to and placements from banks and other financial institutions	(28,772)	(35,401)
Certificates of deposit issued	(7,198)	(5,373)
Debt securities issued	(5,783)	(5,494)
	(111,800)	(109,888)
Net interest income	70,062	60,658
Including:		
Interest income on impaired financial assets	728	927

5 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
Bank cards	10,213	9,301
Management services	7,372	6,511
Investment banking	2,632	2,470
Agency services	2,274	1,736
Guarantee and commitment	1,437	1,400
Settlement services	1,024	1,170
Others	118	158
	25,070	22,746

	Six months ended 30 June	
	2019	2018
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 FVPL	665	513
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,778	1,716

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

6 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2019	2018
Bank card business	1,341	1,048
Settlement services	437	344
Others	170	172
	1,948	1,564

	Six months ended 30 June	
	2019	2018
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 FVPL	2	3

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2019	2018
Financial instruments at FVPL	7,317	6,737
Foreign exchange	877	1,112
Interest rate instruments and others	95	424
	8,289	8,273

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

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

Net income arising from trading activities for the six months ended 30 June 2019 includes a loss of RMB144 million (for the six months ended 30 June 2018: an income of RMB60 million) in relation to changes in the fair value of financial liabilities designated at FVPL.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
Leasing income	5,918	4,951
Income from sales of precious metal merchandise	807	1,228
Revaluation of investment properties	40	23
Net gain on the disposal of fixed and foreclosed assets	132	11
Other miscellaneous income	1,013	1,428
	7,910	7,641

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

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

9 CREDIT IMPAIRMENT LOSSES

	Six months ended 30 June	
	2019	2018
Credit impairment losses on due from and placements with banks and other financial institutions	(122)	(33)
Credit impairment losses on loans and advances at amortised cost	22,673	17,429
Credit impairment losses on loans and advances carried at FVOCI	(588)	(267)
Credit impairment losses on guarantee and commitment	(997)	(1,960)
Credit impairment losses on financial investments – financial investments at amortised cost	(38)	(45)
Credit impairment losses on financial investments – financial investments at FVOCI	(104)	246
ECL of other receivables	678	363
Credit impairment losses on interest receivables of loans and advances to customers at amortised cost	(30)	1,094
Others	72	(164)
	21,544	16,663

10 OTHER ASSETS IMPAIRMENT LOSSES

	Six months ended 30 June	
	2019	2018
Impairment losses on foreclosed assets	6	3

11 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
Staff costs and benefits (Note 12)	13,570	12,967
General operational and administrative expense	15,101	12,810
Depreciation and amortisation	4,034	2,796
Leasing cost	4,290	2,697
Taxes and surcharges	1,277	1,256
Charge of/(Reversal of) provision for outstanding litigations	180	(12)
Others	1,475	1,660
	39,927	34,174

12 STAFF COSTS AND BENEFITS

	Six months ended 30 June	
	2019	2018
Salaries and bonuses and allowances and subsidies	9,516	9,250
Post-employment benefit (a)	1,660	1,576
Other social security and benefit costs	2,394	2,141
	13,570	12,967

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

12 STAFF COSTS AND BENEFITS *(Continued)*

(a) Post-employment benefit

Defined contribution plans

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the period to which they relate.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary which is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	Six months ended 30 June	
	2019	2018
Expenses incurred for retirement benefit plans and unemployment insurance	1,221	1,176
Expenses incurred for annuity plan	423	382
Total	1,644	1,558

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

	As at 30 June 2019	As at 31 December 2018
Expenses incurred for retirement benefit plans and unemployment insurance	49	64
Expenses incurred for annuity plan	16	14
Total	65	78

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 30 June 2019	As at 31 December 2018
Statement of financial position		
– Obligations for pension benefits	395	408

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

12 STAFF COSTS AND BENEFITS *(Continued)*

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

Defined benefit plans *(Continued)*

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

	Six months ended 30 June	
	2019	2018
Components of defined benefit costs recognised in profit or loss	16	17
Components of defined benefit costs recognised in other comprehensive income	(3)	15
Total	13	32

Past service cost and interest expense are recognised in other operating expense in the statement of profit or loss. The average duration of the supplementary retirement benefits plan at 30 June 2019 is 10.62 years (31 December 2018: 10.95 years).

The Group expects to make a contribution of RMB41 million (2018: RMB41 million) to the defined benefit plan during the next financial year.

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principal actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate or inflation rate, which were 3.31% (31 December 2018: 3.47%) and 2.10% (31 December 2018: 2.12%) respectively as at 30 June 2019. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 30 June 2019, an average longevity of a pensioner after retirement at age 60 for male is 19.7 years (31 December 2018: 19.7 years) while a pensioner after retirement at age 55 for female is 28.7 years (31 December 2018: 28.7 years).

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

	Six months ended 30 June	
	2019	2018
Remuneration	6	5

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

For the six months ended 30 June 2019, RMB0.51 million was accrued for independent non-executive directors' emoluments (six months ended 30 June 2018: RMB0.63 million).

14 INCOME TAX

	Six months ended 30 June	
	2019	2018
Current tax		
– PRC enterprise income tax	7,128	6,632
– Hong Kong profits tax	569	485
– Overseas taxations	251	296
	7,948	7,413
Deferred income tax (Note 24)	(2,137)	(937)
	5,811	6,476

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2018: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the PRC tax rate shall be reported and paid by the PRC head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2018: 25%). The major reconciliation items are as follows:

	Six months ended 30 June	
	2019	2018
Profit before tax	48,959	47,470
Tax calculated at a tax rate of 25%	12,240	11,868
Effect of different tax rates in other countries (or regions)	86	(4)
Tax effect of expense not deductible for tax purposes	649	1,209
Tax effect arising from income not subject to tax (1)	(7,595)	(5,821)
Income tax adjustment for prior years	431	(776)
Income tax expense	5,811	6,476

(1) The income not subject to tax is mainly comprised of interest income generated from Chinese government bonds and fund investment income.

15 BASIC AND DILUTED EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
Net profit attributable to shareholders of the Bank	42,749	40,771
Less: Net profit attributable to preference shareholders of the Bank	(2,671)	(2,618)
Net profit attributable to ordinary shareholders of the Bank	40,078	38,153
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)	0.54	0.51

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 RMB2,671 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2019, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

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

16 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2019	As at 31 December 2018
Cash	12,759	14,665
Mandatory reserve deposits	697,345	703,649
Excess reserve deposits	85,648	111,759
Fiscal deposits and others	6,894	9,727
Interest receivable of balance with central banks	310	371
	802,956	840,171

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

	As at 30 June 2019 %	As at 31 December 2018 %
Domestic mandatory reserve rate for deposits denominated in RMB	13.00	14.00
Domestic mandatory reserve rate for deposits denominated in foreign currencies	5.00	5.00

17 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019	As at 31 December 2018
Due from banks and other financial institutions		
– Banks operating in Mainland China	111,862	104,270
– Banks operating outside Mainland China	37,803	58,697
Interest receivable of due from banks and financial institutions	883	933
Less: ECL allowance	(208)	(254)
Financial assets held under resale agreements		
– Securities	21,080	116,871
– Bills	19,430	2,846
Interest receivable of other assets held under resale agreements	30	92
Less: ECL allowance	(44)	(166)
Placements with and loans to banks		
– Banks operating in Mainland China	182,527	194,008
– Banks operating outside Mainland China	77,027	47,437
Placements with and loans to other financial institutions		
– Placements with and loans to other financial institutions in Mainland China	279,469	275,020
– Placements with and loans to other financial institutions outside Mainland China	52,888	42,898
Interest receivable of placements with and loans to banks and other financial institutions	5,444	6,749
Less: ECL allowance	(1,409)	(1,334)
	786,782	848,067

As at 30 June 2019, placements with certain wealth management products and bonds held under resale agreements that were sponsored and not consolidated by the Group amounted to RMB64,993 million (31 December 2018: RMB96,473 million). These transactions were carried out at market prices and the Group were not contractually obliged to make such arrangements. The maximum exposure to loss of those transactions approximated the carrying amount of the placements. The average exposure of the above transactions for the six months ended 30 June 2019 was RMB55,221 million and the weighted average outstanding period was 2.93 days (The average exposure during 2018 was RMB54,670 million and the weighted average outstanding period was 6.01 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.

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18 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019	As at 31 December 2018
Government bonds		
– Listed in Hong Kong	1,544	1,740
– Listed outside Hong Kong (a)	2,248	2,989
– Unlisted	5,492	776
Other debt securities		
– Listed in Hong Kong	15,584	12,957
– Listed outside Hong Kong (a)	76,413	108,006
– Unlisted – corporate entities	3,433	3,606
– Unlisted – public sector entities	–	–
– Unlisted – banks	875	1,193
Equity securities and others		
– Listed in Hong Kong	1	1
– Listed outside Hong Kong	2,396	1,099
– Unlisted	34,649	9,232
Fund investments		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	231	–
– Unlisted	251,659	181,771
Trust and other asset management products		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	–	–
– Unlisted	4,989	5,783
Precious metal contracts	38,769	37,232
Loans to banks and other financial institutions	9,818	8,393
Interest receivable of financial investments at FVPL	1,203	1,608
Total	449,304	376,386

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

Debt securities at fair value through profit or loss are analysed by issuer as follows:

	As at 30 June 2019	As at 31 December 2018
– Banks and other financial institutions	71,793	91,198
– Corporate entities	23,601	33,481
– Governments and central banks	9,339	5,561
– Public sector entities	2,004	2,588
	106,737	132,828

The financial investments 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)

19 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 currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay at 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 may 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	Fair value	
As at 30 June 2019	Amount	Assets	Liabilities
Foreign exchange and commodity contracts	2,379,581	15,602	(18,529)
Interest rate contracts and others	2,078,944	4,074	(5,427)
Total amount of derivative instruments recognised	4,458,525	19,676	(23,956)

	Contractual/ Notional	Fair value	
As at 31 December 2018	Amount	Assets	Liabilities
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)

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

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

Notional amounts of derivative financial instruments by original currency:

	As at 30 June 2019	As at 31 December 2018
RMB	2,855,768	1,785,452
USD	1,251,118	1,384,347
HKD	200,643	129,328
Others	150,996	73,817
Total	4,458,525	3,372,944

Hedge accounting

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

As at 30 June 2019	Contractual/ notional Amount	Fair values Assets	Fair values Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	101,591	174	(1,996)
Derivative financial instruments designated as hedging instruments in cash flow hedges	25,394	199	(108)
Total	126,985	373	(2,104)

As at 31 December 2018	Contractual/ notional Amount	Fair values Assets	Fair values Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges	71,133	1,122	(353)
Derivative financial instruments designated as hedging instruments in cash flow hedges	26,935	479	(201)
Total	98,068	1,601	(554)

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19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

(a) Fair value hedge

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Part of the purchased interest rate swap contract is designated as hedging instruments. The interest rate swap contract is identical with the corresponding hedged items in terms of interest rate, maturity and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. With the supporting of testing results, the Group's management considers the hedging relationship for the current year to be highly effective. The hedged items include placements from banks, financial investments at FVOCI, deposits from other banks, loans and advances to customers, certificates of deposit issued and placements with and loans to banks.

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

	Six months ended 30 June	
	2019	2018
Net gains/(losses) from fair value hedges:		
Hedging instruments	(2,580)	884
Hedged items attributable to the hedge risk	2,598	(918)
Total	18	(34)

(b) Cash flow hedge

The Group uses foreign exchange contracts to hedge against exposures to cash flow variability primarily resulting from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily resulting from interest rate risks. The hedged items include financial investments at FVOCI, placements from banks, placements with and loans to banks, loans and advances to customers and certificates of deposit issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the six months ended 30 June 2019, the Group's profit from the hedge instrument of RMB156 million (for the six months ended 30 June 2018: RMB126 million) was recognised in other comprehensive income and the gains and losses arising from the ineffective portion of cash flow hedge was immaterial for the period. There were no transactions for which cash flow hedge accounting had to be ceased for the six months ended 30 June 2019, as a result of the highly probable cash flows no longer being expected to occur.

20 LOANS AND ADVANCES TO CUSTOMERS

20.1 Loans and advances to customers

	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers		
– Carried at amortised cost	4,880,939	4,669,550
– Carried at FVOCI	249,673	184,184
– Carried at FVPL	–	494
Less: ECL allowance	(129,936)	(123,861)
Interest receivable of loans and advances to customers	15,114	14,195
Less: Allowance for impairment of interest receivable of loans and advances to customers	(2,160)	(2,190)
	5,013,630	4,742,372

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of ECL allowance

Movements of ECL allowance – Corporate Loan at amortised cost:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**23,323**	**42,503**	**36,577**	**102,403**
Addition/(Reversal)	1,903	956	1,800	4,659
Written-offs and disposals	–	–	(11,568)	(11,568)
Transfers:	368	(6,057)	5,689	–
Transfer between Stage 1 and Stage 2, net	397	(397)	–	–
Transfer between Stage 1 and Stage 3, net	(29)	–	29	–
Transfer between Stage 2 and Stage 3, net	–	(5,660)	5,660	–
Remeasurement	(585)	6,235	3,693	9,343
Recoveries of loans written-off in previous years	–	–	756	756
Unwind of discount	–	–	(644)	(644)
Exchange differences	(16)	–	4	(12)
Loss allowance as at 30 June 2019	**24,993**	**43,637**	**36,307**	**104,937**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 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

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of ECL allowance *(Continued)*

Movements of ECL allowance – Individual Loan at amortised cost:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**7,710**	**2,302**	**11,446**	**21,458**
Addition/(Reversal)	**504**	**(639)**	**1,496**	**1,361**
Written-offs	**–**	**–**	**(5,608)**	**(5,608)**
Transfers:	**235**	**(1,021)**	**786**	**–**
Transfer between Stage 1 and Stage 2, net	**235**	**(235)**	**–**	**–**
Transfer between Stage 1 and Stage 3, net	**–**	**–**	**–**	**–**
Transfer between Stage 2 and Stage 3, net	**–**	**(786)**	**786**	**–**
Remeasurement	**(1,312)**	**1,992**	**6,630**	**7,310**
Recoveries of loans written-off in previous years	**–**	**–**	**562**	**562**
Unwind of discount	**–**	**–**	**(84)**	**(84)**
Exchange differences	**–**	**40**	**(40)**	**–**
Loss allowance as at 30 June 2019	**7,137**	**2,674**	**15,188**	**24,999**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 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

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.2 Movements of ECL allowance *(Continued)*

Movements of ECL allowance – Loans and advances to customers at fair value through other comprehensive income:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	**1,163**	**283**	**233**	**1,679**
Addition/(Reversal)	(224)	(361)	(3)	(588)
Transfers:	(148)	141	7	–
Transfer between Stage 1 and Stage 2, net	(141)	141	–	–
Transfer between Stage 1 and Stage 3, net	(7)	–	7	–
Loss allowance as at 30 June 2019	**791**	**63**	**237**	**1,091**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 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

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

20.3 Loans and advances to customers analysed by security type

	As at 30 June 2019	As at 31 December 2018
Unsecured loans	1,589,444	1,554,652
Guaranteed loans	874,074	895,738
Collateralised and other secured loans	2,667,094	2,403,838
Including: Loans secured by collateral	1,811,166	1,732,818
Pledged loans	855,928	671,020
Total	5,130,612	4,854,228

21 FINANCIAL INVESTMENTS

	As at 30 June 2019	As at 31 December 2018
Financial investments at amortised cost		
– Listed in Hong Kong	8,757	6,007
– Listed outside Hong Kong	1,766,926	1,759,249
– Unlisted	178,498	209,518
Interest receivable	27,580	29,100
Less: ECL allowance	(3,331)	(3,369)
Total	1,978,430	2,000,505
Financial investments at FVOCI		
Debt investments at FVOCI		
– Listed in Hong Kong	140,806	106,465
– Listed outside Hong Kong	294,662	236,079
– Unlisted	112,676	91,209
Interest receivable	5,213	3,877
Subtotal	553,357	437,630
Equity investments at FVOCI		
– Listed in Hong Kong	1,018	991
– Listed outside Hong Kong	1,127	1,423
– Unlisted	6,366	4,974
Subtotal	8,511	7,388
Total	561,868	445,018

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

21 FINANCIAL INVESTMENTS *(Continued)*

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

	Debt investments at FVOCI			Financial investments at amortised cost			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL allowance							
As at 1 January 2019	718	–	467	2,884	–	485	4,554
Additions/(Reversal)	(104)	–	–	(176)	–	138	(142)
Disposals	–	–	–	–	–	–	–
Written-offs	–	–	–	–	–	–	–
Recovery after written-offs	–	–	–	–	–	–	–
Transfers:	–	–	–	(4)	–	4	–
Transfer between Stage 1 and Stage 2, net	–	–	–	–	–	–	–
Transfer between Stage 1 and Stage 3, net	–	–	–	(4)	–	4	–
Transfer between Stage 2 and Stage 3, net	–	–	–	–	–	–	–
Exchange differences	22	–	1	–	–	–	23
As at 30 June 2019	636	–	468	2,704	–	627	4,435

	Debt investments at FVOCI			Financial investments at amortised cost			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL allowance							
As at 1 January 2018	438	–	454	3,246	10	475	4,623
Additions/(Reversal)	273	–	(8)	(336)	(10)	(16)	(97)
Disposals	–	–	–	–	–	–	–
Written-offs	–	–	–	–	–	–	–
Recovery after written-offs	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–
Exchange differences	7	–	21	–	–	–	28
As at 31 December 2018	718	–	467	2,884	–	485	4,554

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

21 FINANCIAL INVESTMENTS *(Continued)*

Debt securities analysed by issuer are as follows:

	As at 30 June 2019	As at 31 December 2018
Financial investments at FVOCI		
– Governments and central banks	144,053	66,621
– Public sector entities	3,463	3,699
– Banks and other financial institutions	336,379	312,339
– Corporate entities	69,462	54,971
Total	553,357	437,630
Financial investments at amortised cost		
– Governments and central banks	1,501,054	1,439,657
– Public sector entities	28,534	28,364
– Banks and other financial institutions	247,634	292,631
– Corporate entities	30,530	38,411
Financial investments at amortised cost (net)	1,807,752	1,799,063

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

	As at 30 June 2019	As at 31 December 2018
Financial investments at FVPL		
– Listed in Hong Kong	1,456	1,047
– Listed outside Hong Kong	12,287	44,682
– Unlisted	37,069	44,354
	50,812	90,083

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

	As at 30 June 2019	As at 31 December 2018
Within 3 months	14,009	14,407
3 months to 12 months	9,150	58,075
1 year to 5 years	26,036	17,072
Over 5 years	1,617	529
	50,812	90,083

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

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As at 30 June 2019	As at 31 December 2018
Investments in associates		
Investment cost	3,422	2,977
Net profit adjusted by the equity method	958	666
Changes in other equity	83	44
Dividend income	(87)	(42)
Subtotal	4,376	3,645
Investments in joint ventures	8	8
Total	4,384	3,653

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 RMB2,741 million, and the principal activities of the entity are banking activities. The Group held 9.01% of equity interest in this associate as at 30 June 2019 (31 December 2018: 8.84%).

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 an associate.

Bank of Tibet Co., Ltd. was incorporated in Tibet Autonomous Region, PRC on 30 December 2011. The registered capital of the entity is RMB3,320 million, and the principal activities of the entity are banking activities. The Group held 10.60% of equity interest in this associate as at 30 June 2019 (31 December 2018: 10.60%).

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

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

23 PROPERTY AND EQUIPMENT

	Land and buildings	Construction in progress	Equipment	Transportation equipment	Property improvement	Total
Cost						
As at 1 January 2019	61,594	2,407	25,523	108,553	9,133	207,210
Additions	18	373	407	18,515	24	19,337
Transfer in from investment properties	–	–	–	–	–	–
Disposals	(56)	–	(492)	(1,886)	(31)	(2,465)
Construction in progress transfer in/(out)	2	(50)	–	–	48	–
Other transfers in/(out)	123	(6)	–	–	(123)	(6)
As at 30 June 2019	61,681	2,724	25,438	125,182	9,051	224,076
Accumulated depreciation						
As at 1 January 2019	(16,860)	–	(20,288)	(11,540)	(5,103)	(53,791)
Charge for the period	(989)	–	(1,074)	(2,692)	(394)	(5,149)
Transfer in from investment properties	–	–	–	–	–	–
Transfers in/(out)	–	–	–	–	–	–
Disposals	27	–	464	223	10	724
As at 30 June 2019	(17,822)	–	(20,898)	(14,009)	(5,487)	(58,216)
Allowance for impairment losses						
As at 1 January 2019	–	(16)	–	(117)	–	(133)
Provision for impairment	–	–	–	–	–	–
Decrease	–	–	–	–	–	–
As at 30 June 2019	–	(16)	–	(117)	–	(133)
Net book value						
As at 30 June 2019	43,859	2,708	4,540	111,056	3,564	165,727

(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 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	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

As at 30 June 2019, the net book value of aircrafts and vessels leased out by the Group under operating lease arrangements was RMB110,943 million (31 December 2018: RMB96,623 million). Among them, the net book value of the aircrafts and vessels used as collateral for borrowings was RMB60,177 million (31 December 2018: RMB59,279 million).

As at 30 June 2019, the property and equipment with re-registration procedure not completed amounted to RMB203 million (31 December 2018: RMB203 million). However, this registration process does not affect the rights of the Bank to these assets.

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

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 six months ended 30 June 2019 (for the year ended 31 December 2018: 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 2018: 16.5%).

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

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Other temporary differences	Total
Balance at 1 January 2019	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377
Recognised in profit or loss	1,685	(204)	(4)	–	1,470	(114)	(662)	(34)	2,137
Recognised in other comprehensive income	(420)	–	–	(641)	11	–	–	(9)	(1,059)
Balance at 30 June 2019	20,212	1,312	98	(157)	1,069	(698)	(1,200)	1,819	22,455

	Allowance for impairment losses	Provisions	Retirement supplementary pension payable	Changes in fair value of financial assets designated at FVOCI	Changes in fair value of derivative instruments	Changes in fair value of investment properties	Changes in fair value of financial investments and financial liabilities at FVPL	Other temporary differences	Total
Balance at 31 December 2017	12,844	110	99	–	(163)	(522)	916	1,988	15,272
Impact of adoption of IFRS 9 on opening balance	9,004	–	–	1,095	–	–	36	–	10,135
Balance at 1 January 2018	21,848	110	99	1,095	(163)	(522)	952	1,988	25,407
Recognised in profit or loss	(2,901)	1,406	3	–	(243)	(62)	(1,490)	(126)	(3,413)
Recognised in other comprehensive income	–	–	–	(611)	(6)	–	–	–	(617)
Balance at 31 December 2018	18,947	1,516	102	484	(412)	(584)	(538)	1,862	21,377

For the six months ended 30 June 2019

(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:

The Group	As at 30 June 2019 Deductible/ (Taxable) temporary differences	As at 30 June 2019 Deferred income tax assets/ (liabilities)
Deferred income tax liabilities		
Changes in fair value of financial assets designated at FVOCI	(2,292)	(573)
Changes in fair value of financial investments and financial liabilities at FVPL	(6,632)	(1,658)
Changes in fair value of derivative instruments	(19,676)	(4,919)
Changes in fair value of investment properties	(2,792)	(698)
Other temporary differences	(132)	(33)
	(31,524)	(7,881)
Deferred income tax assets		
Allowance for impairment of assets	80,848	20,212
Retirement supplementary pension payable	395	98
Provisions	5,245	1,312
Changes in fair value of financial investments and financial liabilities at FVPL	1,832	458
Changes in fair value of financial assets designated at FVOCI	1,668	416
Changes in fair value of derivative instruments	23,956	5,988
Other temporary differences	7,408	1,852
	121,352	30,336
Net deferred income tax assets	89,828	22,455

The Group	As at 31 December 2018 Deductible/ (Taxable) temporary differences	As at 31 December 2018 Deferred income tax assets/ (liabilities)
Deferred income tax liabilities		
Changes in fair value of financial assets designated at FVOCI	(351)	(88)
Changes in fair value of financial investments and financial liabilities at FVPL	(4,021)	(1,005)
Changes in fair value of derivative instruments	(30,566)	(7,642)
Changes in fair value of investment properties	(2,334)	(584)
Other temporary differences	(336)	(84)
	(37,608)	(9,403)
Deferred income tax assets		
Allowance for impairment of assets	75,789	18,947
Retirement supplementary pension payable	408	102
Provisions	6,063	1,516
Changes in fair value of financial investments and financial liabilities at FVPL	1,866	467
Changes in fair value of financial assets at FVOCI	2,288	572
Changes in fair value of derivative instruments	28,921	7,230
Other temporary differences	7,782	1,946
	123,117	30,780
Net deferred income tax assets	85,509	21,377

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

24 DEFERRED INCOME TAX *(Continued)*

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

	As at 30 June 2019	As at 31 December 2018
Deferred income tax assets	23,125	21,975
Deferred income tax liabilities	(670)	(598)

25 OTHER ASSETS

	As at 30 June 2019	As at 31 December 2018
Interest receivable(1)	4,044	3,849
Settlement accounts	12,427	7,562
Other receivables and prepayments	33,166	30,050
Less: ECL allowance (c)	(2,398)	(2,152)
Investment properties (b)	7,949	7,899
Right-of-use assets (e)	6,629	N.A
Land use rights and others	1,799	1,869
Intangible assets (a)	1,274	1,309
Long-term deferred expenses	522	692
Precious metal	712	925
Foreclosed assets	829	824
Goodwill (d)	433	437
Refundable deposits	486	425
Unsettled assets	33	33
Others	12,821	15,286
	80,726	69,008

Note1: The interest receivable account only reflects the interest for relevant financial instructions which is due but not received on balance sheet date.

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

25 OTHER ASSETS *(Continued)*

(a) Intangible assets

	Software
Cost	
As at 1 January 2019	3,028
Additions	112
Transfers in	–
Disposals	(4)
As at 30 June 2019	3,136
Accumulated amortisation	
As at 1 January 2019	(1,719)
Amortisation expense	(145)
Transfers in	–
Disposals	2
As at 30 June 2019	(1,862)
Net book value	1,274

	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

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

25 OTHER ASSETS *(Continued)*

(b) Investment properties

	Six months ended 30 June 2019	Year ended 31 December 2018
Opening balance	7,899	8,217
Additions/(Decreases) of the period/year	–	(458)
Gains on property revaluation	40	117
Exchange differences	10	23
Balance at the end of the period/year	7,949	7,899

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the similar properties.

As at 30 June 2019, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value for the period ended 30 June 2019
Commercial property units located in Hong Kong	–	–	1,233	1,233
Commercial property units located outside Hong Kong	–	–	6,716	6,716

The valuation of these investment properties located in Hong Kong as at 30 June 2019 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 2019	Amounts accrued	Reversal	Written-offs	Transfers (in)/out	Exchange differences	As at 30 June 2019
Other receivables and prepayments	(2,152)	(935)	257	468	(35)	(1)	(2,398)
Total	(2,152)	(935)	257	468	(35)	(1)	(2,398)

	As at 1 January 2018	Amounts accrued	Reversal	Written-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)

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

25 OTHER ASSETS *(Continued)*

(d) Goodwill

	As at 1 January 2019	Addition during the period	Decrease during the period	Exchange differences	As at 30 June 2019
Bank of Communications International Trust Co., Ltd.	200	–	–	–	**200**
BoCommLife Insurance Company Limited	122	–	–	–	**122**
BANCO Bocom BBM S.A	115	–	–	(4)	**111**
Total	437	–	–	(4)	**433**

	As at 1 January 2018	Addition during the period	Decrease during the period	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

(e) Right-of-use assets

	As at 30 June 2019
Gross:	
Opening balance	**14,493**
Additions	**1,005**
Reductions	**(1,179)**
Balance at the end of the period	**14,319**
Accumulated depreciation:	
Opening balance	**(7,372)**
Additions	**(1,327)**
Reductions	**1,009**
Balance at the end of the period	**(7,690)**
Net book value:	
As at 1 January 2019	**7,121**
As at 30 June 2019	**6,629**
Lease liabilities	
As at 30 June 2019	**6,557**

As at 30 June 2019, lease payment related to lease contracts which the Group entered into but not implemented is 170 million.

For the six months ended 30 June 2019

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

26 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019	As at 31 December 2018
Borrowing from central banks	434,732	511,284
Interest payable of borrowing from central banks	6,323	8,854
Deposits from other banks		
– Banks operating in Mainland China	251,018	327,250
– Banks operating outside Mainland China	15,647	16,729
Deposits from other financial institutions		
– Other financial institutions operating in Mainland China	661,650	724,295
– Other financial institutions operating outside Mainland China	9,606	11,851
Interest payable of deposits from banks and other financial institutions	7,227	21,199
Placements from banks		
– Banks operating in Mainland China	233,009	131,865
– Banks operating outside Mainland China	239,168	260,241
Borrowing from other financial institutions		
– Other financial institutions operating in Mainland China	651	651
– Other financial institutions operating outside Mainland China	10,811	8,083
Interest payable of borrowing from banks and other financial institutions	2,184	2,478
Financial assets sold under repurchase agreements		
– Securities	47,783	107,367
– Bills	32,636	30,072
Interest payable of financial assets sold under repurchase agreements	74	74
Total	1,952,519	2,162,293

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019	As at 31 December 2018
Certificates of deposit issued	15,515	11,493
Financial liabilities related to precious metal contracts	12,747	11,449
Interest payable of financial liabilities at FVPL	203	167
Total	28,465	23,109

Except for certificates of deposit issued which are designated 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 at fair value through profit or loss

	As at 30 June 2019	As at 31 December 2018
Difference between carrying amount and maturity amount		
Fair values	15,515	11,493
Amount payable at maturity	15,454	11,496
Total	61	(3)

For the six months ended 30 June 2019 and the year ended 31 December 2018, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in credit risk.

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

28 DUE TO CUSTOMERS

	As at 30 June 2019	As at 31 December 2018
Corporate demand deposits	1,822,126	1,748,857
Corporate time deposits	2,287,312	2,195,241
Individual demand deposits	714,387	687,393
Individual time deposits	1,227,345	1,089,095
Other deposits	3,558	3,903
Due to customers	6,054,728	5,724,489
Interest payable of due to customers	80,720	68,835
Total	6,135,448	5,793,324
Including:		
Deposits pledged as collateral	323,589	297,707

29 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposit issued by the Bank's domestic branches, branches in Macau, Taipei, Hong Kong, New York, Tokyo, Singapore, Seoul, Sydney, London, Luxembourg, Frankfurt and BANCO Bocom BBM S.A., were measured at amortised cost.

30 DEBT SECURITIES ISSUED

		As at 30 June 2019	As at 31 December 2018
Carried at amortised cost:			
Subordinated bonds	30.1	39,450	39,450
Tier 2 capital bonds			
The Bank	30.2	70,029	70,017
Subsidiaries	30.2	1,994	1,994
Bonds			
The Bank	30.3	114,930	115,431
Subsidiaries	30.3	80,838	70,777
Subtotal		307,241	297,669
Carried at fair value (1):			
Bonds			
The Bank	30.3	23,798	16,429
Interest payable of debt securities issued		6,933	3,590
Total		337,972	317,688

Note: (1) 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 six months ended 30 June 2019 and the year ended 31 December 2018, there were no significant changes due to the Group's changes in credit risks.

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.1 Subordinated bonds

Detailed information of subordinated bonds is disclosed as follows:

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Note	Issue amount	Interest payable	Ending balance	Opening balance
09 BoComm 02	RMB	Mainland China	4.00	13,500	2009/07/01	15 years	(a)	13,500	537	13,500	13,500
11 BoComm 01	RMB	Mainland China	5.75	26,000	2011/10/21	15 years	(b)	26,000	1,024	25,950	25,950
Total								39,500	1,561	39,450	39,450

(a) The Group has redeemed full face value of 09 BoComm 02 by exercising redemption on 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%.

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	Ending balance	Opening balance
The Bank											
14 BoComm 01	RMB	Mainland China	5.80	28,000	2014/08/18	10 years	(a)	28,000	1,406	27,978	27,976
14 BoComm 01-USD	USD	Hong Kong, China	4.50	1,200	2014/10/03	10 years	(b)	8,250	83	8,193	8,169
14 BoComm 01-Euro	EUR	Hong Kong, China	3.625	500	2014/10/03	12 years	(c)	3,909	35	3,889	3,904
17 BoComm 02	RMB	Mainland China	4.50	30,000	2017/04/11	10 years	(d)	30,000	292	29,969	29,968
Subtotal								70,159	1,816	70,029	70,017
Subsidiaries											
18 Leasing 02	RMB	Mainland China	5.15	2,000	2018/09/18	10 years	(e)	2,000	80	1,994	1,994
Subtotal								2,000	80	1,994	1,994
Total								72,159	1,896	72,023	72,011

(a) The Group has redeemed full face value of 14 BoComm 01 by exercising redemption on 19 August 2019.

(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 interest rate of 5-year US treasury bonds plus 285 basis points.

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.2 Tier 2 capital bonds *(Continued)*

(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 interest rate 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, the first day upon the end of the fifth interest-bearing year, provided that 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.

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	Ending balance	Opening balance
The Bank										
15 BoComm	RMB	Mainland China	3.45	30,000	2015/12/17	5 years	30,000	549	30,000	30,000
16 BoComm Green Financial bond 01	RMB	Mainland China	2.94	10,000	2016/11/18	3 years	10,000	178	10,000	10,000
16 BoComm Green Financial bond 02	RMB	Mainland China	3.25	20,000	2016/11/18	5 years	20,000	393	20,000	20,000
17 BoComm Green Financial bond	RMB	Mainland China	4.29	20,000	2017/10/30	3 years	20,000	574	20,000	20,000
18 Bocom Micro Small Enterprises Bond	RMB	Mainland China	3.79	10,000	2018/11/30	3 years	10,000	221	10,000	10,000
14 Formosa Bond B	RMB	Taiwan, China	3.85	500	2014/06/23	5 years	500	–	–	499
14 Formosa Bond C	RMB	Taiwan, China	4.15	500	2014/06/23	7 years	500	–	500	499
17 medium-term notes 01	USD	Hong Kong, China	3MLibor +0.78	700	2017/05/15	3 years	4,812	21	4,806	4,802
17 medium-term notes 02	USD	Hong Kong, China	3MLibor +0.88	300	2017/05/15	5 years	2,062	9	2,060	2,058
17 medium-term notes 03	USD	Hong Kong, China	3MLibor +0.80	400	2017/12/04	3 years	2,750	7	2,747	2,744
17 medium-term notes 04	USD	Hong Kong, China	3MLibor +0.90	600	2017/12/04	5 years	4,125	11	4,120	4,116
18 medium-term notes 01	USD	Hong Kong, China	3MLibor +0.75	600	2018/05/17	3 years	4,125	17	4,120	4,116
18 medium-term notes 02	USD	Hong Kong, China	3MLibor +0.85	700	2018/05/17	5 years	4,812	22	4,806	4,802
P14JHTP1B	RMB	Taiwan, China	3.75	900	2014/12/04	5 years	900	2	885	898
P14JHTP1C	RMB	Taiwan, China	3.90	700	2014/12/04	7 years	700	2	689	698
P14JHTP1D	RMB	Taiwan, China	4.00	200	2014/12/04	10 years	200	1	197	199
Sub-total							115,486	2,007	114,930	115,431

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

30 DEBT SECURITIES ISSUED *(Continued)*

30.3 Bonds *(Continued)*

	Currency	Issue place	Coupon rate %	Par value (CCY)	Issue date	Maturity	Issue amount	Interest payable	Ending balance	Opening balance
Subsidiaries										
13 Azure Orbit	USD	Hong Kong, China	3.75	500	2013/03/06	10 years	3,437	41	3,433	3,427
14 Azure Orbit	USD	Hong Kong, China	3.375	500	2014/04/25	5 years	3,437	–	–	3,428
5 Year medium-term notes	USD	Hong Kong, China	3.125	385	2015/08/18	5 years	2,647	30	2,645	2,642
3 Year USD bond	USD	Hong Kong, China	2.23	400	2016/03/15	3 years	2,750	–	–	2,745
5 Year USD bond	USD	Hong Kong, China	2.748	600	2016/03/15	5 years	4,125	33	4,116	4,105
3 Year USD bond	USD	Hong Kong, China	3.50	300	2018/01/25	3 years	2,062	31	2,054	2,035
5 Year USD bond	USD	Hong Kong, China	3.75	950	2018/01/25	5 years	6,531	105	6,502	6,496
10 Year USD bond	USD	Hong Kong, China	4.00	250	2018/01/25	10 years	1,719	29	1,700	1,692
16 Leasing 01	RMB	Mainland China	3.17	4,000	2016/07/21	3 years	4,000	116	3,900	3,898
16 Leasing 02	RMB	Mainland China	3.05	1,500	2016/09/07	3 years	1,500	37	1,200	1,199
16 Leasing 03	RMB	Mainland China	3.25	500	2016/09/07	5 years	500	13	449	449
17 Leasing 01	RMB	Mainland China	4.53	2,000	2017/07/18	3 years	2,000	86	1,948	1,947
17 Leasing 02	RMB	Mainland China	4.60	3,000	2017/08/22	3 years	3,000	117	2,397	2,395
17 Leasing 03	RMB	Mainland China	4.70	3,000	2017/10/18	3 years	3,000	98	2,396	2,395
18 Leasing 01	RMB	Mainland China	4.53	4,000	2018/07/05	3 years	4,000	177	3,992	3,990
18 Leasing 02	RMB	Mainland China	4.14	4,000	2018/10/22	3 years	4,000	113	3,991	3,989
Azure Nova	USD	Hong Kong, China	2.283	500	2016/10/25	3 years	3,437	18	3,439	3,431
Azure Nova	USD	Hong Kong, China	2.714	1,000	2016/10/25	5 years	6,875	34	6,857	6,847
Azure Nova	USD	Hong Kong, China	3.00	700	2017/03/21	3 years	4,812	39	4,812	4,788
Azure Nova	USD	Hong Kong, China	3.50	1,050	2017/03/21	5 years	7,218	70	7,199	7,171
Azure Nova	USD	Hong Kong, China	4.25	250	2017/03/21	10 years	1,719	20	1,704	1,708
19 USD medium-term notes 01	USD	Hong Kong, China	4.00	800	2019/01/22	3 years	5,500	96	5,453	–
19 USD medium-term notes 02	USD	Hong Kong, China	4.375	700	2019/01/22	5 years	4,812	92	4,769	–
19 USD medium-term notes 03	USD	Hong Kong, China	3.8035	120	2019/04/12	3 years	825	7	825	–
19 Leasing 01	RMB	Mainland China	3.68	5,000	2019/05/20	3 years	5,000	20	4,989	–
19 Brazil bonds	BRL	Brazil	110% SELIC	200	2019/01/30	5 years	345	10	68	–
Sub-total							89,251	1,432	80,838	70,777
Total							204,737	3,439	195,768	186,208

(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	Opening balance
14 Hong Kong bond	HKD	Hong Kong, China	4.00	500	2014/02/14	7 years	440	440	6	451	449
14 Hong Kong bond 02	HKD	Hong Kong, China	3.20	350	2014/04/02	5 years	308	–	–	–	307
16 Hong Kong medium-term notes	USD	Hong Kong, China	2.25	500	2016/01/25	3 years	3,437	–	–	–	3,429
16 Hong Kong USD medium-term notes	USD	Hong Kong, China	3MLibor +0.875	550	2016/08/16	3 years	3,781	3,781	16	3,779	3,777
17 Hong Kong USD medium-term notes	USD	Hong Kong, China	3MLibor +0.775	850	2017/02/21	3 years	5,843	5,843	21	5,840	5,833
18 Hong Kong medium-term notes	HKD	Hong Kong, China	2.95	3,000	2018/05/18	2 years	2,639	2,639	9	2,650	2,634
19 Hong Kong RMB medium-term notes	RMB	Hong Kong, China	3.40	2,500	2019/03/21	2 years	2,500	2,500	23	2,500	–
19 Hong Kong medium-term notes	HKD	Hong Kong, China	2.85	3,500	2019/03/21	5 years	3,079	3,079	24	3,084	–
19 Hong Kong USD medium-term notes	USD	Hong Kong, China	3MLibor +0.78	800	2019/03/21	3 years	5,500	5,500	5	5,494	–
Total							27,527	23,782	104	23,798	16,429

31 OTHER LIABILITIES

	As at 30 June 2019	As at 31 December 2018
Lease liabilities	6,557	N.A.
Insurance contracts reserve	28,628	22,821
Settlement accounts	35,511	21,692
Staff compensation payable	5,054	9,309
Deposits received for finance lease	7,616	7,677
VAT and other taxes payable	5,184	4,515
Provision for outstanding litigations (a)	1,161	982
ECL allowance for off-balance sheet businesses (b)	4,084	5,081
Dividends payable	25,101	77
Others	69,969	59,560
Total	188,865	131,714

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31 OTHER LIABILITIES *(Continued)*

(a) Movements in the provision for outstanding litigations

	As at 1 January 2019	Amounts accrued during the period	Amounts settled during the period	Amounts reversed during the period	Exchange differences	As at 30 June 2019
Provision for outstanding litigations	982	405	(1)	(225)	–	1,161
	982	405	(1)	(225)	–	1,161

	As at 1 January 2018	Amounts accrued during the year	Amounts settled during the year	Amounts reversed during the year	Exchange differences	As at 31 December 2018
Provision for outstanding litigations	449	641	(17)	(91)	–	982
	449	641	(17)	(91)	–	982

(b) Movements in impairment provision for guarantees and commitments

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 January 2019	4,741	340	–	5,081
Addition/(Reversal)	(510)	(150)	–	(660)
Transfers:	(11)	11	–	–
Transfer between Stage 1 and Stage 2, net	(11)	11	–	–
Remeasurement	(295)	(42)	–	(337)
Exchange influence	1	(1)	–	–
Loss allowance as at 30 June 2019	3,926	158	–	4,084

32 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	**Ordinary shares of RMB1 each**	**Capital surplus**	**Total**
As at 1 January 2019	**74,263**	**74,263**	**113,663**	**187,926**
As at 30 June 2019	**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 2018	74,263	74,263	113,663	187,926
As at 31 December 2018	74,263	74,263	113,663	187,926

As at 30 June 2019 and 31 December 2018, the number of A shares of the Group was 39,251 million, and the number of H shares of the Group was 35,012 million, both with par value of RMB1 per share.

As at 30 June 2019 and 31 December 2018, the Group's capital surplus is listed as follows:

	As at 1 January 2019	**Additions**	**Reductions**	**As at 30 June 2019**
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 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

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

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			

33.2 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.

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Offshore 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. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) *Mandatory conversion trigger events*

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7555), partially or entirely. The initial mandatory convertible price is HKD6.51 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increases due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

(d) *Order of distribution and liquidation method*

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the 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.

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33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Domestic preference shares

(a) *Dividend*

The domestic preference shares will accrue dividends on their issue price at the relevant dividend rate below:

(1) From and including the issue date to but excluding the first reset date, at the rate of 3.90% per annum; and

(2) The dividend rate will be re-priced every five years thereafter with reference to the arithmetic average value (rounding off to 0.01%) of five-year Chinese treasury bonds yield at the date which is 20 transaction days before the reset date (excluding the date)plus a fixed premium of 1.37%. As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on domestic preference shares.

The dividend for 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.

(b) *Conditions to distribution of dividends*

The Bank could pay dividends while the bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Domestic preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any preference share dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

(c) *Mandatory conversion trigger events*

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, domestic preference shares shall be mandatorily converted into ordinary A Shares of the Bank, partially or entirely. The initial mandatory conversion price is RMB6.25 per share. To balance the interest between preference shareholders and ordinary shareholders, the mandatory conversion price of the preference shares will be cumulatively adjusted in sequence where certain events occur including issuances of bonus shares, capitalisation of reserves, new issuances of ordinary shares at a price lower than the market price (excluding equity increased due to exercise of convertible financing instruments that can be converted into ordinary shares) and rights issues, subject to terms and formulas provided for in the offering documents. Appropriation of dividends to ordinary shareholders is not trigger event for price adjustment.

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

33 PREFERENCE SHARES *(Continued)*

33.2 Main clauses *(Continued)*

Domestic preference shares *(Continued)*

(d) *Order of distribution and liquidation method*

On winding-up of the Bank, distribution to domestic preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the domestic preference shares; all domestic preference shareholders are ranked at the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to domestic preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the domestic preference shares have been made, be applied to the claims of the domestic preference shareholders equally in all respects with the claims of holders of any parity obligations (which term, for the avoidance of doubt, includes the domestic preference shares and any other preference shares of the Bank issued from time to time to investors outside the PRC) and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the domestic preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, domestic and offshore preference shareholders will share the distribution amount on a proportional basis.

(e) *Redemption*

The domestic preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining 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.

33.3 Movements of preference shares issued

		Movements		
	Balance at 1 January 2019	Additions	Decreases	Balance at 30 June 2019
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**

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

33 PREFERENCE SHARES *(Continued)*

33.4 Interests attribute to holders of preference shares

	As at 30 June 2019	As at 31 December 2018
Total equity attribute to equity holders of the parent company	716,490	698,405
Equity attribute to ordinary shareholders of the parent company	656,614	638,529
Equity attribute to preference shareholders of the parent company	59,876	59,876
Of which: Net profit	2,671	2,618
Total comprehensive income	–	–
Dividends paid during the year	2,671	2,618
Unpaid cumulative dividends	–	–
Total equity attribute to non-controlling interests	7,258	6,903
Equity attribute to non-controlling interests of ordinary shares	7,258	6,903
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 35) 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.

	As at 30 June 2019	As at 31 December 2018
Statutory reserve	–	6,833
Statutory general reserve	2,738	8,705
Discretionary reserve	–	–
Total	2,738	15,538

For the six months ended 30 June 2019, the Group and the Bank transferred RMB2,850 million (for the six months ended 30 June 2018: RMB9,158 million) and RMB2,738 million (for the six months ended 30 June 2018: RMB8,705 million) respectively to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB2,738 million (2018: RMB8,705 million) related to the appropriation proposed for the Bank for the year ended 31 December 2018 which was approved in the 2018 Annual General Meeting held on 21 June 2019.

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

35 DIVIDENDS

	Six months ended 30 June	
	2019	2018
Dividends to ordinary shareholders of the Bank	22,279	21,209
Dividends to preference shareholders of the Bank	2,671	2,618

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 approval by the Board meeting on 29 April 2019, the Bank appropriated overseas preference dividends on 29 July 2019 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 7 September 2019 is not a working day, the dividend payment day defers to 9 September 2019. The Bank will appropriate domestic preference dividends on 9 September 2019 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 approval by the Annual General Meeting of Shareholders on 21 June 2019, the Bank appropriated RMB2,738 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.30 (before tax) for each ordinary share, with total amount of RMB22,279 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2018, will be distributed to ordinary shareholders.

For the six months ended 30 June 2019

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

36 FINANCIAL GUARANTEES AND CREDIT-RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit-related commitments

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

	As at 30 June 2019	As at 31 December 2018
Letters of guarantee	271,120	268,097
Letters of credit commitments	146,916	141,137
Acceptance bills	238,066	228,550
Credit card commitments	718,801	759,994
Loan commitments		
– Under 1 year	18,761	12,709
– 1 year and above	40,256	45,731
	1,433,920	1,456,218

Capital expenditure commitments

	As at 30 June 2019	As at 31 December 2018
Contracted but not provided for	61,201	66,968

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
Within 1 year (inclusive)	3,918
Beyond 1 year but no more than 2 years (inclusive)	2,772
Beyond 2 years but no more than 3 years (inclusive)	1,908
Beyond 3 years but no more than 5 years (inclusive)	2,215
More than 5 years	1,532
	12,345

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

	As at 30 June 2019	As at 31 December 2018
Within 1 year (inclusive)	13,366	11,204
Beyond 1 year but no more than 2 years (inclusive)	13,057	11,045
Beyond 2 years but no more than 3 years (inclusive)	12,640	10,768
Beyond 3 years but no more than 5 years (inclusive)	24,033	20,983
More than 5 years	49,465	59,827
	112,561	113,827

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

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

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 30 June 2019, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB80,368 million (31 December 2018: RMB74,423 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 30 June 2019, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2018: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 31. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the period/year are summarised as follows:

	As at 30 June 2019	As at 31 December 2018
Outstanding claims	4,263	3,242
Provision for outstanding litigation (Note 31)	1,161	982

37 COLLATERALS

(1) Assets pledged

The Group uses part of its assets as collaterals for operations including repurchase arrangements as well as placements with and from banks and other financial institutions. All of these arrangements and placements mature within 12 months from the date they take effect. The carrying amount of these collaterals and the balance of operations related are listed below:

	Pledged assets		Associated liabilities	
	As at 30 June 2019	As at 31 December 2018	As at 30 June 2019	As at 31 December 2018
Investment securities	499,037	697,288	415,400	581,070
Bills	35,892	32,308	35,892	32,308
Total	534,929	729,596	451,292	613,378

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 30 June 2019, the Group did not have such collaterals (31 December 2018: the fair value of such collaterals amounted to RMB2,758 million). All pledges are conducted under standard and normal business terms. As at 30 June 2019 and 31 December 2018, the Group did not sell or re-pledge any collaterals received.

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

38 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2019		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Loans and advances to customers – Carried at FVOCI	(709)	(192)	(901)
Net gains recorded in equity	(709)	(192)	(901)
Net gains reclassified from equity to profit or loss	–	–	–
Financial investments – debt instruments at FVOCI	2,398	(838)	1,560
Net gains recorded in equity	2,639	(898)	1,741
Net gains reclassified from equity to profit or loss	(241)	60	(181)
Effective portion of gains or losses on hedging instruments in a cash flow hedge	(72)	11	(61)
Changes in fair value recorded in equity	156	(46)	110
Changes in fair value reclassified from equity to profit or loss	(228)	57	(171)
Translation difference on foreign operations	141	–	141
Net gains on investments in equity instruments designated at FVOCI	130	(31)	99
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	74	–	74
Actuarial gains on pension benefits	3	–	3
Others	25	(9)	16
Other comprehensive income for the period	1,990	(1,059)	931

	Six months ended 30 June 2018		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Loans and advances to customers – Carried at FVOCI	334	(152)	182
Net gains recorded in equity	334	(152)	182
Net gains reclassified from equity to profit or loss	–	–	–
Financial investments – debt instruments at FVOCI	1,730	(450)	1,280
Net gains recorded in equity	1,725	(449)	1,276
Net gains reclassified from equity to profit or loss	5	(1)	4
Effective portion of gains or losses on hedging instruments in a cash flow hedge	47	(12)	35
Changes in fair value recorded in equity	126	(32)	94
Changes in fair value reclassified from equity to profit or loss	(79)	20	(59)
Translation difference on foreign operations	344	–	344
Net gains on investments in equity instruments designated at FVOCI	211	(50)	161
Changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVPL	6	–	6
Actuarial gains on pension benefits	(15)	–	(15)
Others	(5)	–	(5)
Other comprehensive income for the period	2,652	(664)	1,988

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

39 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

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

	As at 30 June 2019	As at 30 June 2018
Cash and balances with central banks	92,702	132,479
Due from and placements with banks and other financial institutions	88,599	118,570
	181,301	251,049

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 30 June 2019, the wealth management products managed and consolidated by the Group amounted to RMB37,393 million (31 December 2018: RMB138,366 million). The financial impact of any individual wealth management product on the Group's financial performance is not significant.

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

41 UNCONSOLIDATED STRUCTURED ENTITIES

The Group has been involved in other structured entities through investments in structured entities or acting as sponsors of structured entities that provide specialised investment opportunities to investors. These structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 30 June 2019, 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 at fair value through profit and financial investments at amortised cost.

As at 30 June 2019 and 31 December 2018, unconsolidated structured entities sponsored by the Group are set out as below:

	Sponsored amount		Type of income
	30 June 2019	31 December 2018	
Funds	267,011	242,502	Commission income
Trusts and asset management products	1,034,162	1,054,073	Commission income
Wealth management products	1,008,106	960,003	Commission income
Total	2,309,279	2,256,578	

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

41 UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

For the six months ended 30 June 2019, the Group's commission income from providing service to the investors of the structured entities managed by the Group was RMB1,960 million (for the six months ended 30 June 2018: RMB1,452 million), and Net Interest Income which related to placements transactions by the Group with WMP Vehicles was RMB685 million (for the six months ended 30 June 2018: RMB904 million).

As at 30 June 2019 and 31 December 2018, the carrying amount of interests in unconsolidated structured entities held by the Group through investment was set out as follows:

As at 30 June 2019

	Carrying amount			
	Financial investments at FVPL	Financial investments at amortised cost	Maximum exposure to loss	Type of income
Funds	246,644	–	246,644	Net gains arising from trading activities
Trusts and asset management products	7,246	169,815	177,061	Interest income of net gains arising from trading activities
Wealth management products	2,989	–	2,989	Net gains arising from trading activities
Total	256,879	169,815	426,694	

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

As at 31 December 2018

	Carrying amount			
	Financial investments at FVPL	Financial investments 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	Interest income of net gains arising from trading activities
Wealth management products	2,101	–	2,101	Net gains arising from trading activities
Total	187,554	200,861	388,415	

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

42 TRANSFERS OF FINANCIAL ASSETS

42.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 30 June 2019 and 31 December 2018, the Group entered into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial assets sold under repurchase agreements" (Note 26).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Collaterals		Associated liabilities	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018
Investment securities	**6,119**	4,094	**5,284**	3,797

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 re-pledge those securities lent under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2019, the carrying value of debt securities lent to counterparties was RMB6,300 million (31 December 2018: RMB3,810 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 30 June 2019, loans with an original value of RMB72,652 million and carrying amount of RMB72,094 million (31 December 2018: RMB98,763 million and RMB93,777 million) were securitised by the Group and the Bank.

As at 30 June 2019, the Group and the Bank retained their continued involvement in securitized credit assets by holding subordinated securities. The value of the assets that the Group and the Bank continued to recognised was RMB5,849 million. (31 December 2018: RMB6,108 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 six months ended 30 June 2019, the Group had transferred impaired loans and advances to customers with a gross carrying amount of RMB7,697 million (31 December 2018: RMB8,971 million) and collected cash totaling RMB2,602 million (31 December 2018: RMB3,448 million) from the transfer. The difference between the gross carrying amount and the cash collected was written off. The Group de-recognised the impaired loans and advances to customers from the Group's financial statements at the time of disposal.

For the six months ended 30 June 2019

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

43 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2019, the MOF was holding 19,703 million (31 December 2018: 19,703 million) shares of the Group which represented 26.53% (31 December 2018: 26.53%) of total share capital of the Group. The Group enters into banking transactions with the MOF in the normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The related party transaction volumes, outstanding balances at the end of the period and the revenue from related party transactions for the period are listed below:

	As at 30 June 2019	As at 31 December 2018
Investments in bonds issued by MOF	545,756	524,736
Interest receivable	7,466	8,017

	Six months ended 30 June	
	2019	2018
Interest income	9,000	7,426

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

	Six months ended 30 June	
	2019 %	2018 %
Bonds issued by MOF	2.13~5.41	1.94~5.05

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 30 June 2019, National Council for Social Security Fund was holding 10,934 million (31 December 2018: 10,923 million) shares of the Group which represented 14.72% (31 December 2018: 14.71%) of total share capital of the Group. The Group enters into transactions with National Council for Social Security Fund in the normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2019	As at 31 December 2018
Due to customers	15,150	26,650
Interest payable	329	359

	Six months ended 30 June	
	2019	2018
Interest expense	390	858

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

	Six months ended 30 June	
	2019 %	2018 %
Due to customers	3.85~6.10	3.85~6.10

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

As at 30 June 2019, HSBC was holding 13,886 million (31 December 2018: 13,886 million) shares of the Group which represented 18.70% (31 December 2018: 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.

For the six months ended 30 June 2019
(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)*

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2019	As at 31 December 2018
On-balance sheet items		
Due from banks and other financial institutions	1,207	2,250
Loans to banks and other financial institutions	2,300	–
Derivative financial assets	910	1,592
Financial assets held under resale agreements	970	–
Financial investments at FVOCI	4,390	4,410
Financial investments at amortised cost	224	230
Financial investments at FVPL	1,301	1,314
Deposits from banks and other financial institutions	1,033	1,289
Loans from banks and other financial institutions	15,118	13,298
Financial liabilities at FVPL	2,153	2,832
Certificates of deposit issued	40,811	48,776
Derivative financial liabilities	938	760
Financial assets sold under repurchase agreements	2,585	1,807
Off-balance sheet items		
Notional principal of derivative financial instruments	182,051	138,544

	Six months ended 30 June	
	2019	2018
Net losses from trading activities	(817)	(170)
Interest income	92	72
Interest expense	914	539

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

	Six months ended 30 June	
	2019 %	2018 %
Due from banks and other financial institutions	0.01~3.88	0.01~2.84
Loans to banks and other financial institutions	1.39~2.65	2.00~2.05
Financial investments	1.50~4.74	1.50~4.75
Deposits from banks and other financial institutions	0.01~3.80	0.01~6.10
Loans from banks and other financial institutions	(0.16)~3.46	(0.01)~4.75
Certificates of deposit issued	1.40~3.44	0.69~3.17
Financial assets held under resale agreements	1.38~3.10	2.73~5.60
Financial assets sold under repurchase agreements	2.42~2.80	4.00~5.30

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of inter-bank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

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

(e) Transactions with subsidiaries

The pricing of the transactions with subsidiaries is determined based on normal commercial banks.

Details of transaction volumes and outstanding balances are summarised below:

The Bank	As at 30 June 2019	As at 31 December 2018
Due from banks and other financial institutions	330	484
Loans to banks and other financial institutions	72,376	74,791
Loans and advances to customers	1,651	7,298
Financial investments at amortised cost	1,756	1,721
Other assets	262	126
Deposits from banks and other financial institutions	18,044	19,904
Loans from banks and other financial institutions	11,438	10,255
Due to customers	3,142	2,201
Debt securities issued	52	51
Other liabilities	24	31

	Six months ended 30 June	
The Bank	2019	2018
Interest income	1,202	1,070
Interest expense	232	224
Fee and commission income	489	490
Fee and commission expense	15	21
Other operating income	281	158
Other operating expense	109	94

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Transactions with subsidiaries *(Continued)*

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

The Bank	Six months ended 30 June 2019 %	 2018 %
Due from banks and other financial institutions	0.01~4.00	0.72~4.60
Loans to banks and other financial institutions	0.02~5.40	0.03~5.45
Financial investments	3.05~4.70	3.05~4.70
Loans and advances to customers	2.18~4.30	0.03~4.70
Deposits from banks and other financial institutions	0.01~4.18	0.20~4.85
Loans from banks and other financial institutions	(0.30)~3.01	0.10~3.00
Due to customers	0.01~2.39	0.01~1.91
Debt securities issued	5.75	5.75

(f) Transactions with directors and senior management

The Group enters into transactions, including loans and deposits with directors, senior management and controlled bodies corporate of connected entities with such directors and senior management under the normal course of business and they mainly include deposits, which are carried out under commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2019	As at 31 December 2018
Due to customers	20	8
Loans and advances to customers	4	4

Compensations of directors and senior management are disclosed in Note 13.

(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 30 June 2019	As at 31 December 2018
Deposits from banks and other financial institutions	608	222
Financial assets held under resale agreements	577	–
Due from banks and other financial institutions	–	101
Placements to banks and other financial institutions	689	10

	Six months ended 30 June 2019	 2018
Interest income	1	–
Interest expense	2	14

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

43 RELATED PARTY TRANSACTIONS *(Continued)*

(g) Transactions with associates *(Continued)*

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

	Six months ended 30 June	
	2019 %	2018 %
Due from banks and other financial institutions	3.88	N.A
Deposits from banks and other financial institutions	0.01~5.50	1.35~5.58
Placements to banks and other financial institutions	0.75~2.65	N.A
Financial assets held under resale agreements	1.38~2.50	2.66~2.75

(h) Transactions with other related parties

Details of transaction volumes and outstanding balances are summarised below:

	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers	852	4,337
Interest receivable of loans and advances to customers	1	6
Deposits from banks and other financial institutions	667	1,910
Interest payable of deposits from banks and other financial institutions	12	18
Due to customers	46,804	42,094
Interest payable of due to customers	630	1,076

	Six months ended 30 June	
	2019	2018
Interest income	51	103
Interest expense	712	610

The interest rates of the transactions between the Group and other related parties are summarised below:

	Six months ended 30 June	
	2019 %	2018 %
Loans and advances to customers	3.92~6.31	3.92~5.00
Deposits from banks and other financial institutions	0.35~5.80	3.65~5.80
Due to customers	1.10~4.18	1.30~4.88

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 Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;

(2) North Eastern China – including Liaoning, Jilin, and Heilongjiang;

(3) Eastern China – including Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(4) Central and Southern China – including Henan, Hunan, Hubei, Guangdong, Guangxi and Hainan;

(5) Western China – including 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, Melbourne,Prague and other overseas affiliates.

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

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the 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 on which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

For the six months ended 30 June 2019

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	Six months ended 30 June 2019								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	14,691	4,528	42,140	24,189	11,763	16,709	67,842	–	181,862
External interest expense	(14,898)	(4,397)	(29,413)	(16,677)	(7,619)	(12,124)	(26,672)	–	(111,800)
Inter-segment net interest income/(expense)	8,823	2,406	11,971	8,305	3,020	(58)	(34,467)	–	–
Net interest income	8,616	2,537	24,698	15,817	7,164	4,527	6,703	–	70,062
Fee and commission income	2,437	813	7,502	4,708	1,829	1,691	6,090	–	25,070
Fee and commission expense	(19)	(8)	(726)	(45)	(12)	(152)	(986)	–	(1,948)
Net fee and commission income	2,418	805	6,776	4,663	1,817	1,539	5,104	–	23,122
Net gains arising from trading activities	182	23	1,126	282	62	15	6,599		8,289
Net gains arising from financial investments	–	–	40	–	–	259	29	–	328
Insurance business income	–	–	8,291	–	–	20	–	–	8,311
Share of profits of associates and joint ventures	–	–	–	–	–	99	193	–	292
Other operating income	391	82	5,951	263	289	862	72	–	7,910
Total operating income – net	11,607	3,447	46,882	21,025	9,332	7,321	18,700	–	118,314
Credit impairment losses	(809)	(2,254)	(7,400)	(2,086)	(1,288)	99	(7,806)	–	(21,544)
Other assets impairment losses	–	(1)	5	(10)	–	–	–	–	(6)
Insurance business expense	–	–	(7,872)	–	–	(6)	–	–	(7,878)
Other operating expense	(3,671)	(1,739)	(13,572)	(5,688)	(3,097)	(2,564)	(9,596)	–	(39,927)
Profit before tax	7,127	(547)	18,043	13,241	4,947	4,850	1,298	–	48,959
Income tax									(5,811)
Net profit for the period									43,148
Depreciation and amortisation	(539)	(212)	(1,151)	(789)	(438)	(285)	(620)	–	(4,034)
Capital expenditure	(47)	(27)	(18,859)	(152)	(74)	(73)	(193)	–	(19,425)

For the six months ended 30 June 2019

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	Six months ended 30 June 2018								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	14,271	4,793	38,493	21,246	10,619	12,711	68,413	–	170,546
External interest expense	(16,577)	(4,736)	(30,231)	(17,034)	(7,488)	(9,689)	(24,133)	–	(109,888)
Inter-segment net interest income/(expense)	10,151	2,412	12,284	9,728	3,215	2	(37,792)	–	–
Net interest income	7,845	2,469	20,546	13,940	6,346	3,024	6,488	–	60,658
Fee and commission income	2,244	846	7,532	4,336	1,721	1,700	4,367	–	22,746
Fee and commission expense	(146)	(32)	(854)	(167)	(96)	(178)	(91)	–	(1,564)
Net fee and commission income	2,098	814	6,678	4,169	1,625	1,522	4,276	–	21,182
Net gains arising from trading activities	146	33	754	194	76	690	6,380	–	8,273
Net gains/(losses) arising from financial investments	–	–	22	–	–	4	(9)	–	17
Insurance business income	–	–	4,106	–	–	16	–	–	4,122
Share of profits of associates and joint ventures	–	–	–	–	–	13	127	–	140
Other operating income	599	123	4,881	348	295	683	712	–	7,641
Total operating income – net	10,688	3,439	36,987	18,651	8,342	5,952	17,974	–	102,033
Credit impairment losses	816	(3,392)	(5,560)	(1,091)	(2,164)	(276)	(4,996)	–	(16,663)
Other assets impairment losses	–	–	(1)	–	–	(2)	–	–	(3)
Insurance business expense	–	–	(3,718)	–	–	(5)	–	–	(3,723)
Other operating expense	(3,391)	(1,582)	(11,738)	(5,019)	(2,348)	(2,118)	(7,978)	–	(34,174)
Profit before tax	8,113	(1,535)	15,970	12,541	3,830	3,551	5,000	–	47,470
Income tax									(6,476)
Net profit for the period									40,994
Depreciation and amortisation	(372)	(170)	(818)	(523)	(297)	(114)	(502)	–	(2,796)
Capital expenditure	(22)	(20)	(11,451)	(114)	(121)	(192)	(275)	–	(12,195)

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

44 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	As at 30 June 2019								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	1,163,007	355,952	2,851,510	1,566,735	727,453	1,063,300	4,220,242	(2,084,716)	9,863,483
Including:									
Investments in associates and joint ventures	–	–	4	6	–	391	3,983	–	4,384
Unallocated assets									23,125
Total assets									9,886,608
Segment liabilities	(1,155,850)	(356,987)	(2,727,689)	(1,542,874)	(723,893)	(1,032,483)	(3,707,130)	2,084,716	(9,162,190)
Unallocated liabilities									(670)
Total liabilities									(9,162,860)

	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 ventures	–	–	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)

(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:

	Six months ended 30 June 2019				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	25,603	22,114	21,218	1,127	70,062
Inter-segment net interest income/(expense)	10,487	7,862	(18,349)	–	–
Net interest income	36,090	29,976	2,869	1,127	70,062
Net fee and commission income	8,704	13,217	59	1,142	23,122
Net gains/(losses) arising from trading activities	774	(1)	6,561	955	8,289
Net gains arising from financial investments	–	–	328	–	328
Share of profits of associates and joint ventures	–	–	–	292	292
Insurance business income	–	–	–	8,311	8,311
Other operating income	6,162	1,268	–	480	7,910
Total operating income – net	51,730	44,460	9,817	12,307	118,314
Credit impairment losses	(12,450)	(9,333)	263	(24)	(21,544)
Other assets impairment losses	–	–	–	(6)	(6)
Insurance business expense	–	–	–	(7,878)	(7,878)
Other operating expense					
– Depreciation and amortisation	(1,214)	(2,544)	(89)	(187)	(4,034)
– Others	(14,776)	(17,446)	(1,381)	(2,290)	(35,893)
Profit before tax	23,290	15,137	8,610	1,922	48,959
Income tax					(5,811)
Net profit for the period					43,148
Depreciation and amortisation	(1,214)	(2,544)	(89)	(187)	(4,034)
Capital expenditure	(5,844)	(12,255)	(426)	(900)	(19,425)

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

44 SEGMENTAL ANALYSIS *(Continued)*

	Six months ended 30 June 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	24,885	18,487	16,198	1,088	60,658
Inter-segment net interest income/ (expense)	8,685	4,129	(12,814)	–	–
Net interest income	33,570	22,616	3,384	1,088	60,658
Net fee and commission income	8,416	11,341	59	1,366	21,182
Net gains/(losses) arising from trading activities	1,548	(11)	7,032	(296)	8,273
Net gains arising from financial investments	–	–	17	–	17
Share of profits of associates and joint ventures	–	–	–	140	140
Insurance business income	–	–	–	4,122	4,122
Other operating income	5,147	1,610	1	883	7,641
Total operating income – net	48,681	35,556	10,493	7,303	102,033
Credit impairment losses	(10,281)	(6,215)	(162)	(5)	(16,663)
Other assets impairment losses	–	–	–	(3)	(3)
Insurance business expense	–	–	–	(3,723)	(3,723)
Other operating expense					
– Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
– Others	(11,175)	(14,633)	(1,201)	(1,488)	(28,497)
Profit before tax	25,517	11,127	9,005	1,821	47,470
Income tax					(6,476)
Net profit for the period					40,994
Depreciation and amortisation	(842)	(1,764)	(61)	(129)	(2,796)
Capital expenditure	(3,668)	(7,694)	(268)	(565)	(12,195)

For the six months ended 30 June 2019
(All amounts expressed in millions of RMB unless otherwise stated)

44 SEGMENTAL ANALYSIS *(Continued)*

	As at 30 June 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	3,439,644	1,744,021	4,589,963	89,855	9,863,483
Including:					
Investments in associates and joint ventures	–	–	–	4,384	4,384
Unallocated assets					23,125
Total assets					9,886,608
Segment liabilities	(4,445,891)	(1,975,188)	(2,682,135)	(58,976)	(9,162,190)
Unallocated assets					(670)
Total liabilities					(9,162,860)

	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 ventures	–	–	–	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)

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

45 FINANCIAL STATEMENTS DURING COMPARATIVE PERIOD

Due to the change of presentation of financial statement items, the comparative figures of the financial statements have been restated according to the presentation for the current period.

46 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

In August 2019, the Bank issued two tier 2 capital bonds with the face value of RMB30 billion due 2029 and RMB10 billion due 2034, the Bank has an option to redeem them at the end of 2024 and 2029 respectively.

Unaudited Supplementary Financial Information

All amounts expressed in millions of RMB unless otherwise stated

The following information of the Group does not form part of the reviewed interim financial information, and is included herein for information purposes only.

All amounts expressed in millions of RMB unless otherwise stated

1 CAPITAL ADEQUACY RATIO

At the end of June 2014, with regulatory approval, the Group started to adopt the advanced approach of capital management to measure its capital adequacy ratio in accordance with CBIRC's Administrative Measures for the Capital of Commercial Banks (Provisional) and relevant regulations. As at 30 June 2019, the capital ratios calculated based on the Administrative Measures for the Capital of Commercial Banks (Provisional) are as follows:

	As at 30 June 2019	As at 31 December 2018
Item		
Net Core Tier 1 Capital	653,117	634,807
Net Tier 1 Capital	713,196	694,832
Net Capital	831,689	817,549
Core Tier 1 Capital Adequacy Ratio (%)	10.86	11.16
Tier 1 Capital Adequacy Ratio (%)	11.86	12.21
Capital Adequacy Ratio (%)	13.84	14.37

2 LIQUIDITY RATIO

The liquidity ratios that the Group submitted to the Regulators are calculated in accordance with the formula promulgated by CBIRC.

	As at 30 June 2019	As at 31 December 2018
Liquidity ratio (%)	68.34	68.73

3 CURRENCY CONCENTRATIONS

	USD	HKD	Others	Total
As at 30 June 2019				
Spot assets	1,028,307	210,093	165,617	1,404,017
Spot liabilities	(1,044,699)	(270,958)	(113,001)	(1,428,658)
Forward purchases	1,127,132	161,356	91,814	1,380,302
Forward sales	(1,165,593)	(77,515)	(132,005)	(1,375,113)
Net option position	(7,009)	(17)	(1,234)	(8,260)
Net long/(short) position	(61,862)	22,959	11,191	(27,712)
Net structural position	118,240	18,910	4,320	141,470

	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

All amounts expressed in millions of RMB unless otherwise stated

3 CURRENCY CONCENTRATIONS *(Continued)*

The net options position is calculated using the approach as set out by CBIRC in the regulatory report. The net structural position of the Group includes the structural positions of the Group's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in fixed assets and properties, net of depreciation charges;

– Capital and statutory reserve of overseas branches;

– Investments in overseas subsidiaries and related companies; and

– Loan capital

4 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. The international claims of the Group is the sum of cross-border claims in all currencies and local claims in foreign currencies.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

International claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

International claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if risk exposure is transferred to other counterparty by risk resolving methods. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

As at 30 June 2019	Bank	Official sector	Non-bank private sector	Others	Total
Asia Pacific	495,907	56,312	548,021	–	1,100,240
Of which attributed to Hong Kong	86,181	15,557	216,025	–	317,763
North and South America	36,838	25,162	49,271	–	111,271
Africa	–	–	–	–	–
Europe	42,584	–	33,852	–	76,436
	575,329	81,474	631,144	–	1,287,947

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

All amounts expressed in millions of RMB unless otherwise stated

5 OVERDUE AND RESTRUCTURED ASSETS

5.1 Balance of overdue loans

	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers which have been overdue for:		
– Less than 3 months	28,215	25,843
– 3 to 6 months	12,194	10,983
– 6 to 12 months	18,817	21,096
– Over 12 months	34,256	31,242
	93,482	89,164
Percentage (%):		
– Less than 3 months	0.55	0.54
– 3 to 6 months	0.24	0.23
– 6 to 12 months	0.37	0.43
– Over 12 months	0.66	0.64
	1.82	1.84

5.2 Overdue and restructured loans

	As at 30 June 2019	As at 31 December 2018
Total restructured loans and advances to customers	9,325	9,415
Including: Restructured loans and advances to customers overdue above 3 months	2,734	3,617
Percentage of restructured loans and advances to customers overdue above 3 months in total loans	0.05	0.07

All amounts expressed in millions of RMB unless otherwise stated

6 SEGMENTAL INFORMATION OF LOANS

6.1 Impaired loans and advances to customers by geographical area

	As at 30 June 2019		As at 31 December 2018	
	Impaired loans and advances to customers	ECL allowance	Impaired loans and advances to customers	ECL allowance
PRC domestic regions				
– Northern China	7,636	(5,551)	7,734	(5,479)
– North Eastern China	9,157	(5,456)	8,668	(5,586)
– Eastern China	33,104	(24,616)	29,576	(20,869)
– Central and Southern China	15,408	(9,614)	14,941	(9,090)
– Western China	9,172	(5,446)	10,329	(6,084)
	74,477	(50,683)	71,248	(47,108)
Hong Kong, Macau, Taiwan and overseas regions	1,031	(811)	1,264	(915)
	75,508	(51,494)	72,512	(48,023)

6.2 Overdue loans and advances to customers by geographical area

	As at 30 June 2019		As at 31 December 2018	
	Overdue loans	ECL allowance	Overdue loans	ECL allowance
PRC domestic regions				
– Northern China	9,598	(5,553)	7,939	(5,346)
– North Eastern China	9,965	(6,633)	9,619	(5,742)
– Eastern China	48,448	(28,037)	43,603	(24,848)
– Central and Southern China	15,499	(9,418)	15,901	(9,594)
– Western China	8,050	(5,146)	10,536	(6,648)
	91,560	(54,787)	87,598	(52,178)
Hong Kong, Macau, Taiwan and overseas regions	1,922	(1,068)	1,566	(1,143)
	93,482	(55,855)	89,164	(53,321)
Fair value of collaterals	45,615	N.A	43,899	N.A

All amounts expressed in millions of RMB unless otherwise stated

7 LOANS AND ADVANCES TO CUSTOMERS

7.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

Hong Kong	As at 30 June 2019	%	Amount covered by collaterals	As at 31 December 2018	%	Amount covered by collaterals
Corporate loans						
Manufacturing						
– *Petroleum and chemical*	1,099	0.53	–	1,265	0.66	–
– *Electronics*	772	0.37	316	668	0.35	325
– *Textile and clothing*	1,827	0.89	642	2,990	1.56	634
– *Other manufacturing*	29,872	14.50	5,474	29,120	15.21	4,116
Electricity, gas and water production and supply	1,277	0.62	414	1,187	0.62	227
Construction	11,446	5.55	1,254	9,455	4.94	1,106
Transportation, storage and postal service	16,905	8.20	4,273	13,435	7.02	4,143
Telecommunication, IT service and software	1,230	0.60	35	835	0.44	32
Wholesale and retail	40,696	19.74	3,790	36,487	19.05	3,235
Accommodation and catering	–	–	–	–	–	–
Financial institutions	9,219	4.47	2,867	12,348	6.45	3,211
Real estate	18,044	8.76	7,532	12,934	6.75	6,736
Services	5,833	2.83	2,697	5,358	2.80	2,649
Education, science, culture and public health	–	–	–	–	–	–
Others	39,068	18.96	3,838	39,937	20.84	4,506
Total corporate loans	177,288	86.02	33,132	166,019	86.69	30,920
Individual loans						
Mortgage	15,291	7.42	15,276	14,445	7.54	14,429
Credit cards	136	0.07	–	156	0.08	–
Others	13,384	6.49	12,057	10,893	5.69	9,912
Total individual loans	28,811	13.98	27,333	25,494	13.31	24,341
Gross amount of loans and advances before impairment allowance	206,099	100.00	60,465	191,513	100.00	55,261
Outside Hong Kong	4,924,513			4,662,715		

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 was 52% as at 30 June 2019 (31 December 2018: 49%).

All amounts expressed in millions of RMB unless otherwise stated

7 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

7.2 Allowance on loans and advances by type of loan

	As at 30 June 2019		As at 31 December 2018	
	Impaired loans	ECL allowance	Impaired loans	ECL allowance
Corporates	56,776	(36,306)	57,172	(36,577)
Individuals	18,732	(15,188)	15,340	(11,446)
	75,508	(51,494)	72,512	(48,023)
Fair value of collaterals	29,955	N.A	28,349	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 period are disclosed below:

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	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	13,414	(11,568)	756	9,651	(24,718)	500
Individuals	8,671	(5,608)	562	5,818	(3,097)	221
	22,085	(17,176)	1,318	15,469	(27,815)	721

Supplementary Information on Capital Adequacy Ratio, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio

Appendices 1 to 4 are disclosed in accordance with the Notice on *Enhancing Disclosure Requirements for Composition of Capital* issued by the CBIRC.

Appendix 1: Group Balance Sheet (Accounting and Regulatory Consolidation)

(in millions of RMB)

		Balance sheet of the consolidation under CAS	Balance sheet of the consolidation under the regulation
	Assets:		
1	Cash and balances with central banks	802,956	802,956
2	Due from banks and other financial institutions	150,340	147,986
3	Loans to banks and other financial institutions	595,946	605,230
4	Derivative financial assets	19,676	19,665
5	Financial assets purchased under reverse agreements	40,496	39,447
6	Loans and advances to customers	5,013,630	5,013,214
7	Financial assets at fair value through profit or loss	449,304	436,038
8	Financial investments at amortized cost	1,978,430	1,963,699
9	Financial investments at fair value through other comprehensive income	561,868	541,891
10	Long term equity investments	4,384	10,106
11	Property and equipment	163,019	159,481
12	Land use rights	1,505	1,505
13	Deferred income tax assets	23,125	23,080
14	Goodwill	434	312
15	Intangible assets	1,568	1,536
16	Other assets	79,927	75,470
17	**Total assets**	9,886,608	9,841,616
	Liabilities:		
18	Borrowings from central banks	441,055	441,055
19	Deposits from banks and other financial institutions	945,148	945,151
20	Placements from banks and other financial institutions	485,823	485,911
21	Financial liabilities at fair value through profit or loss	28,465	28,465
22	Financial assets sold under repurchase agreements	80,493	75,529
23	Due to customers	6,135,448	6,137,515
24	Derivative financial liabilities	23,956	23,955
25	Debt securities issued	337,972	338,022
26	Employee benefits payable	5,054	4,915
27	Taxes payable	10,982	10,802
28	Deferred tax liabilities	670	642
29	Provisions	5,245	5,245
30	Other liabilities	662,549	622,509
31	**Total liabilities**	9,162,860	9,119,716
	Equity:		
32	Share capital	74,263	74,263
33	Other equity instruments	59,876	59,876
34	Capital surplus	113,663	113,731
35	Other comprehensive income	3,751	4,144
36	Surplus reserve	204,441	204,387
37	General risk reserve	117,131	117,080
38	Retained earnings	143,365	143,430
39	Minority interests	7,258	4,989
40	**Total Equity**	723,748	721,900

Appendix 2: Balance Sheet under Regulatory Consolidation

(in millions of RMB)

	Balance sheet of the regulatory consolidation	Code
Assets:		
Cash and balances with central banks	802,956	
Due from banks and other financial institutions	147,986	
Loans to banks and other financial institutions	605,230	
Derivative financial assets	19,665	
Financial assets purchased under reverse agreements	39,447	
Loans and advances to customers	5,013,214	
Financial assets at fair value through profit or loss	436,038	
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	660	a
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	207	b
Including: Core Tier 2 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	22,208	c
Financial investments at amortized cost	1,963,699	
Financial investments at fair value through other comprehensive income	541,891	
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	896	d
Including: Other Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	635	e
Long term equity investments	10,106	
Including: Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	3,655	f
Including: Core Tier 1 Capital from non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	3,075	g
Including: Core Tier 1 Capital from significant investments in the capital of financial institutions outside the scope of regulatory consolidation	907	h
Property and equipment	159,481	
Land use rights	1,505	i
Deferred tax assets	23,080	j
Including: Deferred tax assets arising from operating losses which are expected to offset against future profits	0	k
Including: Other deferred tax assets depending on the Bank's future profits	23,080	
Intangible assets	1,536	l
Goodwill	312	m
Other assets	75,470	
Total assets	9,841,616	

Appendix 2: Balance Sheet under Regulatory Consolidation *(Continued)*

(in millions of RMB)

	Balance sheet of the regulatory consolidation	Code
Liabilities:		
Borrowings from central banks	441,055	
Deposits from banks and other financial institutions	945,151	
Placements from banks and other financial institutions	485,911	
Financial liabilities at fair value through profit or loss	28,465	
Financial assets sold under repurchase agreements	75,529	
Due to customers	6,137,515	
Derivative financial liabilities	23,955	
Debt securities issued	338,022	
Including: Recognized in Tier 2 Capital	90,127	n
Employee benefits payable	4,915	
Taxes payable	10,802	
Deferred tax liabilities	642	o
Including: Deferred tax liabilities relating to goodwill	0	p
Including: Deferred tax liabilities relating to other intangible assets	0	q
Provisions	5,245	
Other liabilities	622,509	
Total liabilities	9,119,716	
Equity:		
Share capital	74,263	
Including: Those to be included in Core Tier 1 Capital	74,263	r
Including: Those to be included in other Tier 1 Capital	0	s
Other equity instruments	59,876	t
Capital surplus	113,731	u
Other comprehensive income	4,144	v
Including: Exchange reserve	696	w
Including: Effective portion of gains or losses on hedging instruments in cash	(59)	x
Surplus reserve	204,387	y
General reserve for risk assets	117,080	z
Retained earnings	143,430	aa
Non-controlling interests	4,989	
Including: Those to be included in Core Tier 1 Capital	1,526	ab
Including: Those to be included in other Tier 1 Capital	203	ac
Including: Those to be included in Tier 2 Capital	364	ad
Total equity	721,900	

Appendix 3: Group's Capital Breakdown

(in millions of RMB)

	Items	Amount	Code
Core Tier 1 Capital:			
1	Share capital	74,263	r
2	Retained earnings	464,897	
2a	Surplus reserve	204,387	y
2b	General reserve for risk assets	117,080	z
2c	Retained earnings	143,430	aa
3	Accumulated other comprehensive income and disclosed reserve	117,875	
3a	Capital surplus	113,731	u
3b	Others	4,144	v
4	Amount recognized in Core Tier 1 Capital during transition period (Only applicable to non-stock companies; for joint-stock companies, to be completed with "0")	0	
5	Non-controlling interests recognized in Core Tier 1 Capital	1,526	ab
6	Core Tier 1 Capital before regulatory adjustments	658,561	
Core Tier 1 Capital: Regulatory adjustments			
7	Prudent valuation adjustment	0	
8	Goodwill (net of deferred tax liabilities)	312	m-p
9	Other intangible assets (excluding land use rights) (net of deferred tax liabilities)	1,536	l-q
10	Net deferred tax assets arising from the carried forward losses and be realized upon future profits	0	k
11	Cash-flow hedge reserves	(59)	x
12	Gap of loan allowance	0	
13	Gains from sales of asset securitization	0	
14	Unrealized profit/loss arising from the changes in fair value liability due to credit risk	0	
15	Net defined-benefit pension assets (excluding deferred tax liabilities)	0	
16	Direct or indirect investments in Bank shares	0	
17	Interbank or with other financial institutions cross-holdings in Core Tier 1	0	
18	Non-significant investments in the Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
19	Significant investments in the Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
20	Mortgage servicing rights	0	
21	Net deferred tax assets depending on the Bank's future profits	0	
22	Deduction of the undeductible amount of significant investments in the core Tier 1 capital of financial institutions outside the scope of regulatory consolidation and other net deferred tax assets depending on the Bank's future profits which exceed the 15% of the core Tier 1 capital	0	
23	Including: Deducting of significant investments in the capital of financial institutions	0	
24	Including: Deducting of Mortgage servicing rights	0	
25	Including: Deducting of other deferred tax assets that depend on the Bank's future profits	0	
26a	Investments in Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	3,655	f
26b	Gaps of Core Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
26c	Other deductions from Core Tier 1 Capital	0	
27	Tier 1 Capital and Tier 2 Capital to cover deductions	0	
28	Total regulatory adjustments to Core Tier 1 Capital	5,444	
29	Core Tier 1 Capital	653,117	

Appendix 3: Group's Capital Breakdown *(Continued)*

(in millions of RMB)

Items		Amount	Code
Other Tier 1 Capital:			
30	Directly issued qualifying Other Tier 1 instruments plus stock surplus	59,876	
31	Including: Classified as equity	59,876	t
32	Including: Classified as liabilities	0	
33	Instruments not recognized in Other Tier 1 Capital after the transition period	0	
34	Non-controlling interests recognized in Other Tier 1 Capital	203	ac
35	Including: Portions not recognized in Other Tier 1 Capital after the transition period	0	
36	Other Tier 1 Capital before regulatory adjustments	60,079	
Other Tier 1 Capital: Regulatory adjustments			
37	Directly or indirectly investments in Bank other Tier 1 instruments	0	
38	Interbank or with other financial institutions cross-holdings in other Tier 1 instruments	0	
39	Non-significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
40	Significant investments in the Other Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	0	
41a	Investments in Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
41b	Gap of Other Tier 1 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
41c	Other deductions from Other Tier 1 Capital	0	
42	Regulatory adjustments applied to Other Tier 1 Capital due to insufficient Tier 2 Capital to cover deductions	0	
43	Total regulatory adjustments to Other Tier 1 Capital	0	
44	Other Tier 1 Capital	60,079	
45	Tier 1 Capital (Core Tier 1 Capital + Other Tier 1 Capital)	713,196	
Tier 2 Capital:			
46	Directly issued qualifying Tier 2 instruments plus stock surplus	90,127	n
47	Portions not recognized in Tier 2 Capital after the transition period	0	
48	Minority interest recognized in Tier 2 Capital	364	ad
49	Including: Portions not recognized after the transition period	0	
50	Provisions in Tier 2	28,002	
51	Tier 2 Capital before regulatory adjustments	118,493	
Tier 2 Capital: Regulatory adjustments			
52	Directly or indirectly investments in own Tier 2 instruments	0	
53	Interbank or with other financial institutions cross-holdings in Tier 2 instruments	0	
54	Non-significant investments in Tier 2 Capital of financial institutions outside the scope of regulatory consolidation	0	
55	Significant investments in the Tier 2 Capital of financial institutions outside the scope of regulatory consolidation outside the scope of regulatory consolidation	0	
56a	Investments in Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
56b	Gaps of Tier 2 Capital of financial institutions being controlled but outside the scope of regulatory consolidation	0	
56c	Other deductions from Tier 2 Capital	0	
57	Total regulatory adjustments to Tier 2 Capital	0	
58	Tier 2 Capital	118,493	

Appendix 3: Group's Capital Breakdown *(Continued)*

(in millions of RMB)

	Items	Amount	Code
59	Total capital (Tier 1 Capital + Tier 2 Capital)	831,689	
60	Total risk-weighted assets	6,011,424	
Capital adequacy ratio and reserve capital requirements			
61	Core Tier 1 Capital adequacy ratio (%)	10.86	
62	Tier 1 Capital adequacy ratio (%)	11.86	
63	Capital adequacy ratio (%)	13.84	
64	Specific buffer requirements of regulators (%)	3.50	
65	Including: Capital conservation buffer requirements (%)	2.50	
66	Including: Countercyclical buffer requirements (%)	0.00	
67	Including: Additional buffer requirements of global systemically important banks (%)	1.00	
68	Core Tier 1 Capital available to meet buffers as a percentage of risk-weighted assets (%)	5.86	
Domestic minimum regulatory capital requirements Core Tier 1 Capital adequacy ratio (%)			
69	Core Tier 1 Capital adequacy ratio (%)	5.00	
70	Tier 1 Capital adequacy ratio (%)	6.00	
71	Capital adequacy ratio (%)	8.00	
Amounts below the threshold deductions			
72	Non-significant investments in Core Tier 1 Capital of financial institutions outside the scope of regulatory consolidation	27,021	b+c+d+e+g
73	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation	1,567	a+h
74	Mortgage servicing rights (net of deferred tax liabilities)	0	
75	Other net deferred tax assets depending on the Bank's future profits (net of deferred tax liabilities)	22,438	j-k-(o-p-q)
Limit of provisions in Tier 2 Capital			
76	Provisions actually made in respect of exposures subject to risk-weighted approach	6,254	
77	Provisions eligible for inclusion in Tier 2 Capital under risk-weighted approach	4,740	
78	Provisions actually made in respect of exposures subject to internal rating based approach	124,773	
79	Provisions eligible for inclusion in Tier 2 Capital under internal rating based	23,262	
Capital instruments subject to phase-out arrangements			
80	Amount recognized in current-period Core Tier 1 Capital due to transitional arrangements	0	
81	Amount not recognized in current period Core Tier 1 Capital due to transitional arrangements	0	
82	Amount recognized in current-period Other Tier 1 Capital due to transitional arrangements	0	
83	Amount not recognized in current period Other Tier 1 Capital due to transitional arrangements	0	
84	Amount recognized in current-period Tier 2 Capital due to transitional arrangements	20,100	
85	Amount not recognized in current-period Tier 2 Capital due to transitional arrangements	19,400	

Appendix 4: Main Features of Qualified Regulatory Capital Instruments

1	Issuer	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications	Bank of Communications
2	Identification code	3328	601328	1428013	XS1113240268	XS1115459528	4605	360021	1728007
3	Governing law(s)	China Hong Kong/Hong Kong *Securities and Futures Ordinance*	China/*Securities Law of China*	China/*Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Non-contractual obligation of bonds, arising from or relating to bonds shall be governed by and construed in accordance with British laws, while provisions relating to subordinated position of bonds in the bonds terms are governed by and construed in accordance with Chinese laws.	Overseas preference shares and accompanying rights and obligations are governed by and construed in accordance with Chinese laws.	China/*Company Law of China, Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation), State Council Guidance on the Implementation of Pilot Scheme of Preference Shares, Measures for the Pilot Management of Preferred Shares, etc.*	China/*Securities law of China, Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*
Regulatory treatment									
4	Including: Transitional rules under the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 capital	Other Tier 1 Capital	Tier 2 Capital
5	Including: Post-transitional rules under the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*	Core Tier 1 Capital	Core Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Other Tier 1 Capital	Other Tier 1 Capital	Tier 2 Capital
6	Including: Eligible at Bank/Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	Bank and Group level	B Bank and Group level
7	Instrument type	Ordinary shares	Ordinary shares	Tier 2 Capital bonds	Tier 2 Capital bonds	Tier 2 Capital bonds	Preference shares	Preference shares	Tier 2 Capital bonds

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

8	Amount recognized in regulatory capital (In millions of RMB, as at the latest reporting date)	RMB89,498	RMB97,534	RMB27,975	Equivalent to RMB8,203	Equivalent to RMB3,882	Equivalent to RMB14,924	RMB44,952	RMB29,967
9	Par value of instrument (in millions of RMB)	RMB35,012	RMB39,251	RMB28,000	USD1,200	EUR500	USD2,450	RMB45,000	RMB30,000
10	Accounting treatment	Share capital and capital reserve	Share capital and capital reserve	Bonds issuance	Bonds issuance	Bonds issuance	Other equity instruments	Other equity instruments	Bonds issuance
11	Original date of issuance	2005/6/23	2007/4/24	2014/8/19	2014/10/3	2014/10/3	2015/7/29	2016/9/2	2017/4/13
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual	Perpetual	Dated
13	Including: Original maturity date	No maturity date	No maturity date	2024/8/19	2024/10/3	2026/10/3	No maturity date	No maturity date	2027/4/13
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes	Yes	Yes	Yes
15	Including: Optional call date, contingent call dates and redemption amount	N/A	N/A	2019/8/19; full or partial.	2019/10/3; full.	2021/10/3; full.	First call date 2020/7/29, full or partial.	First call date 2021/9/7, full or partial.	2022/4/13; full or partial.
16	Including: Subsequent call dates, if applicable	N/A	N/A	Nil	Nil	Nil	29 July of each year subsequent to the first call date	7 September of each year subsequent to the first call date	Nil
Coupons/dividends									
17	Including: Fixed or floating dividend/ coupon	Floating	Floating	Fixed	Floating (coupon rate is fixed for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year, the coupon rate will be reset)	Floating (coupon rate is fixed for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year, the coupon rate will be reset)	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years	Floating, the dividend rate is fixed in a dividend rate adjustment period (5 years) and is subject to reset every 5 years	Fixed

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

18 Including: Coupon rate and any related index	N/A	N/A	5.80%	4.5% for the first 5 years; if issuer does not exercise the right of redemption at the end of the fifth year (3 October 2019), the coupon rate will be reset based on the rate of 5-year US treasury bond, plus 285 basis points	3.625% for the first 7 years; if issuer does not exercise the right of redemption at the end of the seventh year (3 October 2021), the coupon rate will be reset based on the 7-year EUR swaps median value, plus 300 basis points	5% for the first 5 years. The dividend rate will be reset every 5 years based on the yield rate of 5-year US treasury bond plus 334.4 basis points	3.9% for the first 5 years. The dividend rate will be reset every 5 years based on the benchmark interest rate plus 137 basis points. Note: the benchmark interest rate at reset dates refers to the arithmetic mean value (rounding off to 0.01%) of five-year Chinese treasury bonds yield, in the yield curve of interbank Chinese treasury bonds at fixed interest rate published 20 transaction days (excluding that day) prior to the reset dates (the days when each five years are expired as from the first day of issuance, 2 September).	4.50%
19 Including: Existence of a dividend brake mechanism	N/A	N/A	No	No	No	Yes	Yes	No
20 Including: Discretionary of cancelling dividend distribution or coupon interest	Totally at discretion	Totally at discretion	Without discretion	Without discretion	Without discretion	Totally at discretion	Totally at discretion	Without discretion
21 Including: Existence of incentive to call	No	No	No	No	No	No	No	No
22 Including: Cumulative or noncumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23 Convertible or nonconvertible	No	No	No	No	No	Yes	Yes	No

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

24	Including: If convertible, state conversion condition	N/A	N/A	N/A	N/A	N/A	If any trigger event of other Tier 1 Capital instrument occurs, which means core Tier 1 Capital adequacy ratio reduces to 5.125% (or below); or any trigger event of Tier 2 Capital instrument occurs, earlier of (1) the Bank will not survive if not converted as required by CBIRC. (2) the Bank will not survive if no capital injection or same effect of support from relevant department.	If any trigger event of other Tier 1 Capital instrument occurs, which means core Tier 1 Capital adequacy ratio reduces to 5.125% (or below); or any trigger event of Tier 2 Capital instrument occurs, earlier of (1) the Bank will not survive if not converted as required by CBIRC. (2) the Bank will not survive if no capital injection or same effect of support from relevant department.	N/A

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

25	Including: If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	When any trigger event of Other Tier 1 Capital instrument occurs, the Bank is entitled to fully or partially convert the issued and outstanding overseas preference shares to H ordinary shares based on the total amount without prior consent from the shareholders of preference shares; when any trigger event of Tier 2 Capital instrument occurs, the Bank is entitled to fully convert the issued and outstanding overseas preference shares to H ordinary shares based on the total amount without prior consent from the shareholders of preference shares.	When any trigger event of other Tier 1 Capital instrument occurs, the Bank is entitled to fully or partially convert the issued and outstanding domestic preference shares to A ordinary shares based on the total par value without prior consent from the shareholders of preference shares; when any trigger event of Tier 2 Capital instrument occurs, the Bank is entitled to fully convert the issued and outstanding domestic preference shares to A ordinary shares based on the total par value without prior consent from the shareholders of preference shares.	N/A

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

26	Including: If convertible, state conversation price determination method	N/A	N/A	N/A	N/A	N/A	The average stock transaction price of H ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing overseas preference shares is deemed as initial conversion price and the mandatory conversion price adjustment is conducted in accordance with Paragraph 9(5) "Mandatory Conversion Price Adjustment Mode" under Proposals on the Plan for *Private Placement of Offshore Preference Shares of Bank of Communications Co., Ltd.*	The average stock transaction price of A ordinary shares 20 transactions days prior to the approval of resolution at the Board of Directors concerning the propose on issuing domestic preference shares is deemed as initial conversion price (i.e. RMB6.25 per share) and the mandatory conversion price adjustment is conducted in accordance with Paragraph 5 "Mandatory Conversion Price Adjustment Mode" in Section 4 "Main Terms of Issuance Scheme" under Prospectus for *Private Placement of Preference Shares by Bank of Communications Co., Ltd*	N/A
27	Including: If convertible, state whether mandatory convertible	N/A	N/A	N/A	N/A	N/A	Mandatory	Mandatory	N/A
28	Including: If convertible, state the instrument type after conversation	N/A	N/A	N/A	N/A	N/A	H ordinary shares	A ordinary shares	N/A
29	Including: If convertible, state the issuer of instrument after conversion	N/A	N/A	N/A	N/A	N/A	Bank of Communications	Bank of Communications	N/A

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

30	Including: Whether write-down	No	No	Yes	Yes	Yes	No	No	Yes
31	Including: If written down, state the trigger events of write-down	N/A	N/A	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department.	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department.	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department..	N/A	N/A	Earlier of the following: (1) the issuer will not survive if not written down as required by CBIRC. (2) the issuer will not survive if no capital injection or same effect of support from relevant department
32	Including: If written down, state wholly write-down or partial write-down	N/A	N/A	Full	Full	Full	N/A	N/A	Full
33	Including: if written down, state permanent write-down or temporary write-down	N/A	N/A	Permanent	Permanent	Permanent	N/A	N/A	Permanent
34	Including: If temporary write-down, state reversal to book value mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Appendix 4: Main Features of Qualified Regulatory Capital Instruments *(Continued)*

35	Position in subordination hierarchy in liquidation (state instrument type immediately senior to instrument)	Ranking after depositors, normal creditors and subordinated debt holders and other Tier 1 Capital holders	Ranking after depositors, normal creditors and subordinated debt holders and other Tier 1 Capital holders	Ranking after depositors and normal creditors, ranking before the holders of equity capital, other Tier 1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as Tier 2 Capital Bonds issued and other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future	Ranking after depositors and normal creditors, ranking before the holders of equity capital, other Tier 1 instruments and mixed capital bonds, at least ranking at the same sequence as all other subordinated debts that are issued by the issuer currently and in future (including other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future	Ranking after depositors and normal creditors, ranking before the holders of equity capital, other Tier 1 instruments and mixed capital bonds, at least ranking at the same sequence as all other subordinated debts that are issued by the issuer currently and in future (including other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future)	Ranking after all debts of the Bank (including subordinated debts) and obligations that are issued, guaranteed, ranked prior to or expressively prior to the overseas preference shares as well as ranking before ordinary share holders; all overseas preference share holders rank at the same sequence without priority among them and have the same repayment sequence as holders of obligations with equivalent repayment sequence.	Ranking after depositors, normal creditors and subordinated debt holders and Tier 2 Capital instrument holders	Ranking after depositors and normal creditors, ranking before the holders of equity capital, other Tier 1 instruments and mixed capital bonds, the same ranking as other subordinated debts which have the same repayment sequence as the current bonds issued by the issuer, ranking at the same sequence as Tier 2 Capital Bonds issued and other Tier 2 instruments which have the same repayment sequence as the current bonds and are probable to issue in the future
36	Whether any temporary non-compliance features	No	No	No	No	No	No	No	No
	Including: If yes, state the feature	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Appendix 5 and Appendix 6 are information disclosed according to requirements of the Measures for the *Administration of the Leverage Ratio of Commercial Banks (Revised)* issued by the CBIRC.

Appendix 5: Information Related to Leverage Ratio

Reconciliation of Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

SN	Item	Balance
1	Total consolidated assets	9,886,608
2	Adjustments of consolidation	(44,992)
3	Adjustments item of customer's assets	0
4	Adjustments of derivatives	44,971
5	Adjustments of securities financing transactions	5,130
6	Adjustments of off-balance-sheet item	708,145
7	Other Adjustments	(5,444)
8	Balance of adjusted on-and-off-balance-sheet assets	10,594,418

Leverage Ratio Information

(in millions of RMB unless otherwise stated)

SN	Item	Balance
1	On-balance-sheet assets (excluding derivatives and securities financing transactions)	9,727,472
2	Less: Deduction of Tier 1 Capital	(5,444)
3	**Balance of adjusted on-balance-sheet assets (excluding derivatives and securities financing transactions)**	9,722,028
4	Replacement costs of derivatives (less eligible margin)	19,353
5	Potential risk exposure of derivatives	44,971
6	Sum of collaterals deducted from the balance sheet	0
7	Less: Assets receivable from providing eligible margin	0
8	Less: Derivative assets resulting from the transactions with central counterparties in providing clearing settlement services for customers	0
9	Notional principal of sold credit derivatives	0
10	Less: Deductible balance of sold credit derivatives	0
11	**Derivative asset balance**	64,324
12	Accounting asset balance of securities financing transactions	94,791
13	Less: Balance of deductible securities financing transaction assets	0
14	Counterparty credit risk exposure of securities financing transactions	5,130
15	Balance of securities financing transaction assets from acting for securities financing transactions	0
16	**Securities financing assets balance**	99,921
17	Balance of off-balance-sheet items	1,637,972
18	Less: Balance of off-balance-sheet items arising from the reduction of credit transfer	(929,827)
19	**Adjusted off-balance-sheet items balance**	708,145
20	Net Tier 1 Capital	713,196
21	Adjusted balance of on-and-off-balance-sheet assets	10,594,418
22	**Leverage ratio (%)**	6.73

Appendix 6: Average Liquidity Coverage Ratio and Breakdown for the Second Quarter of 2019

(in millions of RMB unless otherwise stated)

Serial number		Amount before conversion	Amount after conversion
High-quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		1,731,215
Cash Outflow			
2	Retail deposits, and deposits from small business customers, of which:	1,588,322	149,649
3	Stable deposits	180,082	8,825
4	Less stable deposits	1,408,240	140,824
5	Unsecured wholesale funding, of which:	4,052,234	1,825,105
6	Operational deposits (excluding agency business)	2,246,546	560,294
7	Operational deposits (all counterparties)	1,801,889	1,261,012
8	Unsecured debt	3,799	3,799
9	Secured wholesale funding		9,406
10	Additional requirements, of which:	1,472,394	696,986
11	Outflow related to derivative exposures and other collateral requirements	661,038	650,664
12	Outflows related to loss of funding on debt products	83	83
13	Credit and liquidity facilities	811,273	46,239
14	Other contractual funding obligations	38,991	38,991
15	Other contingent funding obligations	1,074,075	36,058
16	Total cash outflows		2,756,195
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	107,038	105,786
18	Inflows from fully performing exposures	835,984	593,725
19	Other cash inflows	703,622	677,781
20	Total cash inflows	1,646,644	1,377,292

		Amount after adjustment
21	Total HQLA	1,731,215
22	Total net cash outflows	1,378,903
23	Liquidity coverage ratio (%)	125.62

Appendix 7: Net Stable Funding Ratio and Breakdown for the Fourth Quarter of 2018

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	700,663	–	–	96,813	797,476
2	Regulatory Capital	700,663	–	–	70,013	770,676
3	Other capital instruments	–	–	–	26,800	26,800
4	Retail deposits and deposits from small enterprises	766,856	1,141,392	42,938	4,977	1,780,127
5	Stable deposits	361,674	10,461	9,536	4,361	366,949
6	Less stable deposits	405,182	1,130,931	33,402	616	1,413,179
7	Wholesale funding	2,074,218	3,049,485	698,144	502,464	2,553,216
8	Operational deposits	2,063,546	139,772	83,264	4,633	1,147,924
9	Other wholesale funding	10,673	2,909,712	614,880	497,831	1,405,292
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	31,159	56,462	50,419	278,334	293,785
12	Net stable funding ratio derivative liabilities				28,105	
13	All other liabilities and equities not included in the above categories	31,159	56,462	50,419	250,229	293,785
14	**Total available stable funding**					5,424,604
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					307,883
16	Deposits held at other financial institutions for business relationship	69,480	31,031	205	3	50,361
17	Loans and securities	77,797	1,998,457	1,010,125	3,204,454	4,073,278
18	Loans to financial institutions secured by Level 1 assets	–	108,001	592	–	16,496
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	486,498	154,914	101,470	252,333
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	–	1,310,976	780,291	1,799,249	2,572,752
21	Including: with a risk weight less than or equal to 35%	–	12,642	5,131	27,829	26,975
22	Residential mortgages	–	495	756	986,480	839,256
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	77,797	92,487	73,573	317,254	392,441
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	146,963	46,228	3,543	86,549	254,965
27	Physical traded commodities (including gold)	16,624				14,131
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				2,486	2,113
29	Net stable funding ratio derivative assets				30,701	2,596
30	Net stable funding ratio derivative liabilities with additional requirements				28,105	5,621
31	All other assets not included in the above	130,339	46,228	3,543	53,362	230,504
32	Off-balance-sheet items				2,132,785	71,799
33	**Total required stable funding**					4,758,285
34	**Net stable funding ratio (%)**					114.00

Notes:

1. Items to be reported in the "no maturity" bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.

2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

Appendix 8: Net Stable Funding Ratio and Breakdown for the First Quarter of 2019

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value				Weighted value
		No maturity	Less than 6 months	6-12 months	Over 1 year	
Available Stable Funding Item						
1	Capital	720,972	–	–	89,826	810,798
2	Regulatory Capital	720,972	–	–	69,726	790,698
3	Other capital instruments	–	–	–	20,100	20,100
4	Retail deposits and deposits from small enterprises	769,825	1,251,417	84,358	5,162	1,918,141
5	Stable deposits	353,346	3,195	2,237	4,729	345,568
6	Less stable deposits	416,479	1,248,222	82,121	433	1,572,573
7	Wholesale funding	2,095,332	3,120,371	788,003	443,987	2,608,669
8	Operational deposits	2,088,039	147,479	76,831	4,749	1,160,924
9	Other wholesale funding	7,294	2,972,892	711,172	439,238	1,447,745
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	29,670	60,837	15,774	269,667	272,545
12	Net stable funding ratio derivative liabilities				22,859	
13	All other liabilities and equities not included in the above categories	29,670	60,837	15,774	246,808	272,545
14	**Total available stable funding**					5,610,153
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					296,015
16	Deposits held at other financial institutions for business relationship	67,199	1,292	–	498	34,743
17	Loans and securities	89,360	1,933,693	999,981	3,417,468	4,205,873
18	Loans to financial institutions secured by Level 1 assets	–	69,249	–	–	9,712
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	570,748	223,845	86,504	284,580
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	2	1,245,293	753,756	1,913,508	2,625,619
21	Including: with a risk weight less than or equal to 35%	–	52,353	27,065	13,730	48,634
22	Residential mortgages	–	504	749	1,017,817	865,771
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	89,359	47,899	21,630	399,638	420,191
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	153,253	38,439	2,727	109,538	280,514
27	Physical traded commodities (including gold)	16,771				14,255
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				1,744	1,483
29	Net stable funding ratio derivative assets				24,337	1,478
30	Net stable funding ratio derivative liabilities with additional requirements				22,859	4,572
31	All other assets not included in the above	136,482	38,439	2,727	83,456	258,726
32	Off-balance-sheet items				2,145,647	71,938
33	**Total required stable funding**					4,889,083
34	**Net stable funding ratio (%)**					114.75

Notes:

1. Items to be reported in the "no maturity" bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

Appendix 9: Net Stable Funding Ratio and Items for the Second Quarter of 2019

(in millions of RMB unless otherwise stated)

Serial Number		Unweighted value No maturity	Less than 6 months	6-12 months	Over 1 year	Weighted value
Available Stable Funding Item						
1	Capital	719,004	–	–	90,127	809,131
2	Regulatory Capital	719,004	–	–	70,027	789,031
3	Other capital instruments	–	–	–	20,100	20,100
4	Retail deposits and deposits from small enterprises	798,942	1,205,218	105,147	5,030	1,922,523
5	Stable deposits	376,473	3,612	2,249	4,531	367,749
6	Less stable deposits	422,469	1,201,605	102,899	499	1,554,774
7	Wholesale funding	2,196,159	3,052,275	823,009	448,328	2,698,556
8	Operational deposits	2,189,281	150,476	59,642	6,097	1,205,797
9	Other wholesale funding	6,878	2,901,799	763,367	442,231	1,492,759
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	36,348	91,166	4,138	266,725	267,565
12	Net stable funding ratio derivative liabilities				23,955	
13	All other liabilities and equities not included in the above categories	36,348	91,166	4,138	242,770	267,565
14	**Total available stable funding**					5,697,775
Required Stable Funding Item						
15	Total net stable funding ratio high-quality liquid assets					325,617
16	Deposits held at other financial institutions for business relationship	97,114	1,170	–	497	49,639
17	Loans and securities	81,349	1,929,399	975,935	3,504,443	4,282,347
18	Loans to financial institutions secured by Level 1 assets	–	8,779	–	–	1,317
19	Loans to financial institutions secured by non-Level 1 assets or unsecured	–	584,785	247,621	125,962	337,592
20	Loans to retail and small business customers, non-financial institutions, sovereigns, central banks and public sector entities.	10	1,300,683	690,852	1,943,319	2,645,458
21	Including: with a risk weight less than or equal to 35%	–	49,890	11,572	12,549	38,888
22	Residential mortgages	–	524	720	1,038,953	883,732
23	Including: with a risk weight less than or equal to 35%	–	–	–	–	–
24	Securities that are not in default and do not qualify as high-quality liquid assets, including exchange-traded equities	81,339	34,629	36,741	396,209	414,248
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	161,852	89,971	8,275	40,474	275,488
27	Physical traded commodities (including gold)	48,579				41,292
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties				1,761	1,497
29	Net stable funding ratio derivative assets				19,665	–
30	Net stable funding ratio derivative liabilities with additional requirements				23,955	4,791
31	All other assets not included in the above	113,273	89,971	8,275	19,048	227,908
32	Off-balance-sheet items				2,175,200	91,266
33	**Total required stable funding**					5,024,357
34	**Net stable funding ratio (%)**					113.40

Notes:

1. Items to be reported in the "no maturity" bucket include, but are not limited to, capital with perpetual maturity, non-maturity (demand) deposits, short positions, open maturity positions, non-high-quality liquid assets equities, and physical traded commodities.
2. The unweighted value of item 30 "Net stable funding ratio derivative liabilities with additional requirements" is the net stable funding ratio derivative liabilities before the deduction of the variation margin, without differentiation of maturity, and not included in the unweighted value of item 26 "Other assets".

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