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交通銀行股份有限公司 Bank of Communications Co., Ltd.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 03328, 4605 (Preference Share))

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors of Bank of Communications Co., Ltd. (the “**Bank**”) is pleased to announce the audited consolidated financial information (the “**Annual Results**”) of the Bank and its subsidiaries (the “**Group**”) for the year ended 31 December 2016 (the “**Reporting Period**”), which has been prepared under the International Financial Reporting Standards (the “**IFRSs**”) issued by the International Accounting Standards Board. The Board of Directors of the Bank (the “**Board of Directors**”) and the Audit Committee of the Board of Directors have reviewed and confirmed the Annual Results.

I. CORPORATE INFORMATION

	Stock name	Stock code	Stock exchange
A Share	Bank of Communications	601328	Shanghai Stock Exchange
H Share	Bank of Communications	03328	The Stock Exchange of Hong Kong Limited
Domestic Preference Share	BOCOM PREF1	360021	Shanghai Stock Exchange
Overseas Preference Share	BOCOM 15USDPREF	4605	The Stock Exchange of Hong Kong Limited

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II. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

(I) As at 31 December 2016, key financial data and financial indicators prepared by the Group under the IFRSs are as follows:

Description	2016	2015	2014	2013	2012
Full year results				<i>(In millions of RMB)</i>	
Net interest income	134,871	144,172	134,776	130,658	120,126
Profit before tax	86,110	86,012	84,927	79,909	75,211
Net profit (attributable to shareholders of the Bank)	67,210	66,528	65,850	62,295	58,369
As at the end of the year				<i>(In millions of RMB)</i>	
Total assets	8,403,166	7,155,362	6,268,299	5,960,937	5,273,379
Include: Loans and advances to customers	4,102,959	3,722,006	3,431,735	3,266,368	2,947,299
Total liabilities	7,770,759	6,617,270	5,794,694	5,539,453	4,891,932
Include: Due to customers	4,728,589	4,484,814	4,029,668	4,157,833	3,728,412
Shareholders' equity (attributable to shareholders of the Bank)	629,142	534,885	471,055	419,561	379,918
Per share				<i>(in RMB)</i>	
Earnings per share (attributable to shareholders of the Bank)	0.89	0.90	0.89	0.84	0.88
Net assets per share (attributable to shareholders of the Bank) ¹	7.67	7.00	6.34	5.65	5.12
Key financial ratios				<i>(%)</i>	
Return on average assets	0.87	1.00	1.08	1.11	1.18
Return on average shareholders' equity	12.18	13.43	14.79	15.58	17.91
Cost-to-income ratio ²	31.77	30.54	30.52	29.68	29.86
Impaired loans ratio	1.52	1.51	1.25	1.05	0.92
Provision coverage of impaired loans	150.50	155.57	178.88	213.65	250.68
Capital adequacy indicators				<i>(In millions of RMB unless otherwise stated)</i>	
Net Capital ³	723,961	627,862	584,502	516,482	N/A
Including: Net Core Tier-1 capital ³	568,131	518,487	470,456	416,961	N/A
Other Tier-1 capital ³	59,920	14,943	10	4	N/A
Tier-2 capital ³	95,910	94,432	114,036	99,517	N/A
Risk weighted assets ³	5,163,250	4,653,723	4,164,477	4,274,068	N/A
Capital adequacy ratio (%) ³	14.02	13.49	14.04	12.08	N/A
Tier-1 Capital adequacy ratio (%) ³	12.16	11.46	11.30	9.76	N/A
Core Tier-1 Capital adequacy ratio (%) ³	11.00	11.14	11.30	9.76	N/A

Notes:

- Refers to shareholders' equity attributable to shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares as at the end of the period.
- Refers to operating expenses against the total of various net income.
- Calculated pursuant to the Measures for the Capital Management of Commercial Banks (Trial Implementation) issued by the China Banking Regulatory Commission ("CBRC"), which has been effective since 2013, hence no comparative figures for previous year are presented. In addition, upon the approval from regulatory authorities, the Group used the Advanced Measurement Approach of Capital Management from April 2014.

(II) Credit Rating in the Last Three Years

	2016	2015	2014
Standard & Poor's	A-/A2/Stable	A-/A2/Stable	A/--/Stable
Moody's	A2/P-1/Stable	A2/P-1/Stable	A3/P-2/Stable
Fitch	A/F1/Stable	A/F1/Stable	A/F1/Stable

Note: The rating is “rating of long-term foreign currency deposit”/“rating of short-term foreign currency deposit”/“rating outlook”.

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

As at 31 December 2016, the Bank had 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 shares not subject to sales restrictions.

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

Name of shareholders (Full name)	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of Shares	Number of shares pledged or frozen ¹	Nature of shareholders
The Ministry of Finance of the People's Republic of China	–	15,148,693,829	20.40	A Share	Nil	The State
	–	4,553,999,999	6.13	H Share	Nil	
HKSCC Nominees Limited	2,109,660	14,945,274,723	20.12	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited	–	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund	–	1,877,513,451	2.53	A Share	Nil	The State
	–	1,405,555,555	1.89	H Share	Nil	
China Securities Finance Corporation Limited	220,984,914	1,698,194,809	2.29	A Share	Unknown	State-owned legal person
Capital Airport Holding Company	–	1,246,591,087	1.68	A Share	Unknown	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	A Share	Unknown	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	A Share	Unknown	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.	86,838,391	745,305,404	1.00	A Share	Unknown	State-owned legal person
China FAW Group Corporation	–	663,941,711	0.89	A Share	Unknown	State-owned legal person

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, or the existence of any related relationship among the above shareholders, or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies.
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 31 December 2016.
3. According to the Bank's register of members, The Hong Kong and Shanghai Banking Corporation Limited ("**HSBC**") held 13,886,417,698 H shares of the Bank as at 31 December 2016. According to the disclosure of interests holding filed with The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at 31 December 2016, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance (the "**SFO**")" for details of the H shares that deemed to be beneficially owned by HSBC.
4. According to the information provided by the National Council for Social Security Fund (the "**SSF**") to the Bank, as at 31 December 2016, other than the shareholdings recorded in the register of members of the Bank, the SSF held additional 7,636,840,777 H shares of the Bank, of which 7,027,777,777 H shares had been registered under HKSCC Nominees Limited and 609,063,000 H shares were indirectly held by certain asset managers. As at 31 December 2016, SSF held a total of 10,919,909,783 A shares and H shares of the Bank, representing 14.70% of the Bank's total ordinary shares issued.

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

As at 31 December 2016, to the knowledge of the directors of the Bank (the “**Director(s)**”), supervisors of the Bank (the “**Supervisor(s)**”) and Senior Management of the Bank, the substantial shareholders and other persons (other than the Directors, Supervisors and Senior Management 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 interest 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
The SSF	Beneficial owner	1,877,513,451 ³	Long position	4.78	2.53

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest ¹	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
The SSF	Beneficial owner	9,042,396,332 ³	Long position	25.83	12.18
Ministry of Finance	Beneficial owner	4,553,999,999 ²	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interest of controlled corporations	2,674,232 ⁴	Long position	0.01	0.004
	Total:	<u>14,138,310,845</u>		<u>40.38</u>	<u>19.04</u>
HSBC Finance (Netherlands)	Interest of controlled corporations	14,138,310,845 ⁵	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250 ⁶	Long position	0.0002	0.0001
	Total:	<u>9,075,250</u>		<u>0.03</u>	<u>0.01</u>
HSBC Holdings plc	Interest of controlled corporations	14,147,386,095 ⁷	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at 31 December 2016, 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 31 December 2016, the SSF held 9,042,396,332 H shares and 1,877,513,451 A shares of the Bank, representing 12.18% and 2.53% of the total ordinary shares issued by the Bank, respectively.
4. HSBC holds 62.14% of equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited.

Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.

5. HSBC is wholly owned by HSBC Asia Holdings BV, which is wholly owned by HSBC Asia Holdings (UK) Limited. Furthermore, HSBC Asia Holdings (UK) Limited is wholly owned by HSBC Holdings BV, which is wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC.
6. HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, 94.90% of which is owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to own the interests associated with the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 4, 5 and 6, and the SFO, HSBC Holdings plc is deemed to own the interests associated with the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, as at 31 December 2016, no person (excluding the Board of the Directors, Supervisors and Senior Management 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 required to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

IV. ISSUANCE OF PREFERENCE SHARES

(I) Issuance and Listing of Preference Shares in the Three Years ended as at the end of the Reporting Period

Upon approval of Yin Jian Fu [2015] No. 419 issued by the CBRC and Zheng Jian Xu Ke [2015] No. 1646 issued by the China Securities Regulatory Commission (“CSRC”), on 29 July 2015, the Bank completed the non-public issuance of overseas preference shares totaling USD2.45 billion. The overseas preference shares, with par value of RMB100 per share and issuance price of USD20 per share, were all subscribed in US dollars and listed on the Hong Kong Stock Exchange on 30 July 2015. Based on the average exchange rate of Renminbi against the US dollars on 29 July 2015 published by the China Foreign Exchange Trade System, the issuance of overseas preference shares raised total proceeds of approximately RMB14.982 billion, or RMB14.924 billion net of commissions and issuance expenses, all of which were used to replenish other Tier-1 capital of the Bank.

Upon approval of Yin Jian Fu [2015] No. 660 issued by the CBRC and Zheng Jian Xu Ke [2016] No. 1312 issued by the CSRC, on 2 September 2016, the Bank completed the non-public issuance of 450,000,000 domestic preference shares. The domestic preference shares were issued at par value of RMB100 per share. With the approval of Shang Zheng Han [2016] No.1824 issued by the Shanghai Stock Exchange (“SSE”), the domestic preference shares have been traded on the Comprehensive Business Platform of SSE since 29 September 2016. The issuance raised total proceeds of RMB45 billion, or RMB44.952 billion net of issuance expenses, all of which were used to replenish other Tier-1 capital of the Bank.

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

(II) Number and Shareholdings of Preference Shareholders

1. Total Number of Preference Shareholders

As at 31 December 2016, the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 42. As at the end of the month immediately preceding the publication date of this announcement (28 February 2017), the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 42.

2. Shareholdings of Overseas Preference Shareholders as at the end of the Reporting Period

As at 31 December 2016, overseas preference shareholders and their shareholdings were as follows:

Serial Number	Name of shareholder	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Status of shares	Number of shares pledged or frozen	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 of members of overseas preference shareholders.
2. DB Nominees (Hong Kong) Limited, as a trustee, held 122,500,000 overseas preference shares, accounting for 100% of the Bank's total overseas preference shares, on behalf of all assignees in clearing systems (Euroclear and Clearstream) as at 31 December 2016.
3. "Percentage" refers to the percentage of the number of overseas preference shares held by overseas preference shareholders to the total number of overseas preference shares.
4. The Bank has not been aware of the existence of any related relationship among the overseas preference shareholders and the top 10 ordinary shareholders, or whether they are parties acting in concert.

3. Top 10 Domestic Preference Shareholders as at the end of the Reporting Period

As at 31 December 2016, the Top 10 domestic preference shareholders are as follows:

Serial Number	Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Number of shares pledged or frozen Status of shares	Number of shares	Nature of shareholders
1	China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Unknown	–	State-owned legal person
2	China Credit Trust Co., Ltd. – 2012 CCT-CITIC Zi Zhai Tong single fund trust	–	21,000,000	4.67	Domestic preference share	Unknown	–	Others
3	AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
4	CCB Trust Co., Ltd. – “Qian Yuan – Ri Xin Yue Yi” open-ended wealth management single fund trust	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
5	Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
6	Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
7	Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
8	China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	17,000,000	3.78	Domestic preference share	Unknown	–	Others
9	China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Unknown	–	State-owned legal person
10	China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Unknown	–	Others

Notes:

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

(III) Dividends Distribution of Preference Shares

The Bank will distribute dividends annually for the overseas preference shares in cash, based on the total amount of the overseas preference shares issued and outstanding. Dividends on the Bank's overseas preference shares are non-cumulative. Overseas preference shareholders will not participate in the distribution of the residual earnings with ordinary shareholders after receiving dividends as agreed. In accordance with the resolution and authorization of the Shareholders' General Meeting, the 20th meeting of the 7th Session of Board of Directors of the Bank was held on 28 April 2016, during which the proposal for the first dividend distribution of the overseas preference shares was approved. The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the overseas preference shares. In addition, in accordance with relevant laws and regulations, 10% income tax amounting to USD13,611,111 was withheld by the Bank on behalf of overseas preference shareholders. Please refer to the announcement published on the SSE website, the Hong Kong Stock Exchange website and the Bank's official website for the details of the dividend distribution of overseas preference shares. The above dividends were fully paid in cash on 29 July 2016.

During the Reporting Period, the Bank made no distribution of dividends on domestic preference shares.

(IV) Other Information of Preference Shares

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

During the Reporting Period, there was neither redemption or conversion of preference shares, nor any restoration of voting rights for preference shares.

V. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Business Review

In 2016, the Group actively dealt with multiple challenges such as the slowdown of economic growth, adjustments in macroeconomic policies, and volatility of financial market. The Group realised steady growth in operating performance and improvement in comprehensive competitiveness by continuous reform, innovation and transformation and firmly promotion of “BoCom Strategy”. As at the end of the Reporting Period, the Group’s total assets increased by 17.44% from the beginning of the year to RMB8,403.166 billion. During the Reporting Period, the net profit (attributable to Shareholders of the Bank) increased by 1.03% on a year-on-year basis to RMB67.21 billion.

Persistently served the real economy and proactively fulfilled social responsibility. In response to the state’s strategic plans and major construction projects, the Group proactively enlarged social financing scale. As at the end of the Reporting Period, the balance of loans and advances to customers (before allowances, if not specially stated, same applies hereinafter) increased by 10.24% to RMB4,102.959 billion³, representing a year-on-year increase of RMB90.682 billion. The Group improved the liquidity of its assets. The scale of refinancing of corporate credit and quasi-credit businesses amounted to RMB687.279 billion. The Group continually optimised the credit structure and innovated financial service mode. Moreover, the Group promoted “green finance” in great effort. The number of customers and projects from the low-carbon economy, energy-saving and environmental protection industry continued increasing. During the Reporting Period, the Group successfully issued the first batch of green bonds with a total amount of RMB30 billion. The balance of personal loans increased to 28.91%, representing an increase of 19.42% from the beginning of the year.

Built the features of wealth management by virtue of the “BoCom Strategy”. With the acceleration of internationalisation and integration, the Group continued to enhance the capabilities of cross-border, cross-industry and cross-market services. Total assets of overseas banking institutions and subsidiaries increased by 22.21% from the beginning of the year, accounting for 13.22% of the Group’s total assets, and representing an increase of 0.52 percentage point from the beginning of the year; net profit increased by 27.37% on a year-on-year basis, accounting for 13.39% of the Group’s net profit, and representing a year-on-year increase of 2.77 percentage points. The Group established 5 new entities in the international landscape. Branches in London and Luxembourg and those in Paris and Rome under Luxembourg subsidiary successively opened; the acquisition of a controlling stake in Banco BBM (BoCom BBM) was successfully completed. Wealth management businesses, trading businesses, innovative product businesses and agency businesses have been getting stronger, and the feature of wealth management businesses has been enhanced. As at the end of the Reporting Period, assets held in custody increased by 25.66% from the beginning of the year to RMB7,009.589 billion, personal financial assets under management (AUM) increased by 10.41% from the beginning of the year to RMB2,707.148 billion. During the Reporting Period, daily average amount of the on-and-off-balance-sheet wealth

management products denominated in Renminbi increased by 23.11% on a year-on-year basis to RMB1.66 trillion.

Accelerated transformation development and continually consolidating customer base.

The Group made a great effort to develop the retail businesses and to optimize the business structure. During the Reporting Period, the Group's profit before tax in terms of personal banking services reached RMB19.135 billion with a year-on-year increase of 51.16%, accounting for 22.22% with a year-on-year increase of 7.50 percentage points of the Group's net profit before tax. On-and-off-balance-sheet businesses were under synergistic development with a persistent growth of non-interest income. During the Reporting Period, net fee and commission income increased by 5.05% on a year-on-year basis to RMB36.795 billion, accounting for 18.96% of the Group's net profit before tax with a year-on-year increase of 0.96 percentage point. The Group upheld the "customer core" principle and commenced establishing a tiered, categorised and hierarchical customer service system. As at the end of the Reporting Period, the total number of corporate customers of domestic branches increased by 9.96% from the beginning of the year with an increase in the coverage of high-quality and strategic customers; the total number of personal customers increased by 10.79% from the beginning of the year, among which the number of BoCom fortune standard customers, OTO Fortune standard customers and private banking customers increased by 5.41%, 17.73% and 18.83%, respectively. Cooperation with interbank customers fundamentally achieved full coverage of banking customers at the level of Head Office and other major financial institutions.

Comprehensively deepened reform and effectively stimulated the operating energy. Over the past one year since the implementation of the *BoCom's Plan to Strengthen Reformation*, the Group moved forward the reform of internal operating mechanism and the innovation of operating mode. The Group reformed the structure of front offices in order to improve the market responding speed and enhance its comprehensive cross-border, cross-industry and cross-market operating capabilities. The Group established professional manager system and improved appraisal review system to implement the development responsibility, reformed the remuneration distribution system and promoted the all-product pricing assessment covering all personnel to motivate the staff, and promoted the transformation of "Trinity" outlet operating mode and reform, and development of branches managed by provinces to enhance services provided to the society. Moreover, the Group innovated the divisional structure operation and developed the model driven by "two engines" of "divisional structure operations and branch operations", continually improved the profit contribution from divisions. During the Reporting Period, 6 profit-making centers had a year-on-year increase of profits before allowances and tax of 25.92%.

Intensified comprehensive risk management and continually strengthened capital strength. Facing the critical and complex environment, the Group proactively improved its comprehensive risk management and control mechanism and enhanced the whole process of business management. The Group strengthened the risk management over key areas and upheld the positive impact from the risk management and set up centralized risk monitoring center. The Group focused on the effectiveness and efficiency of risk management; it also strengthened the disposal of non-performing assets and over-due loan and successfully completed the first issuance of the non-performing assets backed securities. As at the end of the Reporting Period, there was a slightly increase of the impaired loans and decrease of both the balance and the proportion of over-due loans. The balance of impaired loans of the Group increased by RMB6.194 billion from the beginning of the year to RMB62.40 billion, representing a year-on-year decrease of RMB6.995 billion; the impaired loans ratio slightly increased by 0.01 percentage point from the beginning of the year to 1.52%. The balance of over-due loans decreased by RMB5.150 billion from the beginning of the year, the proportion of which decreased by 0.40 percentage point from the beginning of the year. The Group concentrated on capital and proactively promoted the adjustments of business structure and internal capital controls; the increase of the rate of risk-weighted assets (“RWA”) was 6.49 percentage points lower than that of the assets. The proportion of RWA to total assets has decreased for three consecutive years. The Bank successfully issued the domestic preference shares of RMB45 billion, which was the largest single issuance with the lowest par value that has ever been issued by the commercial banks. The Group’s capital strength was effectively enhanced. As at the end of the Reporting Period, the Group’s capital adequacy ratio and Tier-1 Capital adequacy ratio increased by 0.53 and 0.70 percentage point from the beginning of the year to 14.02% and 12.16%, respectively.

Shaped the image of providing great services and constantly enhanced brand value. In 2016, the Group was honored in FORTUNE’s “Top 500 Global Companies” for eight consecutive years, and was ranked No.153 in terms of operating revenue, up by 37 ranks as compared with the previous year. It was ranked No.13 among the global top 1,000 banks in terms of Tier-1 Capital rated by The Banker, up by 4 ranks as compared with the previous year and was ranked Top 20 among global banks for three consecutive years. During the Reporting Period, 140 outlets of the Group were awarded “Top 1,000 model” organised by China Banking Association, ranking No.1 in the banking industry with the highest number of awarded outlets. The Group was ranked No.1 in China Retail Banking Satisfaction Study for three years, continually shaping the Bank’s image of providing great services. The Group was also honoured in Securities Times’s “2016 Best Wealth Management Institution in China”.

1. Corporate Banking Businesses

- During the Reporting Period, the Group's profit before tax from corporate banking businesses and net fee and commission amounted to RMB43.994 billion and RMB15.954 billion, respectively; the total number of corporate customers of domestic branches increased by 9.96% from the beginning of the year.
- As at the end of the Reporting Period, the Group's corporate deposit balance increased by 5.80% from the beginning of the year to RMB3,206.241 billion; corporate loan balance increased by 6.89% from the beginning of the year to RMB2,916.772 billion.
- As at the end of the Reporting Period, the Group's corporate impaired loan balance was RMB48.097 billion and the impaired loans ratio was 1.65%.

The Group proactively responded to major state's strategies, programs and projects by seizing business opportunities such as industrial restructure, transformation and upgrade, actively supported the development of high-quality small and micro businesses, and continually improved the capability to serve the real economy. The Group continued to optimize its asset and liability structure in order to provide one-stop corporate financial services with a comprehensive coverage of commercial and investment banking businesses, on and off balance sheet businesses, equity and debt businesses, domestic and overseas services, and online and offline services.

(1) Corporate and institutional businesses

Following key national and local strategies, the Group has established and improved the corporate business coordination mechanism and strengthened the linkage between the diversified financing channels. It promoted establishing a tiered, categorized and hierarchical customer service system to improve the management and service system of corporate customers. It established quasi-divisions including strategic customers division, investment banking center and cross-border trade and finance center. The Group also promoted business cooperation with governments, social capital providers and other market players and signed Strategic Cooperation Framework Agreement for the Period of 13th Five Year Plan with several provincial and municipal governments. The Group participated in China's government-enterprise investment cooperation funds and was designated the seat as director of the fund. It initiated the research and development of a cross-border e-commerce payment system, directly linking third parties to the bank's system. The brand new social security and financial service system platform was built and the WeChat Platform was successfully launched. The syndicated loan businesses were awarded "Outstanding Contribution Award" by China Banking Association.

(2) *Small and micro enterprise businesses*

The Group enhanced technology application of internet and big data by launching a series of online and offline products such as “Quick Mortgage Loan”, “POS loans”, “Shui Rong Tong”, “Wo Yi Loans”, “Government Procurement Loan” and “You Dai Tong”, thus providing a basket of comprehensive financial services (including loans, deposits and wealth management) for small and micro enterprises. It innovated the types of guarantee and expanded the channels of credit enhancement for small and micro enterprises. Credit risks of over 60% loans have been managed by improving the liquidity of assets of small and micro enterprises. It also piloted the “two rights” mortgage loans namely the rural contracted land use right and residential right of farmers to support small and micro enterprises in the field of “Popular Entrepreneurship and Innovation”. As at the end of the Reporting Period, the domestic banks’ balance of loans to small and micro enterprises that met the qualification of four national ministries and commissions increased by 9.53% from the beginning of the year to RMB683.958 billion.

(3) *“One Branch Offering Nationwide Services” industrial value chain financial service*

The Group spent all effort on promoting product innovation and system construction to provide the diversified trading and financial services for VIP customers and their upstream and downstream customers. It continued to promote its knock-out products “Express Receivable Collector” and “Express Bill Discounting” and seized the opportunity of promotion of electronic bills to launch the innovative “Express Chain” product – “Commercial Bill Online Discounting”. The Group put a close eye of big clients’ transformation to internet, took the initiatives to develop complementary payment and settlement products and trade finance products, and deepened cooperation with key customers in construction, medical care and petroleum and chemical sectors. As at the end of the Reporting Period, there were more than 2,000 qualified industrial chain networks and more than 25,000 qualified industrial chain companies developed by the domestic branches. The Bank was awarded “2016 Best Domestic Trade Finance Bank” by The Asian Banker.

(4) *Cash management businesses*

The Group supported the globalization of Chinese enterprises by optimizing the cross-border bi-directional RMB cash pool and the cross-border foreign exchange cash pool and introducing the pioneering receipt and payment system, foreign exchange system and netting and settlement system. The Group introduced the service of cross-branch draft settlement management, continued to optimize

the functions of cash management products such as “Bidding Pass”, “Multi-lateral Entrusted Lending” and “Swiftnet Bank-Enterprise Express”. The Group launched the brand new money management system for financial institutions and earnings re-distribution function to intra-group accounts. As at the end of the Reporting Period, there were more than 18,000 corporate customers of e-channel “Win to Fortune” cash management and more than 210,000 the cash management accounts. The Bank was awarded with honors such as “2016 Best Cash Management Bank” by The Asset, “2016 Most Trusted Bank by CFOs” and “Best Cash Management Brand” by CFO World.

(5) *International settlement and trade finance*

The Group’s international settlement and cross-border trade finance businesses were under stable development. During the Reporting Period, the amount of international settlement processed by domestic branches reached RMB4,102.893 billion, and the amount of international trade financing reached RMB107.025 billion. Foreign exchange risk management service was enhanced to support enterprises to respond the complex international market changes. During the Reporting Period, net income from foreign exchange trading on behalf of customers (excluding foreign exchange settlement and sales) processed by domestic branches increased by 102.44% on a year-on-year basis, and income from Renminbi options businesses increased by 48.91% on a year-on-year basis. The Bank fully supported enterprises under the strategic initiatives “Belt and Road” and “Go Global” of enterprises through external guarantees and international factoring. During the Reporting Period, the amount of external guarantees provided by domestic branches reached RMB182.901 billion, and the amount of international factoring reached RMB9.793 billion.

(6) *Investment banking businesses*

The Group seized the opportunities arising from cross-border mergers and acquisitions. During the Reporting Period, the amount of mergers and acquisitions loans increased by RMB11.2 billion or 266% on a year-on-year basis. The Group actively explored the pilot project of technology finance loan and firmly promoted innovative businesses such as unit trust funds mergers and acquisitions funds, land reserve funds, bond and bridge financing with local governments, equity backed securities of income-based government purchase projects. It took full advantage of intra-group research resources and cooperated with internal institutions to launch the research-oriented financial advisory businesses as a high-end financial advisory brand. The Group successfully issued the first Jiao Yuan securities backed by credit card instalment assets in the amount of RMB8 billion in the interbank market in 2016, which was the largest-size securitized product backed by personal consumption loans. Income from investment banking businesses reached RMB5.306 billion during the Reporting Period, accounting

for 13.30% of the Group's total fee and commission income. The number of debt financing instruments (excluding local government debt) underwritten by domestic branches as the lead underwriters increased by 11.46% on a year-on-year basis to 282, and the issuance amount of such instruments reached RMB388.1 billion.

(7) *Asset custody businesses*

The Group improved the comprehensive profits from asset custody businesses by further investigating market and customers needs, and launching new products and businesses. The Group vigorously expanded the pension market and successfully won the bid for custody bank of basic pension fund. The Group seized the opportunity of third-party payment businesses in Hong Kong, exercised the best advantage of Hong Kong as a custody center, and innovated the service mode. The Group also improved the whole process of risk management and accelerated the launch of a new custody system. As at the end of the Reporting Period, assets held in custody of the Bank increased by 25.66% from the beginning of the year to RMB7,009.589 billion.

2. *Personal Banking Businesses*

- During the Reporting Period, from personal banking businesses sector, the Group's profit before tax increased by 51.16% on a year-on-year basis to RMB19.135 billion; net fee and commission income increased by 13.25% on a year-on-year basis to RMB17.882 billion; the total number of individual customers in domestic branches increased by 10.79% from the beginning of the year.
- As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 4.62% from the beginning of the year to RMB1,517.560 billion. The balance of personal loans of the Group increased by 19.42% from the beginning of the year to RMB1,186.187 billion.
- As at the end of the Reporting Period, the balance of personal impaired loans was RMB14.303 billion and the personal impaired loans ratio was 1.21%.

Adhering to the "customer-core" principle, the Group strived to develop retail saving deposits, bank cards and personal asset businesses, accelerated the construction of wealth management banking and continued to enhance the influence of its service brand, so as to comprehensively promote the transformation development of personal financial businesses.

(1) *Personal deposits and loans*

The Group actively expanded saving deposits, new customers and new funds. The Group strengthened the sales of certificates of deposits and open on-balance sheet wealth management products and appropriately promoted the optimization of the deposit structure. Moreover, the Group optimized the retail asset businesses processes, accelerated the efficiency in core loops such as the application for credit cards, verification and approval and registration of lending and vigorously developed the mortgage businesses. As at the end of the Reporting Period, the balance of the housing mortgage loans of the Group increased by 27.45% from the beginning of the year to RMB770.280 billion.

(2) *Wealth management businesses*

The Group continued to promote the large-scale marketing activity “10th Anniversary of OTO Fortune”, so as to enhance the influence of its wealth management brand. It launched the version 3.0 of mobile banking to build its mobile wealth management platform. Most branches organized the health life events to introduce the Chinese traditional medical care characteristics. The Group optimized customer asset allocation based on the wealth management and continuously improved its professional services of private banking to meet the integrated and individualized needs from the private banking customers. As at the end of the Reporting Period, retail assets under management (AUM) by the Group amounted to RMB2,707.148 billion, representing an increase of 10.41% from the beginning of the year. The number of customers of BoCom fortune, OTO Fortune and private banking increased by 5.41%, 17.73% and 18.83% respectively from the beginning of the year.

(3) *Bank card businesses*

Credit card businesses

The Group continued to carry out brand marketing activities such as “Super Red Friday”, “Cross-year Weekly Swipe” and “Catering Hot Season”, constantly increasing market influence. The Group actively developed online trading by launching Wechat Pay, proactively developing directly-connected merchants, and with promotion activities such as “Daily Swipe”. The Group organized event for overseas merchants in Hong Kong, Macao, Japan, Korea, Thailand and the USA, thus increasing overseas trading volume. In the era of mobile internet, the Group launched the APP “Go Pay” 2.0 to satisfy the demands of credit cards and improve customers’ experience in card using. There were more than 17 million “Go Pay” users linking their credit cards to the app. The Group strengthened its innovation and launched new consumption credit products such as “Angel Loan”, covering the major payment products such as Apple Pay. The Group cooperated

with multiple famous enterprises and launched co-branded credit cards such as BoCom Walmart Universal Cards, China Resources Vanguard Credit Cards, China Resources Suguo Credit Cards, Air China Phoenix Miles Credit Cards, Youku Credit Cards and IQIYI Credit Cards.

As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 7.28 million from the beginning of the year to 50.43 million. The accumulated expenditure amounted to RMB1,838.729 billion, representing an increase of 21.16% from the prior year. Credit card overdraft balance amounted to RMB307.857 billion, representing an increase of 13.37% from the beginning of the year. The impaired credit card overdraft was 1.95%, representing an increase of 0.13 percentage point from the beginning of the year.

Debit card businesses

The Group strengthened the innovation of debit card businesses, realized cloud flash pay functions such as Apple Pay, Samsung Pay, HCE, Huawei Pay and Mi Pay, launched mobile QR payment products such as QR code mobile payment, and enabled customers from other banks to open type II personal bank accounts on mobile bank and “Go Pay”. The Group organized the promotional activities for online and offline debit card consumption to enhance the customers’ activeness and an increase in consumption via bank card. As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 120.17 million, representing a net increase of 12.01 million from the beginning of the year. Debit card deposits amounted to RMB973.086 billion, representing an increase of 5.03% from the beginning of the year.

3. *Interbank and Treasury Businesses*

- At the end of the Reporting Period, the Group’s investment increased by 38.14% from the beginning of the year amounted to RMB2,252.392 billion. The return of security investment remained stable. During the Reporting Period, profit before tax of treasury businesses of financial market amounted to RMB20.402 billion.

To actively respond to the complexity of economic environment at home and abroad, the Group continued to reinforce interbank customer base, expanded interbank cooperation channels, explored potential of businesses such as monetary market, asset management, precious metal, bulk commodity, and strictly controlled myriad risks, promoting stable development of interbank and market businesses.

(1) *Institutional financial services*

The Group entered into strategic cooperation agreements with Zhengzhou Commodity Exchange and China Securities Depository successively; up to now, the Group has entered into strategic cooperation agreements with 13 main nationwide financial factor markets and absorbed demand deposits with an average balance over RMB100 billion through businesses such as agent settlement and clearing. The quotation and service system for privately offered products among online agencies can provide fund settlement and payment services for over 1,700 participants in China Securities Internet System Co., Ltd. The Group actively explored agent payment and settlement businesses in the cross-border interbank payment system (“CIPS”). As a participant, the Group has become a partner of 31 domestic Chinese-funded banks and among which agency services for 13 banks out of 31 banks.

With respect to the interbank collaboration, the Group entered into strategic cooperation agreements with customers such as New Development Bank BRICS, China Development Bank, Agricultural Development Bank of China and Bank of Hangzhou; the Group entered into the interbank platform contracts with 329 banks with an increase of 57.16% from the beginning of the year. The average balance of demand deposits that the Group absorbed increased by 20.23% on a year-on-year basis. In terms of the capital market services, the Group launched the supporting services for PB (Prime Broker) businesses to security companies, and actively expanded transaction businesses such as third party custody, fund transfers between bank and future-trading brokerage firms and margin trading depository with an increase of 13.59% of customer base from the beginning of the year. The scale of margin deposits of futures trading companies increased by 16.11% from the beginning of the year, maintaining the leading position in the market. Regarding the interbank wealth management, revenue from interbank wealth management businesses increased by 34.91% on a year-on-year basis, and number of cooperative customers increased by 72.98% from the beginning of the year to 1,088.

(2) *Money market transactions*

The Group achieved solid progress in following areas: accurate prediction of fund requirements, timely fund allocation through open market, strengthening of the liquidity management, adjustment in the structure, diversification of funds usage and enhancement of fund utilization efficiency. During the Reporting Period, the total volume of Renminbi money market transactions by domestic branches was RMB16.57 trillion, among which RMB10.65 trillion was lent out to the financial institutions and RMB5.92 trillion was borrowed from the financial institutions. The accumulated volume of foreign currency money market transaction was USD150.894 billion.

(3) *Trading account businesses*

The Group actively responded to price fluctuation in bond market and foreign exchange market, flexibly adjusted the trading strategy and strengthened product innovation. During the Reporting Period, the transaction volume of domestic branches in respect of Renminbi-denominated bonds reached RMB2.65 trillion and the volume of interbank foreign currency transactions reached USD1,357.869 billion. The Group made a great efforts to expand new businesses and entered into the master agreement for Renminbi bond offering businesses with 53 major bond financing institutions; and it accelerated the development of businesses such as Renminbi interest rate swap, agency settlement and other agency businesses. The Group is actively building up a bank with global transactions. The Group moved forward the overseas financial markets by setting up the sub-centres, for example, rapid growing of all Hong Kong sub-centres, and setup of London sub-centres.

(4) *Banking book investments*

To study the micro-economics and currency policies, the Group adjusted the portfolio periods and return of fixed income. With the larger scope of bond investment portfolio, the Group issued the first SDR bonds in Renminbi. As at the end of the Reporting Period, the Group's investment in securities amounted to RMB2,252.392 billion, representing an increase of 38.14% from the beginning of the year. The securities investment yield was 3.71%.

(5) *Precious metal businesses*

The Group became the member of Shanghai Gold Exchange for interbank gold quotation businesses and maintained the leading position in the market. The Group, as a member of Shanghai Gold to conduct quotation and trading, completed the first centralized pricing transaction via brokerage system. The Group was the fourth Chinese bank to join London Billion Market Association. During the Reporting Period, the domestic branches achieved RMB171.935 billion in terms of volume for precious metal brokerage transactions, representing an increase of 22.51% from the prior year; the sales of real precious metals products amounted to RMB2.877 billion; the accumulated transaction volume of proprietary gold trading accounted to 5,164.71 tons. The Bank kept an active role in the market.

4. “Trinity” Network Construction

- During the Reporting Period, the profit per person of the Group amounted to RMB726,200, maintaining at a relatively level. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 6.62% from the beginning of the year to RMB1.723 billion.
- As at the end of the Reporting Period, the total amount of domestic banking branch outlets increased by 144 from the beginning of the year to 3,285, of which 185 were newly opened and 41 low-yield ones were closed down.
- As at the end of the Reporting Period, the ratio of self-service bank to traditional branch outlet amounted to 1.35:1. The diversion rate of e-channels increased by 3.29 percentage points from the beginning of the year to 91.42%.
- As at the end of the Reporting Period, the number of relationship managers in domestic branches increased by 3.64% from the beginning of the year to 24,724 in total.

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

(1) Physical outlets

The Bank further deepened the transformation development of grass-root institutions, and actively reduced unused business area, operating cost and staff of existing outlets. The Bank explored to transform the service mode of grass-root institutions and transformed the focus of comprehensive outlets construction from quantity to quality. As at the end of the Reporting Period, the number of comprehensive outlets increased by 59 from the beginning of the year to 574. The Bank simplified the admission process of all-inclusive outlets and continued to improve all-inclusive financial system. As at the end of the Reporting Period, 605 all-inclusive outlets were opened.

As at the end of the Reporting Period, the total number of domestic outlets increased by 144 from the beginning of the year to 3,285, of which 185 were newly opened and 41 were closed down due to their low yields. The Bank's network covered 236 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities up 0.30 percentage point from the beginning of the year to 70.66%. In particular, the coverage ratio in Western China was 43.51%.

Accelerated the transformation of physical outlets service mode, with innovation as driving forces

In the second half of 2016, the Bank started “innovation project for outlet service mode”, using “intelligent devices” to meet the comprehensive transaction demands of customers. Under the new and good mode, the staff offered services in branch, not limited to counter area.

First, the effectiveness of counter services diversion is high. The retail counter services were reduced significantly at the pilot outlets, while the number of staff at the branch increased. Second, the operating efficiency improved remarkably. The Bank promoted self-service operations to customers, simplified the operation flow and the authorization procedures, customized the interface design and developed service packages for related transactions, all of which highly reduced the average waiting time of customers. In addition, the selling skills of staff were enhanced. Under the new mode, staff of the Bank provides personal banking services with the need of individual customers, thereby increasing sales. Furthermore, the effectiveness of channel diversion was remarkably high. The use of advanced technology successfully diverted existing retail service customers at the pilot outlets, enabling BoCom to maintain a level of replacement of counter services by e-banking services higher than the industrial average. Lastly, the businesses of physical outlets improved steadily. The daily average savings deposits and the number of active clients increased significantly, compared to those in the beginning of the year. Such a new operation mode started improving the development of the retail banking businesses

(2) E-banking

The Bank accelerated the integration of electronic channels and continued to optimize electronic channel services. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 4.94 billion with the transaction amount exceeding RMB223.02 trillion. The diversion rate of e-channels was up 3.29 percentage points from the beginning of the year to 91.42%.

Self-service banking. The Bank continued to improve the efficiency of self-service banking. During the Reporting Period, the number of self-service machines in domestic branches was 30,500 in total and the number of self-service bank was 3,603 in total. The ratio of self-service bank to traditional branch outlet reached 1.35:1. The number of self-service banking transactions was 572 million and the transaction amount exceeded RMB2 trillion, representing a year-on-year increase of 7.93%. 899 Intelligent Teller Machines (“iTM”) have been put in use across the Bank.

Online banking. The Bank constantly optimized functions and interface of online banking. As at the end of the Reporting Period, the number of corporate e-banking customers increased by 14.32% from the beginning of the year, and the number of corporate e-banking transactions increased year-on-year by 55.57% to 893 million. The number of personal E-banking customers increased by 12.43% from the beginning of the year, and the number of personal E-banking transactions (excluding mobile banking transactions) increased year-on-year by 52.72% to 3.201 billion.

Mobile banking: creating new model of banking services in the era of mobile internet

At present, the wide popularity of mobile internet profoundly changes people’s life and affects the banking financial services. Mobile banking has become a major emerging service platform, which has strategic significance in the Bank’s business development. In 2016, keeping up with market trend, the Bank continued to reinforce the construction of mobile banking team, products and marketing and actively laid out new business growth model to achieve rapid development of mobile banking businesses. As at the end of the Reporting Period, the Bank’s total number of registered mobile banking customers exceeded 50 million, an increase of 25.39% from the beginning of the year. During the Reporting Period, the number of the mobile banking transactions increased year-on-year by 19.65% to 274 million and the transaction amount was RMB6.83 trillion, representing a year-on-year increase of 68.23%.

- **Established a dedicated team to promote the business development.** The Bank established a mobile banking project team in June 2016, which was upgraded to an online financial service center at the end of 2016. The team was in full charge of the strategic analysis, product research and development and business promotion of mobile banking. The team included top talents inside and outside the industry and was sufficiently provided with special resources, polices, systems and processes to simulate the innovation capability and execution power of the team.

- **Promoted the platform upgrade to reinforce the service assurance.** The Bank officially launched the new version of mobile banking in April 2016, creating five highlights in financial services. First was mobile payment via scanning QR code, which realized rapid face-to-face cash receipt and payment between customers and merchants. Second was reservation services of branch outlets. Customers can make reservation in advance via the mobile banking and process transactions at branch outlet on time. Third was immediate opening of Class II personal accounts. Customers can open BoCom accounts online and enjoy the financial services of BoCom. Fourth was abundant financial services, which covered various product categories such as wealth management products (“WMPs”), funds, precious metals, insurance, book-entry crude oil, certificate of deposit, “Huo Qi Fu” and structured WMPs. The Group thus delivered wealth management services for different customers. Fifth was “Xiao Mi Jiao Jiao” intelligent reminder service which messaged the changes of net value upon the realized investment objectives. This service facilitate customers to know the changes of investment in a timely manner. In addition to the innovation of product functions, the safety protection for mobile banking was also upgraded in the aspects of enhancing the safety capability in preventing embezzling and password cracking, in order to safeguard the customers’ fund security. In 2016, mobile banking of the Bank was awarded “Best Mobile Banking Security Award in China” by China Financial Certification Authority (“CFCA”), best mobile financial service platform by China’s financial brand “Bauhinia Award” and other awards.
- **Organized marketing activities to enhance the market reputation.** With its service brand, the Bank organized a large marketing event with the theme as “Millions of Gold Waiting for You” from September to December 2016 and launched a new year-themed activity named “Rushing for One Hundred Thousand Golden Roosters” at the end of 2016, which constantly became the market hot topic. In 2017, the Bank will continue to carry out specific marketing activities to improve its market reputation and expand its brand influence.

(3) *Relationship manager*

The Bank continued to promote the setup of its relationship manager team, optimized the management mechanism, increased the development opportunities and intensified the education and training. As at the end of the Reporting Period, the number of relationship managers in domestic branches increased by 3.64% from the beginning of the year to 24,724 in total, among which, the number of the corporate relationship managers increased by 3.30% from the beginning of the year to 10,991. The number of retail relationship managers increased by 3.91% from the beginning of the year to 13,733. The number of employees with

a Master's degree or above increased by 15.41% from the beginning of the year to 2,883. The number of employees with a Bachelor's degree or above increased by 5.39%¹ from the beginning of the year to 21,424.

(4) *Customer services*

140 branch outlets were awarded “Top 1,000 Model” organised by China Banking Association, the Bank was ranked No. 1 in the banking industry with the highest number of awarded outlets. The Bank was ranked No. 1 in 2016 China Retail Banking Satisfaction Study organised by J.D.POWER with a total score of 846 for three consecutive years. With continuous efforts on promotion of customer rights protection, the Bank carried out the publicity campaign of “Broadcasting Financial Literacy to Thousands of families” in order to further improve the impact of its service brand.

5. *Internationalization and Integrated Operation*

(1) *Internationalization strategy*

- During the Reporting Period, net profits of the Group's overseas banking institutions increased by 30.71% on a year-on-year basis to RMB5.35 billion, accounting for 7.96% of the Group's net profits, which increased by 1.81 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 22.06% from the beginning of the year to RMB855.914 billion, accounting for 10.19% of the Group's total assets, representing an increase of 0.39 percentage point from the beginning of the year.
- As at the end of the Reporting Period, the impaired loans balance in the Group's overseas banking institutions was RMB1.087 billion, and the impaired loan ratio was 0.27%.

The Group focused on driving the implementation of internationalization strategy by improving the landscape of overseas service network, building a global wealth management and financial service platform and increasing its cross-border, cross-industry and cross-market service ability based on financial innovation and key products.

¹ As at the end of 2016, Heads of client relationship manager are included in client relationship managers for statistics. In accordance with calculation, as at the end of 2015, the number of relationship managers was 23,856 in total, among which, the number of the corporate relationship managers was 10,640 while the number of retail relationship managers was 13,216. The number of employees with a Master's degree or above was 2,498 while the number of employees with a Bachelor's degree or above was 20,329.

Overseas service network

The landscape of overseas service network steadily progressed. As at the end of the Reporting Period, the Group set up 20 overseas subsidiaries, branches and representative office in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, Taipei, Toronto, Brisbane, Luxembourg, London, Paris, Roman and Rio de Janeiro with total 65 overseas operating outlets (excluding the representative offices). The Bank established agency relationship with 1,613 banks in over 142 countries and regions, set up 233 cross-border Renminbi inter-bank accounts for 121 overseas agent banks in 33 countries and regions. Moreover, the Group opened 76 foreign currency settlement accounts in 23 currencies with 59 banking institutions in 28 countries and regions.

The synergetic businesses of domestic and overseas

The Bank strived to broaden the mid-and-long term financing services to assist the development of the connectivity projects between enterprises and countries alongside the Belt and Road. Through product innovation and business portfolio, the Bank provided comprehensive service solution for customers to meet their cross-border, cross-market and multi-level financial demands. During the Reporting Period, the total transaction amount of the synergetic businesses was USD50.311 billion, and its accumulated revenue reached RMB3.948 billion.

Cross-border Renminbi transaction

Taking advantage of the synergistic effect of domestic and overseas banking institutions, the Bank moved forward the development driven by two engines of domestic and overseas banks. In alignment with the key projects and key businesses of enterprises, the Bank achieved in the steady development of cross-border Renminbi transactions by innovation in products, channels and services. During the Reporting Period, the transaction amount of the cross-border Renminbi settlement by domestic and overseas banking institutions increased by 37.66% on a year-on-year basis to RMB2,218.084 billion.

Offshore services

The Bank promoted the optimization of offshore customer structure and asset structure by enhancing the management and control of compliance, anti-money laundering and risk. As at the end of the Reporting Period, the total amount of offshore assets increased by 42.92% from the beginning of the year to USD18.244 billion, loan balance increased by 66.53% from the beginning of the year to USD11.952 billion, and deposit balance increased by 29.75% from the beginning of the year to USD12.309 billion.

Opening of five branches and first overseas acquisition, accelerating the internationalized landscape

From 9 to 21 November 2016, London Branch of BoCom, Bank of Communications (Luxembourg) S.A. Paris Branch, Luxembourg Branch of BoCom and Bank of Communications (Luxembourg) S.A. Rome Branch successively opened, further developing and consolidating the institution landscape in Europe. On 30 November 2016, the Bank smoothly completed the acquisition of the controlling stake in Banco BBM (BoCom BBM), realizing the first breakthrough in South America region. This was also the Bank's first international acquisition. So far, the number of overseas banks of the Bank reached over 20 in 16 countries and regions, crossing four continents of Asia, Europe, America and Australia, covering major financial centers around the world, including New York, London and Singapore.

In the future, pursuant to the overall strategy of “Asia-Pacific as basis and Europe and America as two wings to expand the global landscape”, the Bank will establish institutions and conduct mergers and acquisitions to increase the proportion of profit from overseas assets. In respect of landscape, closely following the state's strategy of strategic initiative “Belt and Road” and the “Go Global” of Chinese enterprises, the Bank will work closely with major international financial centers and countries which have close interactions with China. For the countries and regions where the institutions have been established, the Bank will move forward the establishment of secondary institutions, deeply explore the local market and expand business scope.

(2) *Integrated operation*

- During the Reporting Period, net profits attributable to the Bank from the subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and Banco BBM) amounted to RMB3.651 billion, representing a year-on-year increase of 22.76%, the proportion of which to the net profit of the Group increased by 0.96 percentage point to 5.43% on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of the subsidiaries (excluding Bank of Communications (UK) Limited, Bank of Communications (Luxembourg) Limited and Banco BBM) increased by 22.71% from the beginning of the year to RMB254.958 billion, the proportion of which to the total assets of the total assets of the Group increased by 0.13 percentage point to 3.03% from the beginning of the year.

The Group exercised the comprehensive operating advantages and improved its comprehensive capability of serving customers. Under the placed risk management, subsidiaries enhanced their market competitiveness and implementation of the comprehensiveness strategy of the Group by seizing the market opportunity, strengthening the leverage of synergistic effect and the deepening of the business integration and creating their own business characteristics.

- BoCom Leasing continued to maintain its leading development trend in the financial lease industry and optimize its business structure. The investment amount for the new operating lease businesses all the year round were RMB20.72 billion, with the operating lease assets accounting for 31.27%, an increase of 10.65 percentage points from the beginning of the year. As at the end of the Reporting Period, the total leasing assets balance amounted to RMB166.061 billion, representing an increase of 18.96% from the beginning of the year. BoCom Leasing is one of the leading companies in the industry in terms of growth of asset size, overall profits and asset quality.
- BoCom International Trust speeded up the development of its core businesses including PPP, industrial investment fund and asset securitization. The newly contracted amount throughout the year totalled approximately RMB240 billion. BoCom International Trust successfully launched publicly offered products such as the non-performing asset securitization, credit card asset securitization and corporate asset securitization. As at the end of the Reporting Period, its AUM increased by 43.85% from the beginning of the year to RMB709.768 billion.
- BoCom Fund had outstanding performance of several publicly offered funds. BoCom Qushi, BoCom Alpha and BoCom Zhizao managed by BoCom Fund were top 10% of funds among its peers in terms of performance all the year round. As at the end of the Reporting Period, its assets under management (AUM) increased by 22.74% from the beginning of the year to RMB532.864 billion (including domestic subsidiaries and Hong Kong subsidiaries).
- BoCommLife Insurance maintained a leading position in the industry in terms of return on investments. During the Reporting Period, the original premium income increased by 138.31% on a year-on-year basis to RMB9.704 billion. The bancassurance businesses with premium paid by installment significantly expanded and the new premium income increased by 235% on a year-on-year basis.

- BoCom International maintained a relatively high return on stock investments and was awarded No. 3 of Most Independent Research Brokerage by Asia Money, constantly improving its market influence.
- As BoCom Insurance's main businesses, property insurance was well developed. Its gross premium growth rate and net compensation rate exceeded the Hong Kong interbank market average. The investment businesses remained in steady development.

(II) Financial Statements Analysis

I. Analysis on Key Income Statement Items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB98 million to RMB86.11 billion, equivalent to a 0.11% increase rate on a year-on-year basis. Profit before tax was mainly derived from net interest income and net fee and commission income.

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

	<i>(in millions of RMB)</i>	
	2016	2015
Net interest income	134,871	144,172
Net fee and commission income	36,795	35,027
Impairment losses on loans and advances to customers	(28,480)	(27,160)
Profit before tax	86,110	86,012

(2) Net interest income

During the Reporting Period, the Group's net interest income, decreased by RMB9.301 billion to RMB134.871 billion on a year-on-year basis, accounting for 69.50% of the Group's net operating income and was a major component of the Group's income.

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

	<i>(in millions of RMB unless otherwise stated)</i>					
	For the twelve months ended 31 December 2016			For the twelve months ended 31 December 2015		
	Average balance	Interest income/ (expense) ⁵	Annualized average rate of return/ (cost) (%)	Average balance	Interest income/ (expense)	Annualized average rate of return/ (cost) (%)
Asset						
Cash and balances with central banks	940,872	13,701	1.46	879,938	12,868	1.46
Due from banks and other financial institutions	613,166	15,026	2.45	679,546	22,813	3.36
Loans and advances to customers and receivables	4,003,174	189,973	4.75	3,715,611	214,127	5.76
Include: Corporate loans and receivables	2,786,556	125,458	4.50	2,670,427	147,946	5.54
Individual loans	1,058,139	59,442	5.62	924,334	61,092	6.61
Discount bills	158,479	5,073	3.20	120,850	5,089	4.21
Investment securities	1,917,494	71,144	3.71	1,365,768	55,318	4.05
Interest-bearing assets	7,170,237 ³	281,197 ³	3.92	6,505,493 ³	300,965 ³	4.63
Non-interest-bearing assets	347,839			322,491		
Total assets	7,518,076³			6,827,984³		
Liabilities and Shareholders' Equity						
Due to customers	4,645,472	86,392	1.86	4,357,575	97,743	2.24
Include: Corporate deposits	3,174,125	56,434	1.78	2,946,566	65,070	2.21
Individual deposits	1,471,347	29,958	2.04	1,411,009	32,673	2.32
Due to banks and other financial institutions	1,989,295	55,720	2.80	1,672,629	55,212	3.30
Debt securities issued and others	397,461	12,861	3.24	217,610	7,999	3.68
Interest-bearing liabilities	6,727,759 ³	146,326 ³	2.17	6,112,444 ³	156,793 ³	2.57
Shareholders' equity and non-interest-bearing liabilities	790,317			715,540		
Total Liabilities and Shareholders' Equity	7,518,076³			6,827,984³		
Net interest income		134,871			144,172	
Net interest spread¹			1.75³			2.06³
Net interest margin²			1.88³			2.22³
Net interest spread¹			1.89⁴			2.14⁴
Net interest margin²			2.02⁴			2.30⁴

Notes:

1. This represented the difference between the average rate of return on total average interest-bearing assets and the average cost of total average interest-bearing liabilities.
2. This ratio represented the net interest income to total average interest-bearing assets.
3. This excluded the impact of wealth management products.
4. This excluded the impact of wealth management products and took into account the tax exemption on the interest income from investments in government bonds.
5. According to requirements of Caishui [2016] No.36 on the Notice on Comprehensive Roll-out of the Business Tax (BT) to Value-Added Tax (VAT) Transformation Pilot Program, VAT payable was deducted from the Group's interest income in the current period.

During the Reporting Period, the Group's net interest income decreased by 6.45% on a year-on-year basis. The net interest spread and net interest margin decreased by 31 and 34 basis points on a year-on-year basis to 1.75% and 1.88% respectively. The net interest spread and net interest margin in the fourth quarter increased by 2 and 1 basis points as compared to those in the third quarter, respectively. Excluding the impact from VAT on the presentation basis of interest income, the net interest spread and net interest margin decreased by 20 and 23 basis points on a year-on-year basis to 1.86% and 1.99% respectively. Both net interest spread and net interest margin in the fourth quarter increased by 2 basis points compared to the third quarter.

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

(in millions of RMB)

Comparison between 2016 and 2015

		Increase/(decrease) due to	Net
	Scale	Interest rate ^{Note}	increase/(decrease)
Interest-bearing assets			
Cash and balances with central banks	890	(57)	833
Due from banks and other financial institutions	(2,230)	(5,557)	(7,787)
Loans and advances to customers and receivables	16,564	(40,718)	(24,154)
Investment securities	22,345	(6,519)	15,826
Changes in interest income	37,569	(52,851)	(15,282)
Interest-bearing liabilities			
Due to customers	6,449	(17,800)	(11,351)
Due to banks and other financial institutions	10,450	(9,942)	508
Debt securities issued and others	6,619	(1,757)	4,862
Changes in interest expenses	23,518	(29,499)	(5,981)
Changes in net interest income	14,051	(23,352)	(9,301)

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

During the Reporting Period, the Group's net interest income decreased by RMB9.301 billion on a year-on-year basis, among which the increase of RMB14.051 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB23.352 billion was due to changes in the average rate of return and average cost ratio.

① Interest income

During the Reporting Period, the Group's gross interest income decreased by RMB15.282 billion or 5.01% on a year-on-year basis to RMB289.844 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables decreased by RMB24.154 billion or 11.28% on a year-on-year basis to RMB189.973 billion, largely due to multiple impact on the presentation basis of interest income caused by the decrease of interest rate and VAT. The average rate of return of loans and advances to customers and receivables decreased by 101 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 RMB15.826 billion, with increase of 28.61% on a year-on-year basis to RMB71.144 billion, which was largely due to the year-on-year increase in the average balance of investment securities by RMB551.726 billion.

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, the average balances with the central bank increased by RMB0.833 billion or 6.47% on a year-on-year basis to RMB13.701 billion. The growth of the average balances with central banks was primarily due to the year-on-year increase in average customer deposits of RMB60.934 billion.

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

During the Reporting Period, the interest income from balances due from banks and other financial institutions decreased by RMB7.787 billion or 34.13% on a year-on-year basis to RMB15.026 billion. This was largely due to the year-on-year decrease in the average rate of return due from banks and other financial institutions by 91 basis points, and a year-on-year decrease in the average balance of RMB66.380 billion.

② Interest expenses

During the Reporting Period, the Group's interest expenses decreased by RMB5.981 billion or 3.72% on a year-on-year basis to RMB154.973 billion.

A. Interest expenses on balances due to customers

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expenses on customer deposits decreased by RMB11.351 billion or 11.61% on a year-on-year basis to RMB86.392 billion, accounting for 55.75% of total interest expense. The decrease in interest expenses on customer deposits was mainly due to a year-on-year decrease in the average rate of cost from customer deposits by 38 basis points.

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

During the Reporting Period, interest expenses on balances due to banks and other financial institutions increased by RMB508 million, equivalent to an increase of 0.92% on a year-on-year basis to RMB55.720 billion. This was largely due to the year-on-year increase in the average balance due to banks and other financial institutions by RMB316.666 billion.

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

During the Reporting Period, interest expenses on bonds payable and other interest-bearing liabilities increased by RMB4.862 billion with an increase of 60.78% on a year-on-year basis to RMB12.861 billion. This was mainly due to a year-on-year increase in average balance of bonds payable and others of RMB179.851 billion.

(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 vigorously facilitating the transformation of its profit making model and moved towards a business model with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB1.768 billion or 5.05% on a year-on-year basis to RMB36.795 billion. Agency services and management services were the main drivers of the Group's intermediary businesses. The table below illustrates the major components of the Group's net fee and commission income for the periods indicated:

	<i>(in millions of RMB)</i>	
	2016	2015
Settlement service and bank cards	13,787	13,912
Investment banking	5,306	7,472
Guarantee and commitment	2,962	3,014
Management service	12,502	9,697
Agency service	4,636	3,403
Others	691	733
Total fee and commission income	39,884	38,231
Less: Fee and commission expense	(3,089)	(3,204)
Net fee and commission income	36,795	35,027

Fee income from settlement services and bank card services decreased by RMB0.125 billion or 0.90% on a year-on-year basis to RMB13.787 billion. Affected by VAT, the presentation basis of fee income changed, thus the fee income from settlement services and bank card services decreased.

Fee income from investment banking decreased by RMB2.166 billion or 28.99% on a year-on-year basis to RMB5.306 billion. This was mainly due to the decrease in consultant services.

Fee income from guarantee and commitment services decreased by RMB52 million or 1.73% on a year-on-year basis to RMB2.962 billion. Affected by VAT, the presentation basis of fee income changed, thus the fee income from guarantee and commitment services decreased.

Fee income from management services increased by RMB2.805 billion or 28.93% on a year-on-year basis to RMB12.502 billion, which was mainly driven by the increase in the fee income from asset management and wealth management agency services.

Fee income from agency services increased by RMB1.233 billion or 36.23% on a year-on-year basis to RMB4.636 billion, which was mainly driven by the increase in the fee income from insurance agency services.

(4) *Operating costs*

During the Reporting Period, the Group's operating costs increased by RMB2.377 billion or 4.05% on a year-on-year basis to RMB61.098 billion, while the Group's cost-to-income ratio was 31.77%, representing a year-on-year increase of 1.23 percentage points. Excluding the impact from VAT on the presentation basis of net operating income and operating costs, the Group's cost-to-income ratio was 30.62%, representing a year-on-year increase of 0.08 percentage point.

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

	<i>(in millions of RMB)</i>	
	2016	2015
Staff costs	26,040	25,429
Functional expenses	26,310	24,771
Depreciation and amortization	7,939	7,200
Taxes ^{Note}		611
Others	809	710
Total operating costs	61,098	58,721

Note: In accordance with the requirements of Regulations on Accounting Treatment of Value-added Tax (Cai Kuai [2016] No. 22) issued by the Ministry of Finance, "business taxes and surcharges" was presented in another item of the income statement "taxes and surcharges", with operating costs items adjusted accordingly.

(5) *Impairment losses on loans and advances to customers*

During the Reporting Period, the Group's impairment losses on loans and advances to customers increased by RMB1.320 billion or 4.86% on a year-on-year basis to RMB28.480 billion. The increase comprised of (1) collective provision decreased by RMB2.981 billion on a year-on-year basis to RMB9.439 billion; and (2) individual provision increased by RMB4.301 billion on a year-on-year basis to RMB19.041 billion. During the Reporting Period, credit cost ratio decreased by 0.04 percentage point on a year-on-year basis to 0.69%.

(6) *Income tax*

During the Reporting Period, the Group's income tax expense decreased by RMB0.722 billion or 3.76% on a year-on-year basis to RMB18.459 billion. The effective tax rate of 21.44% was lower than the statutory tax rate of 25%, which was mainly due to the tax exemption on interest income from government bonds held by the Group, as promulgated in relevant tax provisions.

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

	<i>(in millions of RMB)</i>	
	2016	2015
Current tax	14,814	20,039
Deferred tax	3,645	(858)

2. Analysis on Key Balance Sheet Items

(1) Assets

As at the end of the Reporting Period, the Group's total assets were RMB8,403.166 billion, representing an increase of RMB1,247.804 billion, equivalent to an increase of 17.44% from the beginning of the year.

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

<i>(in millions of RMB unless otherwise stated)</i>				
	31 December 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	4,009,046	47.71	3,634,568	50.80
Investment securities	2,252,392	26.80	1,630,559	22.79
Cash and balances with central banks	991,435	11.80	920,228	12.86
Due from banks and other financial institutions	715,787	8.52	611,191	8.54
TOTAL ASSETS	8,403,166		7,155,362	

① Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans by reasonably controlling the amount, direction and pace of credit. As at the end of the Reporting Period, the Group's total loans and advances to customers were RMB4,102.959 billion, representing an increase of RMB380.953 billion or 10.24% from the beginning of the year, among which the increase in Renminbi loans from domestic branches increased by RMB300.883 billion or 9.14% from the beginning of the year.

Loans concentration by industry

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

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

(in millions of RMB unless otherwise stated)

	31 December 2016		31 December 2015	
	Balance	Proportion	Balance	Proportion
		(%)		(%)
Mining	107,787	2.63	101,647	2.73
Manufacturing				
– Petroleum and chemical	106,514	2.60	125,952	3.38
– Electronics	59,942	1.46	75,424	2.03
– Steel	36,841	0.90	36,879	0.99
– Machinery	118,200	2.88	105,187	2.83
– Textile and clothing	33,714	0.82	40,680	1.09
– Other manufacturing	224,455	5.47	238,027	6.40
Electricity, gas and water production and supply	147,141	3.59	138,256	3.71
Construction	99,487	2.42	109,893	2.95
Transportation, storage and postal service	495,427	12.07	418,057	11.23
Telecommunication, IT service and software	20,594	0.51	13,413	0.36
Wholesale and retail	319,579	7.79	333,903	8.97
Accommodation and catering	34,489	0.84	35,070	0.94
Financial institutions	94,464	2.30	50,832	1.37
Real estate	204,111	4.97	227,061	6.10
Services	300,929	7.33	262,750	7.06
Water conservancy, environmental and other public utilities	188,622	4.60	132,061	3.55
Education, science, culture and public health	80,597	1.96	71,731	1.93
Others	117,290	2.86	94,420	2.53
Discounted bills	126,589	3.09	117,444	3.16
Total corporate loans	2,916,772	71.09	2,728,687	73.31
Mortgage loans	770,280	18.78	604,357	16.24
Credit card overdraft	307,857	7.50	271,542	7.30
Others	108,050	2.63	117,420	3.15
Total individual loans	1,186,187	28.91	993,319	26.69
Gross amount of loans and advances to customers before impairment allowances	4,102,959	100.00	3,722,006	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB188.085 billion, or 6.89% from the beginning of the year to RMB2,916.772 billion. The four most concentrated industries were manufacturing, transportation, storage and postal service, wholesale and retail and services businesses, which accounted for 58.13% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB192.868 billion or 19.42% from the beginning of the year to RMB1,186.187 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 2.22 percentage points from the beginning of the year to 28.91%.

Loan concentration by borrowers

As at the end of the Reporting Period, the total loans of the largest single borrower of the Group accounted for 3.02% of the Group's net capital, and the total loans of top 10 customers accounted for 12.72% of the Group's net capital, which were in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

		31 December 2016	
		Loan	Percentage of
		balances	total loans
			and advances
			(%)
Type of industry			
Customer A	Transportation, storage and postal service	21,867	0.54
Customer B	Transportation, storage and postal service	12,469	0.30
Customer C	Transportation, storage and postal service	9,571	0.23
Customer D	Transportation, storage and postal service	8,536	0.21
Customer E	Transportation, storage and postal service	7,902	0.19
Customer F	Transportation, storage and postal service	6,792	0.17
Customer G	Wholesale and retail	6,740	0.16
Customer H	Mining	6,340	0.15
Customer I	Manufacturing – other manufacturing	6,000	0.15
Customer J	Transportation, storage and postal service	5,892	0.14
Total of Top Ten Customers		92,109	2.24

Loan concentration by geographical locations

The Group's credit customers were mainly located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 31.68%, 17.87% and 7.76%, respectively, among which, the loan balance in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta increased by 6.62%, 4.37% and 12.00%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.52%, representing an increase of 0.01 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 5.07 percentage points from the beginning of the year to 150.50%.

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

	<i>(in millions of RMB unless otherwise stated)</i>	
	31 December 2016	31 December 2015
Impaired loans	62,400	56,206
Loans overdue by more than 90 days	86,782	91,423
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.52	1.51

② Investment securities

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB621.833 billion or 38.14% from the beginning of the year to RMB2,252.392 billion. The rate of return on investment securities reached 3.71%.

Breakdown of the Group's investment securities

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

– By intention of holding

<i>(in millions of RMB unless otherwise stated)</i>				
	31 December 2016		31 December 2015	
	Balance	Proportion	Balance	Proportion
		(%)		(%)
Financial assets at fair value through profit or loss	117,168	5.20	108,458	6.65
Investment securities – loans and receivables	385,020	17.09	323,679	19.85
Investment securities – available-for-sale	342,755	15.22	264,739	16.24
Investment securities – held-to-maturity	1,407,449	62.49	933,683	57.26
Total	<u>2,252,392</u>	<u>100.00</u>	<u>1,630,559</u>	<u>100.00</u>

– By issuers

<i>(in millions of RMB unless otherwise stated)</i>				
	31 December 2016		31 December 2015	
	Balance	Proportion	Balance	Proportion
		(%)		(%)
Governments and central banks	1,132,581	50.28	662,337	40.62
Public sector entities	33,451	1.49	21,939	1.35
Banks and other financial institutions	652,835	28.98	496,184	30.43
Corporate entities	433,525	19.25	450,099	27.60
Total	<u>2,252,392</u>	<u>100.00</u>	<u>1,630,559</u>	<u>100.00</u>

As at the end of 2016, financial bonds held by the Group amounted to RMB652.835 billion, including policy bank bonds of RMB342.862 billion and banks and non-bank financial institutions bonds of RMB309.973 billion, which accounted for 52.52% and 47.48% of the total bonds, respectively.

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond names	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2015 banks and non-bank financial institutions bond	5,910	4.95	19/01/2018	—
2015 policy bank bond	5,060	3.74	10/09/2025	—
2014 banks and non-bank financial institutions bond	4,000	5.98	18/08/2029	—
2016 policy bank bond	3,830	2.79	27/07/2019	—
2012 banks and non-bank financial institutions bond	3,800	4.70	29/06/2022	—
2016 policy bank bond	3,630	2.72	03/03/2019	—
2012 banks and non-bank financial institutions bond	3,500	4.30	14/02/2017	—
2016 policy bank bond	3,280	3.33	22/02/2026	—
2013 banks and non-bank financial institutions bond	3,200	4.95	17/06/2023	—
2016 policy bank bond	3,131	1.73	02/02/2018	—

(2) *Liabilities*

As at the end of the Reporting Period, the Group's total liabilities increased by RMB1,153.489 billion or 17.43% from the beginning of the year to RMB7,770.759 billion. Customer deposits increased by RMB243.775 billion or 5.44% from the beginning of the year, which accounted for 60.85% of total liabilities and represented a decline of 6.92 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB589.821 billion or 35.94% from the beginning of the year, which accounted for 28.71% of total liabilities and represented an increase of 3.91 percentage points from the beginning of the year.

Customer deposits

Customer deposits was the Group's main source of funding. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB243.775 billion or 5.44% from the beginning of the year to RMB4,728.589 billion. In terms of the Group's customer structure, the proportion of corporate customer deposit accounted for 67.81%, representing an increase of 0.23 percentage point from the beginning of the year. The proportion of individual deposits was 32.09%, representing a decrease of 0.25 percentage point from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits increased by 6.54 percentage points from the beginning of the year to 51.77%, while the proportion of time deposits decreased by 6.56 percentage points from the beginning of the year to 48.13%.

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

	<i>(in millions of RMB)</i>	
	31 December 2016	31 December 2015
Corporate deposits	3,206,241	3,030,408
Include: Corporate demand deposits	1,725,948	1,433,773
Corporate time deposits	1,480,293	1,596,635
Individual deposits	1,517,560	1,450,607
Include: Individual demand deposits	722,225	594,704
Individual time deposits	795,335	855,903

3. *Analysis on Key Cash Flow Items*

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB14.039 billion from the beginning of the year to RMB316.396 billion.

The net cash inflows from operating activities increased by RMB58.971 billion on a year-on-year basis to RMB485.066 billion, mainly due to the year-on-year increase in the net cash inflows related to the balance due to banks and other financial institutions.

The net cash outflows from investing activities increased by RMB140.557 billion on a year-on-year basis to RMB584.945 billion, mainly due to the increase in net cash outflows related to securities investment activities.

The net cash inflows from financing activities increased by RMB47.882 billion on a year-on-year basis to RMB77.865 billion, mainly due to the year-on-year increase in the cash inflows related to the issuance of preference shares and bonds during the current year.

4. 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:

	2016		(in millions of RMB) 2015	
	Profit before tax	Net operating income ¹	Profit before tax	Net operating income ¹
Northern China	10,935	20,825	11,795	20,904
North Eastern China	3,480	7,391	3,697	7,157
Eastern China	22,881	64,921	23,268	59,555
Central and Southern China	17,541	31,870	17,086	30,743
Western China	8,105	16,189	8,114	15,699
Overseas	6,085	10,547	6,049	9,955
Head Office	17,083	37,034	16,003	36,566
Total²	86,110	188,777	86,012	180,579

Notes:

1. Including net interest income, net fee and commission income, net gains arising from trading activities, net gains arising from financial investments shares of profits of associates, insurance business income and other operating income, net of business tax, city maintenance and construction tax and educational surcharge. (same applies hereinafter)
2. Including 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:

	31 December 2016		<i>(in millions of RMB)</i> 31 December 2015	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	703,472	568,598	707,804	544,823
North Eastern China	250,716	202,216	264,203	190,285
Eastern China	1,751,799	1,441,942	1,639,756	1,299,000
Central and Southern China	1,067,991	761,294	964,427	687,517
Western China	593,674	417,904	556,443	382,623
Overseas	358,061	384,396	349,764	326,400
Head Office	2,876	326,609	2,417	291,358
Total	<u>4,728,589</u>	<u>4,102,959</u>	<u>4,484,814</u>	<u>3,722,006</u>

(3) *Operating results by business segments*

The Group's four main business segments were corporate banking, personal banking, treasury businesses and other businesses. The corporate banking segment formed as a primary source of profit for the Group, accounting for 51.09% 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:

	2016		<i>(in millions of RMB)</i> 2015	
	Profit before tax	Net operating income	Profit before tax	Net operating income
Corporate banking	43,994	92,252	45,911	90,817
Personal banking	19,135	59,231	12,659	51,803
Treasury business	20,402	23,120	25,765	28,866
Other businesses	2,579	14,174	1,677	9,093
Total	<u>86,110</u>	<u>188,777</u>	<u>86,012</u>	<u>180,579</u>

5. Capital Adequacy Ratio

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

By the end of December 2016, the Group's capital adequacy ratio was 14.02%, Tier-1 Capital adequacy ratio was 12.16%, and Core Tier-1 Capital adequacy ratio was 11.00%, which met the regulatory requirements.

(in millions of RMB unless otherwise stated)

Pursuant to the Measures for the Capital Management of Commercial Banks (Trial Implementation) issued by the CBRC in calculation of relevant ratio ^{Note}

Item	The Group	The Bank
Net Core Tier-1 Capital	568,131	538,188
Net Tier-1 Capital	628,051	598,065
Net Capital	723,961	693,759
Core Tier-1 Capital adequacy ratio (%)	11.00	10.86
Tier-1 Capital adequacy ratio (%)	12.16	12.07
Capital adequacy ratio (%)	14.02	14.00

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

(2) According to capital adequacy ratio calculated by adopting the Advanced Measurement Approach of Capital Management, the credit risk was assessed by the internal rating-based approach, the market risk by the internal model approach, and the operational risk by the standardized approach.

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

Item	The Group	The Bank
Core Capital Adequacy Ratio (%)	10.65	10.62
Capital adequacy ratio (%)	14.21	14.18

For further information on the Group's capital measurement, please refer to the 2016 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd. at the website of SSE, the website of Hong Kong Stock Exchange or the official website of the Bank.

6. *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 CBRC in January 2015. As at 31 December 2016, the Group's leverage ratio was 6.86%, which fulfilled the regulatory requirements.

The Group

(in millions of RMB unless otherwise stated)

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

Item	31 December 2016
Net Tier-1 Capital	628,051
Balance of adjusted on-and-off-balance sheet assets	9,155,659
Leverage ratio (%)	6.86

Information disclosed according to the requirements of the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) Difference of Items between Regulatory Consolidation and Accounting Consolidation

(in millions of RMB)

Serial Number	Item	31 December 2016
1	Total consolidation assets	8,403,166
2	Adjusted item of consolidation	(17,275)
3	Adjusted item of customer's assets	—
4	Adjusted item of derivatives	26,312
5	Adjusted item of securities financing transactions	—
6	Adjusted item of off-balance sheet item	746,791
7	Other adjusted items	(3,335)
8	Balance of adjusted on-and-off-balance sheet items	9,155,659

Information relating to Leverage Ratio

(in millions of RMB unless otherwise stated)

Serial

Number Item

31 December 2016

1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,105,108
2	Less: Deduction of Tier-1 Capital	(3,335)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	8,101,773
4	Replacement costs of derivatives (less eligible margin)	37,190
5	Potential risk exposure of derivatives	26,312
6	Sum of collaterals that have been deducted from the balance sheet	—
7	Less: Asset receivable from providing eligible margin	—
8	Less: Asset balance of derivatives from transactions with central counterparties in providing clearing services for customers	—
9	Notional principal of sold credit derivatives	—
10	Less: Balance of deductible sold credit derivatives	—
11	Balance of derivatives	63,502
12	Accounting asset balance of securities financing transactions	243,593
13	Less: Balance of deductible securities financing transaction assets	—
14	Counterparty credit risk exposure of securities financing transactions	—
15	Balance of securities financing transaction assets from acting for securities financing transactions	—
16	Asset balance of securities financing transactions	243,593
17	Balance of off-balance sheet items	1,515,872
18	Less: Balance of off-balance sheet items from reduction of credit transfer	(769,081)
19	Balance of adjusted off-balance sheet items	746,791
20	Net Tier-1 Capital	628,051
21	Balance of adjusted on-and-off-balance sheet items	9,155,659
22	Leverage ratio (%)	6.86

7. Liquidity Coverage Ratio

The liquidity coverage ratio disclosed below is set out pursuant to the relevant requirements of the CBRC.

The regulatory requirements of the liquidity coverage ratio

Pursuant to the Measures for the Liquidity Risk Management of Commercial Banks (Trial Implementation) (CBRC, 2015 No. 9), by the end of 2018, the liquidity coverage ratio of Commercial Banks should reach 100%. During the transition period, the liquidity coverage ratio should reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively. During the transition period, banks are encouraged to meet the requirements ahead of schedule and banks whose liquidity coverage ratio has reached 100% are encouraged to maintain the ratio over 100%.

Liquidity Coverage Ratio

The Group calculated the liquidity coverage ratio pursuant to the regulations of Measures for the Liquidity Risk Management of Commercial Banks (Trial Implementation) and relative statistics system. The monthly average liquidity coverage ratio of the Group in the fourth quarter in 2016 was 111.85%, an increase of 4.58% from the third quarter of 2016, which was mainly due to the effect of reverse repurchase and a decrease in securities borrowing transactions. The indicator values at each month end within the fourth quarter met the regulatory requirements, and were stable as a whole. The qualified high-quality liquid assets mainly included securities issued by

sovereignties with zero risk weighted from guaranty, issued by public sectors with 20% risk weighted from guaranty and usable central reserves under stressed situation. The details of average monthly liquidity coverage ratio in the fourth quarter of 2016 are listed below:

<i>(in millions of RMB, except for percentages)</i>		
Serial Number	Amount before conversion	Amount after conversion
The qualified high-quality liquid assets		
1 The qualified high-quality liquid assets		1,221,385
Cash Outflow		
2 Retail deposits, small business deposits, including:	1,493,991	128,522
3 Stable deposit	414,647	20,588
4 Less stable deposit	1,079,344	107,934
5 Unsecured wholesale funding, including:	3,378,969	1,346,525
6 Business relationship deposit (excluding representative business)	2,251,460	560,418
7 Non-business relationship deposit (including all counterparties)	1,121,941	780,539
8 Unsecured wholesale funding	5,568	5,568
9 Secured funding		10,492
10 Other items, including:	567,721	35,929
11 Cash outflow relates to derivatives and other derivatives and collateral/pledged assets	3,275	3,275
12 Cash outflow relates to loss of funding on asset-blocked securities	448	448
13 Committed credit and liquidity facilities	563,998	32,206
14 Other contractual obligation to extend funds	5,902	5,902
15 Contingent funding obligations	1,073,921	25,284
16 Total expected cash outflow		1,552,654
Cash Inflow		
17 Secured lending, including reverse repurchase and securities borrowing	83,041	23,949
18 Committed facilities	675,609	423,440
19 Other cash inflow	21,460	13,053
20 Total expected cash inflow	780,110	460,442
		Amount after adjustment
21 The qualified high-quality liquid assets		1,221,385
22 Net cash outflow		1,092,212
23 Liquidity Coverage Ratio (%)		111.85

8. Other Financial Information

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

(1) Fair value measurement related items

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

The table below illustrates the fair value measurement related items of the Group in 2016:

<i>(in millions of RMB)</i>					
Item	Opening balance	Gains/ (Losses) on changes in fair value for the year	Cumulative fair value gains/(losses) recognized in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets					
1. Financial assets at fair value through profit or loss	138,999	(796)	–	–	179,221
2. Derivative financial assets	34,310	(932)	21	–	37,223
3. Available-for-sale financial assets	264,739	(780)	2,271	(621)	342,755
Financial assets sub-total	438,048	(2,508)	2,292	(621)	559,199
Investment properties	5,634	41	1,781	–	8,762
Total	443,682	(2,467)	4,073	(621)	567,961
Financial liabilities ^{Note}	(75,101)	244	(135)	–	(104,934)

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

(2) *Guarantees and related commitments*

	<i>(in millions of RMB)</i>	
	31 December 2016	31 December 2015
Financial guarantees and credit related commitments	1,252,469	1,308,499
Include: Loan commitments	86,125	91,247
Credit card commitments	528,199	438,608
Letters of credit commitments	126,885	150,085
Letters of guarantee	279,694	333,725
Acceptances bills	231,566	294,834
Operating lease commitments	13,593	11,356
Capital expenditure commitments	9,371	7,645

(3) *Restructured loans and overdue loans*

	<i>(in millions of RMB unless otherwise stated)</i>		
	31 December 2016	31 December 2015	Increase or decrease from the beginning of the year (%)
Restructured loans	15,464	32,907	(53.01)
Overdue loans	108,183	113,333	(4.54)

- (4) Information about equity investment obtained during the Reporting Period. On 30 November 2016, the acquisition of controlling equity interests in Banco BBM was settled smoothly by the Bank after obtaining related regulatory approval. Pursuant to which, the Bank have acquired 80% equity interests in Banco BBM (BoCom BBM). The Mariani Family, former controlling shareholder, retains a part of equity interests joint operation. This acquisition was funded by the Bank's own capital. Banco BBM (BoCom BBM) holds multi-functional banking license of Brazil with branches established in Bahamas. As at the end of 2016, the total assets and net assets of Banco BBM (BoCom BBM) were RMB8.065 billion and RMB1.141 billion respectively.

- (5) Material purchase or disposal. During the Reporting Period, there was no material purchase or disposal of subsidiaries, associated companies and joint ventures.
- (6) Pledge of Group assets. 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) Risk Management

In 2016, under the complicated and severe risk conditions, the Group continued to implement the comprehensive risk management system, focusing on “full coverage, whole process, accountability and risk management culture” and promoted the risk management work firmly in order to control various risks effectively. The Group implemented “BoCom Strategy” and transformative development strategy very well.

1. Risk Appetite

The Board of Directors established the overall risk appetite of “Stability, Balance, Compliance and Innovation” for the Group, and defined its four-dimensional risk tolerance in the form of return, capital, quality and risk rating. The Board further set 21 detailed risk limits indicators against 7 major risk areas including the risks of credit, market, operation, liquidity, interest rate of banking book, information technology and country (economy entity), in order to control the overall risk volatility on a regular basis.

During the Reporting Period, the Group strongly adhered to stable and prudent operation in compliance, strictly implemented various basic risk management policies and continued to strengthen the bottom line of risk compliance. The Group fully implemented the accountability the risk prevention and control, striving to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In 2016, the implementation of the Group's overall risk appetite was satisfactory.

2. Risk Management Framework

The Board of Directors takes the ultimate responsibility and is authorized for decision-making for the Group's risk management. The Group monitored and controlled the bank-wide risk management matters through the Risk Management Committee. The Group's Senior Management established a "1+3+2" Risk Management Committee. The Comprehensive Risk Management Committee was dedicated to implement the Board of Directors' risk management strategies and risk appetites. According to the principle of "Going Horizontal to the Edges, Going Vertical to the Bottom, and Covering all Aspects", the Comprehensive Risk Management Committee was responsible for completing the management system, optimizing the working system, standardizing the management policies, and performing evaluations on the effectiveness of risk management function in an all-around way. Three sub-committees were established under the Comprehensive Risk Management Committee, namely the Credit Risk Management Committee, the Market and Liquidity Risk Management Committee, and the Operational Risk Management and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely the Credit/Non-credit Review Committee and the High-risk Assets Review Committee were established, and performed their respective duties. Each Tier-1 branch, overseas branch and subsidiary correspondingly set up simplified and practical risk management committees referring to the above mentioned framework. The Group fully implemented the risk management requirements through the mechanism of "Leadership and Execution, Supervision and Reporting" between the Risk Management Committee and sub-committees, and among committees of Head Office and branches, forming a unified and coordinated risk management system.

During the Reporting Period, the Group further regulated the operations of each Risk Management Committee, continuously strengthened decision-making and supervisory functions, considered and reviewed different proposals, promoted more effective work allocation and timely and accurately implemented policies. In 2016, the Comprehensive Risk Management Committee and its sub-committees held 21 meetings, and more than 90 proposals were considered and approved.

During the Reporting Period, the Group developed the risk management planning for the "13th Five-Year Plan", specifying the overall objective, main task and implementation for the risk management in the future 5 years. The Group further improved the risk policy system and developed risk culture, risk management report and risk reserve policy. The Bank had better risk governance, management, measurement and control.

3. *Risk Management Tool*

The Group put great importance to the establishment and application of risk management tools, information systems and econometric models. During the Reporting Period, the Group strengthened the ability to control credit risk by the big data mining technique, and enhanced monitoring of middle offices over market risk, interest rate risk and liquidity risk, improved the role of risk management tool in business management, and strengthened real time controls over operating risk, fraud risk and money laundering risk through information system. Thus the Group continuously improved the effectiveness of risk management.

The Group developed a new way of data mining and information consolidation, enhancing the controls on risk management of assets. With the integration of big data and the risk inspection of traditional banking businesses, the Bank proactively changed the risk management policies in respect of customers with expanded scope of business, diversified operations, and innovative operation modes, which enabled the Group to obtain comprehensive information on customers' equity investments, controlling and guarantees relationships, including the underlying relationships. In this situation, the Bank could have better control on risk of corporate's assets value, investments, capital flow and the counterparties of transactions.

The Group had established a comprehensive system in implementation of Advanced Measurement Approach of Capital Management covering policy procedures, modules, data summary and specification, system design and implementation, business management and assessment application, independent verification and audit and professional training. With the approval from regulatory authorities, the Group adopted primary internal rating-based approach for enterprise risk exposures, internal rating-based approach for retail risk exposures, internal model-based approach for market risks and standard approach for operation risks to measure capital requirements.

During the Reporting Period, the Bank continued to optimize the measurement models and management systems including credit risk, market risk, operational risk, liquidity risk, interest rate risk and other risks. The Group consistently implemented operation model in monitoring and analysis, steadily expanded the implementation scope of advanced methods and carried out the research and development of measurement tools. The Group has applied the results extensively in customer access, quota management, risk monitoring and control as well as performance appraisal. The Group thoroughly assessed the internal capital adequacy and forecasted the capital adequacy level to strengthen capital planning and management. The Group's operation principle of "Capital Constraint Business and the Balance between Risk and Return" was further strengthened.

4. *Credit Risk Management*

Credit risk is one of the major current risks of the Group. The Group adopted stringent requirements on the management focus in investment guidance, investigation and reporting, business review and approval, fund distribution, duration management, overdue non-performing loans management and other aspects, which enabled the Group to control the credit risk within acceptable range and achieve a balance between risk and return.

The Group firmly implemented major economic and financial policies of the central government and the decision and deployment of the State Council. Closely responding to national policy and market fluctuation, the Group developed and issued the outline of credit authorization risk policy and direction of industrial (regional) loan investment and made dynamic updates and improvements. Through actively serving the real economy, supporting national strategy and grasping industrial transformation and upgrading, the Group increased the utilization and efficiency of the increment of credit assets and improved the liquidity of the existing assets. Corporate credits increased to cater the characteristics and changes of national economy, and the macro-economic operations and related needs.

The Group put emphasis on credit risk in key areas and strengthened the management on product duration. The Bank also improved post-loan management, related tools and systems. The Group also strengthened risk control on clients and the inspections and examination of clients' relationships. In addition, the Group located the potential risk of notes and bill businesses, investigated suspicious notes financing, and implemented management on suspicious issuers. Furthermore, the Group started managing the risk of bond investments, administrated and classified a list of bonds with potential risk.

The Group made remarkable progress in the disposal of risks, and the overdue loan decreased significantly. On one hand, the Group focused on reducing high-risk loans and credit restructuring, which led to a decrease in the loan balances of substandard customers to RMB93.22 billion and an increase of assets pledged loans by RMB23.98 billion. In addition, the group restructured risky businesses actively and enhanced the amounts of loans with assets pledged. On the other hand, the Group implemented various measures to reduce non-performing loans, and thus the amounts of non-performing loans on balance sheet was reduced to RMB50.6 billion, of which RMB26.8 billion was collected in cash. In addition, the Group conducted the securitization of non-performing assets, of which the first issuance was completed successfully and RMB4.9 billion non-performing assets were disposed of. With reference to the State Council's recommendations regarding the lowering of corporate leverage ratio, the Group conducted the studies on the feasibility of the securitization of loans, and drafted a related policy. As at the end of 2016, the balances of overdue loans of the Group was reduced to RMB5.15 billion, while the overdue loan ratio decreased by 0.40 basis point from beginning of the year.

According to the regulatory requirements as stipulated in the Guidelines on Risk-Based Loan Classification issued by the CBRC, the Group implemented a five-category system, based on the level of risk, on credit assets including pass, special mention, sub-standard, doubtful and loss. The latter three categories are regarded as non-performing loan categories, which are based on the judgement on the possibility of the timely and full repayment on principal and interest. For corporate quasi-credit assets, the Group defined detailed risk attributes and measurement standards of the five categories, according to the internal assessment and individual impairment. Such standard is based on the core regulatory definition. The Group also classified risks in a prudent manner, giving sufficient consideration to the various factors affecting the quality of credit assets. For retail credit assets (including credit cards), the Group has adopted a five-category system based on the aging of overdue loans and type of guarantees provided.

As at the end of 2016, the Group's balance of non-performing loans was RMB62.40 billion/1.52%, increased by RMB6.194 billion/0.01 percentage point from the beginning of the year. As at the end of 2016, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities was as follows:

Categories	<i>(in millions of RMB unless otherwise stated)</i>					
	31 December 2016		31 December 2015		31 December 2014	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	3,916,818	95.46	3,547,697	95.32	3,296,815	96.07
Special mention	123,741	3.02	118,103	3.17	91,903	2.68
Total performing loan balance	4,040,559	98.48	3,665,800	98.49	3,388,718	98.75
Sub-standard	17,513	0.42	22,953	0.62	16,103	0.47
Doubtful	26,950	0.66	22,521	0.61	18,680	0.54
Loss	17,937	0.44	10,732	0.28	8,234	0.24
Total non-performing loan balance	62,400	1.52	56,206	1.51	43,017	1.25
Total	4,102,959	100.00	3,722,006	100.00	3,431,735	100.00

As at the end of 2016, the breakdown of the Group's migration rate stipulated by the Chinese banking regulatory authorities was as follows:

Downward migration rates (%)	2016	2015	2014
Pass	2.80	2.52	2.59
Special mention	24.60	27.32	24.43
Sub-standard	50.04	32.14	52.64
Doubtful	33.72	21.78	18.90

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

In 2017, under the macroeconomic downturn and de-capacity, the Group is still under severe pressure of the asset quality and the risk control and management.

5. *Market Risk Management*

Market risk refers to the risk of losses of on and off-balance sheet businesses of the Bank arising from unfavorable changes in market prices (including interest rates, exchange rates, commodity prices and stock prices, etc.). The market risks to which the Bank was primarily exposed included the interest rate risk and foreign exchange risk (included gold).

The Group's foreign exchange risk and interest rate risk were assessed by the internal model approach, and market risk uncovered by the internal model approach was assessed by the standardized approach. In terms of the internal model approach, the Bank adopted the historical simulation method to calculate value at risk ("VaR") and stressed value at risk ("SVaR") which had historical observation period of 1 year, holding period of 10 working days and 99% confidence interval.

The Bank established and improved the market risk management framework with clear segregation of duties, clear policies and procedures, enhanced measurement system, timely analyzed and monitored of market risk management system, which enabled the Bank to control and prevent market risks, and to enhance the level of market risk management. Based on the risk appetites adopted by the Board of Directors, the Bank proactively identified, measured, monitored, controlled and reported its market risks using quota management, risk hedging, risk transfer, etc. The Bank controlled its exposure to market risk within the acceptable range, thereby maximizing risk-adjusted profits.

During the Reporting Period, the Bank continued to improve the market risk management framework by revising fair value policies and improving valuation accuracy, continuously optimizing market risk information system, allocating valuation models, parameters and market data for new businesses, optimizing market risk management models and allocation, independently verifying models newly allocated and reviewing data quality on a regular basis.

The Bank continued to promote the application of the market risk measurement results into management's practice. The Bank was able to obtain the daily capital transaction positions of the entire bank and the most updated market data to perform position valuation and sensitivity analysis in a timely manner. The Bank was also able to quantify market risks and measure VaR on a daily basis from different perspectives such as different risk factors, and different investment portfolios and products, using the historical simulation method. The result was also applied to capital measurement using the internal model, quota monitoring and management, performance assessment and risk monitoring and analysis. The Bank performed reverse testing on a daily basis to verify the accuracy of the VaR model and regular stress testing to analyze the risk situation of the investment portfolios under stressed scenarios. The results of 2016 reveal that the market risk measurement model was able to timely capture the financial market changes and objectively reflect market risks which the Bank encountered.

In response to the market charges, the Bank carried out studies on various areas such as the increase in interest rate and currency appreciation of US dollars, the liberalization of Renminbi interest rate and exchange rate, the fluctuations of Renminbi exchange rate and replacement of local municipal bonds, which provided comments and suggestions as references for management's decision. The Bank closely followed the new trend of governance over market risk both at home and abroad. The Bank actively got involved in CBRC's quantitative testing and performed in-depth analysis of the feasibility and challenges of the implementation of new market risk regulatory developments, in order to timely feedback the Bank's comments and recommendations.

6. *Liquidity Risk Management*

The Bank's liquidity management aimed to fully identify, effectively measure, continuously monitor, and appropriately control the liquidity risks of the entire bank and its products, business lines, business processes, and entities at all layers. The Liquidity management ensured the Bank's sufficiency of funds to carry out normal operations and perform matured debts and other payment obligations, whether in normal business environment or under stress. The Bank's governance structure for liquidity risk management consists of decision-making body comprised of Board of Directors and its subordinate Risk Management Committee, Senior Management and its subordinate Market and Liquidity Risk Management Committee, supervisory body comprised of Supervisory Committee and Audit Supervision Bureau, and executive body comprised of Asset and Liability Management Department, Treasury Business

Center, Risk Management Department, Asset Management Center, Operations Management Department, branches, subsidiaries and Head Office's departments in charge of businesses.

In terms of management model of liquidity risk, the Bank has adopted an approach with centralization and independence integrated. "Centralization" was reflected in the consolidation management applied to liquidity risk and consideration of overall risk level of the legal person and the Group, while "independence" was reflected in separate reporting and management for liquidity risk situation of affiliates, specific business departments or businesses, as well as each operating unit's accountability for their own liquidity risk.

During the Reporting Period, the Bank prudently implemented the Rules on Liquidity Risk Management of Commercial Banks (Trial Implementation) issued by the CBRC and continued with enhancement and improvement of liquidity risk management, achieving effective balance among security, liquidity and profitability. The Bank's businesses were developed in a coordinative manner under an overall stable condition of liquidity risk, and all liquidity indicators were in line with regulatory requirements. As required by regulatory policies and the Bank's reformation strengthening, the Bank further intensified on and off-balance sheet liquidity risk management. First, the Group released revised specifications such as Bank of Communication High-quality Liquidity Asset Management Measures, Bank of Communication Domestic Branch RMB Liquidity Indicator Management Measures and Bank of Communication Cross-border Financing Limit Management Measures, which further improved the liquidity management framework. Second, the Group constantly strengthened pre-judgements on macroeconomic situation, monetary policies and market interest rate trend and prediction on liquidity gap, to reinforce integrated scheduling of liquidity management. Third, the Group prudently applied regular stress testing to liquidity risk. The stressed scenarios took into consideration of internal relevance between all kinds of risks and impact of market liquidity on bank liquidity. Fourth, based on changes in macroeconomic situation and the business characteristics, the Bank organized an emergency drill for liquidity risks and further clarified and optimized emergency procedures and measures. Related units' capability and speed of coping with liquidity risks have been improved.

7. *Operational Risk Management*

The Group has established a set of unified management policy system for operational risk, which clarified the basis of operational risk management. It ensured and regulated the work process related to operational risks and the controls over self-assessment, management of operational risk events and monitoring of key risk indicators.

The Group vigorously promoted the integration of operational risk management tools and businesses. During the Reporting Period, the Group clarified and assessed the operational risks and controls in 74 key business processes across the Bank and promoted part of directly operating institutions to carry out process analysis and risk assessment. The Group applied strict management to operational risk event collection and loss reports, conducted investigation and analysis on 126 events. The Group pushed forward the optimization of debit cards, letter of guarantee, notes and other key business processes and improvement to the system function. The Group strengthened the parallel monitoring of information technology risks, continued to monitor and analyze the trends of key indicator changes in 17 information technology risks. Based on the analysis on the IT work orders, the Group focused on identifying issues such as technique deficiencies and system function weakness. The Group carried out the first special assessment on the information security management for the operation departments and operating units at all levels across the Bank so as to identify hidden risks in information security and management oversight. The Group developed the overall emergency preplan for the business continuity and arranged the implementation of 149 businesses and technique emergency drill for the Head Office in an orderly manner. The Group also organized comprehensive emergency drill such as remote disaster backup switchover between Head Office and branches and in the case of unavailability of Head Office building. The Group promoted the shaping of normalization mechanism of outsourcing risk assessment, focused on field inspection for the outsourcing of out-of-counter businesses and endeavored to enhance the management and control of the information security risks for business outsourcing. The Group developed and issued opinions on management and control over illegal fund raising risks, performed special investigation on monitoring of account funds, and continuously monitored and promptly eliminated illegal fund raising risk incidents.

8. *Legal Compliance and Anti-money Laundering*

The Group strived for the whole-process management of the identification, prevention, alert, resolution, disposal, inspection and monitoring of compliance risks. Hence the Group has constantly improved the compliance management mechanism, which provided strong support and guarantee in regulatory compliance to the “reform and innovation, transformation and development” of the Group.

During the Reporting Period, the Group has comprehensively strengthened compliance risk management. Risk Management and Related Party Transactions Control Committee under Board of Directors has bore the responsibility of US Risk Committee. The Group has constantly optimized the mechanism of oversea compliance risk management, which was further regularized and became long effective. All oversea institutions have been operating in compliance and closely communication with local regulatory authorities. By the end of 2016, there have been no significant penalties or regulatory fines. BoCom is well recognized by oversea regulatory authorities. In particular, branch in Frankfurt has been promoted to the top level of regulatory rating among local foreign banks.

In 2016, the Group continued to improve the domestic legal compliance management system and mechanism. The Group further standardized the thorough management process of policies and procedures by organizing clearing of policies and procedures all over the Bank, in order to develop a scientific and rational system of policies and procedures. The Group strengthened the seal management by proposing procedures against weak points of seal management in major businesses and branches. During the Reporting Period, the Group was granted the honor of “Pioneer Enterprise of Nationwide Banks on Legal Risk Management” by the China Banking Association.

The Group continued to strengthen the anti-money laundering management. It has orderly centralized processing of suspicious transaction reports by optimizing the work process and improving effectiveness in terms of anti-money laundering. The Group detailed investigated risks and assisted in investigation of anti-terrorism funding, and the effort was complimented by the People’s Bank of China and the Ministry of Public Security.

9. *Reputational Risk*

The Group established and improved the reputational risk management framework to effectively prevent the risks of negative comments from various stakeholders during the Group’s operation, management, any other behaviors or external events, appropriately handled different types of incidents giving rise to reputational risk.

The Group continued to improve reputational risk management system and mechanism. It paid close attention to strengthen the identification, warning, assessment and monitoring of reputational risks, aimed to track and monitor the changes of the reputational risk factors in real time, and promptly adjusted corresponding ways and measures to make sure that negative public opinions were actively responded and the reputational risks were under control.

10. *Cross-Industry, Cross-Border and Country Risk Management*

The Group has established cross-industry, cross-border risk management framework with “centralized management, clarified responsibilities, complete and adequate system tools, IT support, quantified risks, and consolidation of substantially controlled entities”. The Group promoted all subsidiaries and overseas entities to take into account both the Group’s standardized requirements and the respective requirements from local regulatory governing bodies while performing risk management in order to prevent additional risks arising from cross-industry and cross-border operations.

During the Reporting Period, the Group further improved intra-group mechanisms, including information sharing, risk investigation synergy, linkage business monitoring and joint disposal of risk events. The Group continued to promote domestic and overseas institutions including Hong Kong Branch, New York Branch, Bank of Communications (Luxembourg) Limited and BoCom International Trust to develop recovery and disposal plan in accordance with the requirements of local and the industry's regulatory authorities under the Group's plan framework. The Group promoted foreign entities to effectively cope with various requirements of regulatory authorities with flexibility in the course of cross-industry and cross-border operations, and improve the capacity for risk management and controls of the consolidated financial statements.

The Group enhanced the country risk management and continued to carry out in-depth assessment on the country risks of key countries practicing "Go Global" and countries alongside the Belt and Road, thus continuously improved management and control over country risk tolerance.

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

(IV) Outlook

2017 is an important year for China to implement "13th Five Year Plan" and to further perform the structural reform on the supply side. As a whole, China's economy will continuously and steadily move forward, investment and consumption will maintain in a stable manner, fiscal policies will be more positive and effective and monetary policies will be kept steady and neutral. However, the domestic and international macro-economic situations will remain complex and changing, uncertainties will obviously increase, and the commercial banks will face with huge pressures and great challenges in operations and management.

On one hand, the commercial banks will have great opportunities regarding the transformation and development. As the state's strategic initiatives (the Belt and Road, Beijing-Tianjin-Hebei Integration, and Yangtze Economic Belt) have been implemented, demands for related infrastructure construction and cross-border investments and financings will keep growing. As the structural reform on the supply side will go deepened, strategic emerging industry, smart manufacturing industry, modern agricultural industry and modern service industry will be stepped up, the residents' demands for the financial services relating to health, medical care, education and pension will constantly grow, which bring the new opportunities for the Bank to develop new customers and expand new fields. The deepening liberalisation of interest rate, exchange rate and renminbi and the financial reform of free trade zone, which create more room for the Bank's innovation. Sustained growth of average resident income and wealth, constant increase of high net-worth customers and driver of consumption level will create favourable conditions for the expansion of wealth management businesses.

On the other hand, the Bank will face certain challenges relating to operation and development. During the economic transformation and upgrade, the credit demand of traditional industries will slow down and the growing direct financing and internet financing will bring the Bank great challenges in strengthening its own innovation ability and obtaining good assets and resources. Under the liberalisation of interest rates, the continuous narrow of net interest margin and the increase of operating costs will further cut down the Bank's profit margins. With constant profound changes in the ecosystem of industry and more intensive competition of online and offline pan-finance, bank and non-bank financial institutions, comprehensive supervision will become more prudent and stringent. With economic growth slowing down and "de-leverage and de-capacity" in progress, enterprises will be collectively exposed to the credit risk, all kinds of risks will be much more pervasive, relevant, complicated and infectious resulting in difficulty in preventing and managing the cross-industry, cross-broader and cross-market risks, setting higher standards for banks' ability to manage the risks in all of the way.

Facing the complex external business environment, the Group continue to uphold "BoCom Strategy" and oriented by serving the real economy, stand firm in reforms, transform and innovate for excellence, build up a large comprehensive financial service group with steady development, vigorous innovation, identical characteristics and high quality services. The detailed and focused work are as follows:

First, to promote the effectiveness and efficiency of serving the real economy by proactively working together with the state's strategies initiatives. In response to the important state's strategic initiatives and key projects, the Group will proactively enlarge social financing scale to seize the opportunities in supporting the real economy. Relying on the service system with integration of "equity, debt and loan" and the international and integrated operation platform, the Group will provide comprehensive financial services for the state-owned enterprises' reform. The Group will facilitate the economic structural adjustment, support the strategic and emerging industries and key manufacturing areas and assist in the economy structural adjustments and upgrade. Furthermore, the Group will explore and improve the service mode of internet finance and all-inclusive finance to actively support the development of high-quality small and micro enterprise businesses.

Second, to constantly improve operation performance by adherence to "BoCom Strategy". Seizing strategic opportunities brought by strategic initiative "Belt and Road" and "Go Global", the Group will build up a financial service system covering "domestic + offshore + overseas" markets, creating new breakthroughs in the internationalisation strategy by "focusing on Asia-Pacific, and expanding in Europe and America to promote the global landscape". The Group will build up a new mode of bank businesses by integrating domestic and overseas operation and further developing the overseas division for the businesses of asset management, financial markets, assets held in custody and precious metal. The Group will also promote the cooperation of different business lines of subsidiaries and the Group, and set up the sharing mechanism of customers, channels, capitals and finance within the Group, and establish the Group's integrated and diversified financing and wealth management

platform. Oriented by AUM, the Group will realise value-added cycles of asset management, trusts, funds, insurance and custody, thus constantly enhancing wealth management in terms of scale and profitability.

Third, to boost a new engine for the transformation development by deepening the reform of operational mechanism and system. The Group will continue to reform the remuneration evaluation mechanism and improve incentive and restraint mechanism to fully motivate the staff. With constantly improving operational framework and mode of divisions, the Group will enhance profitability of divisions and create advantages over businesses in order to realise the development driven by “two engines of divisions and branches”. The Group will boost the efforts to move forward the transformation development of grass-root institutions and provincial branches, to further release vitality and increased efficiency of operation. Moreover, the Group will adopt balance sheet reporting system in a comprehensive equilibrium and forward-looking manner level in order to rationally optimise allocation of assets and liabilities and maximise comprehensive capital benefits. The Group’s increase in total assets is expected to be not lower than 5% in 2017.²

Fourth, to strengthen efforts to prevent and manage risks with the adherence to stable operation philosophy. The Group will continuously promote risk management culture of “lawful and stable operation” and improve the comprehensive risk management system with the core elements of “full coverage, whole process, accountability and risk management culture”. The Group will intensify the risk management in key areas and the post-lending management and keep on innovation in measures and tools of risk monitoring. In order to establish a long-term effective mechanism regarding the balance of risk prevention and management, the Group will create a precise and effective internal controls and compliance management system, reinforce the risk prevention and management and make sure to put of the risk accountability system into practice. The Group will strengthen management of market risk, reputation risk and liquidity risk, by improving its cross-border and cross-industry risk management ability.

Fifth, to intensify the capability and competitiveness of sustainable development by reinforcing infrastructure construction. The Group will carry forward “Trinity” network construction, accelerating the arrangement for comprehensive management of online and offline services through building intelligent physical outlets, making e-banking more convenient and relationship managers more professional, which would drive the integrated and synergetic development. With the tiered, categorised and hierarchical customer management being constantly deepening, the Group will establish a new marketing and service system of cooperation, efficiency, responsiveness and professionalism, to improve its ability to obtain, motivate and retain customers. The Group will go further on the way to service innovation and make the best service bank based on the “efficient, seamless and closed loop” service chain management.

² As the business plans constitute no performance commitments to investors, the investors will be aware of underlying risks and understand differences between them.

VI. OTHER INFORMATION

(I) Human Resources

1 Basic Information of Employees

As at the end of 2016, the Bank had a total of 92,556 domestic and overseas employees, of which 90,165 employees were based domestically and 2,391 were employees in overseas branches. There were 2,632 employees in the Bank's major subsidiaries.

	Head Office	Northern China	Eastern China	Central and Southern China	Western China	North Eastern China	Overseas
Number of employees	2,661	11,491	38,144	18,348	10,180	9,341	2,391

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

Among employees in domestic institutions, 32,349 employees hold professional and technical qualifications, of which 580 employees hold senior professional and technical qualifications, accounting for approximately 0.64%; 16,647 employees hold intermediate professional and technical qualifications, accounting for approximately 18.46%; and 15,122 employees hold junior professional and technical qualifications, accounting for approximately 16.77%.

The average age of the Bank's employees in domestic institutions was 36, with 36,578 employees under or at the age of 30, accounting for 40.57%; 26,465 employees between the age of 31 and 40, accounting for 29.35%; 20,374 employees between the age of 41 and 50 inclusively, accounting for 22.60%; and 6,748 employees above or at the age of 51, accounting for 7.48%.

Among employees in domestic institutions, 10,054 employees possessed postgraduate or higher academic degrees, accounting for 11.15%; 61,860 employees possessed undergraduate degrees, accounting for 68.61%; 15,181 employees possessed college diploma, accounting for 16.84%, and 3,070 employees possessed secondary vocational school certificate or lower qualifications, accounting for 3.40%.

In 2016, 2,665 retired employees' pension were covered by the Bank.

2 *Remuneration Policy*

Under the nationwide deepening reform, the Bank actively carried out the assessment of employment, remuneration and performance under the remuneration management system which is “based on Positions, as well as Integrating Position Value and Performance Value”, optimized the allocation of remuneration resources, emphasis on performance oriented, and more restricted incentives. Based on the risk accountability system, the Bank continued to defer the remuneration payment of performance based incentives, exercising the restricted functions of remuneration on corporate governance and risk management for the purpose of stable operations and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits of annuity.

The remuneration of Directors who received remuneration from the Bank will be determined in accordance with the Articles of Association of the Bank and applicable regulations after taking into consideration of their performance and annual evaluation.

3 *Performance Management*

The Bank continued carrying out the assessment of employment, remuneration and performance with strategy oriented objectives, further optimized the performance evaluation system and assessment procedures. The Bank had emphasis on the effectiveness and considered the standardized performance evaluation. Starting the evaluation by product plan and relying on the e-evaluation platform with strategy oriented, the Bank clearly recorded the staff performance, motivated staff and exercised the direction and restricted role of performance evaluation.

4 *Training Management*

The Group continued to conduct three key tasks of deepening reform, promoting transformation development and strengthening party-self discipline. The Group followed the studies on the theoretical and practical issues of Party building, focused on Party Constitution, Party regulations and specialized ability training, stuck to reform and innovation, focused on direct training and fundamental studies and improved the training quality. The Group had made breakthroughs in education and training, significantly contributing the talent growth and operating transformation.

The Bank conducted the training by talent, expert and AB role at different level of staff. The Bank organized training for over 500,000 staff and long-distant training for over 600,000 staff with total coverage of 97%. The Group also held over 3,700 on-line courses. Staff satisfaction rate of courses was around 97.3%. It was a remarkable progress of training with various training methods and achievements.

5 Talent Training and Reserve

The Group continued to carry out the cultivation and utilize of expert talents. In accordance with the Bank's "13th Five-Year Plan", the Bank formulated BoCom Expert Talent Team Building Plan for the "13th Five-Year Plan" Period, and issued Opinion on Expert Talent Team Building. On the basis of former mission which planned to cultivate 2,000 experts in three years, the Group move forward constructive goals to build a talent team equipped with 4,000 experts in five years. With the training standards of "well-practiced professional, well-performed skilled and well-educated talents", the Group cultivated the expert talent in a steady manner. In 2016, the Group trained up 200 experts of the first batch, organized the training events and on-job training for 196 backup experts; thus reserved more than 1,100 experts.

The Group continually reinforced to train and reserve talent overseas. Under the strategy of internationalization and BoCom Talent Reserve Five-Year Plan for Overseas Institutions and integration of the overseas development, the Group continued the job rotation, exchange of overseas training program and international talent projects. The Group planned to build up well trained international talent with multi-skills in different departments. The Group had already selected and trained up over 110 international talent during 2015 to 2016.

(II) Purchase, Sale or Repurchase of the Bank's Shares

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

(III) Compliance with Corporate Governance Code under the Listing Rules

To become "Best Bank in Corporate Governance" and protect the interests of shareholders and other beneficial parties, the Bank always adhered to promote compliance and effectiveness as key driver of reforms, continues improving the corporate governance framework of "duty segregation, defined role, coordination, effective operation among the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the Senior Management".

The Board of Directors of the Bank confirmed that for the year ended 31 December 2016, the Bank had fully complied with the principles and the code provisions under the Corporate Governance Code as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and had also followed most of the best recommended practices contained in the Corporate Governance Code.

(IV) Compliance with the Model Code

The Bank required that the Directors, Supervisors and Senior Management of the Bank should strictly follow the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Upon inquiries, all the Directors, Supervisors and Senior Management of the Bank complied with the above rules in 2016, except Mr. Xu Ming, an Employee Representative Supervisor, who sold 180,000 H shares in total on 22 November 2016, 28 November 2016, 1 December 2016 and 5 December 2016.

(V) Shareholdings of Directors, Supervisors and Senior Management

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Niu Ximing	Chairman of the Board of Directors and Executive Director	A Share	210,000	0	210,000
		H Share	310,000	(130,000)	180,000
Peng Chun	Vice Chairman of the Board of Directors, Executive Director and President	A Share	150,000	0	150,000
		H Share	50,000	0	50,000
Yu Yali	Executive Director and Executive Vice President	A Share	80,000	0	80,000
		H Share	20,000	0	20,000
Hou Weidong	Executive Director and Executive Vice President	A Share	80,000	0	80,000
		H Share	20,000	0	20,000
Hu Huating	Non-executive Director	A Share	80,000	0	80,000
		H Share	30,000	0	30,000
Wang Taiyin	Non-executive Director	A Share	80,000	0	80,000
		H Share	30,000	0	30,000
Liu Changshun	Non-executive Director	A Share	50,000	0	50,000
		H Share	30,000	0	30,000
Song Shuguang	Chairman of the Supervisory Committee	A Share	130,000	0	130,000
		H Share	50,000	0	50,000
Chen Qing	Employee Representative Supervisor	A Share	40,000	0	40,000
		H Share	20,000	0	20,000
Du Yarong	Employee Representative Supervisor	A Share	60,000	0	60,000
		H Share	20,000	0	20,000
Fan Jun	Employee Representative Supervisor	A Share	40,000	0	40,000
		H Share	20,000	0	20,000
Xu Ming	Employee Representative Supervisor	A Share	0	40,000	40,000
		H Share	180,000	(180,000)	0
Shou Meisheng	Commissioner of Discipline Inspection	A Share	79,100	0	79,100
		H Share	20,000	0	20,000

Name	Position	Class of shares	Number of shares held at the beginning of the year (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Shen Rujun	Executive Vice President	A Share	0	0	0
		H Share	20,000	0	20,000
Wang Jiang	Executive Vice President	A Share	0	0	0
		H Share	30,000	0	30,000
Du Jianglong	Secretary of the Board of Directors	A Share	80,000	0	80,000
		H Share	20,000	(20,000)	0
Wu Wei	Chief Financial Officer	A Share	46,000	0	46,000
		H Share	20,000	0	20,000
Guo Mang	Director of Corporate Banking	A Share	50,000	0	50,000
		H Share	20,000	(20,000)	0
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	A Share	0	0	0
		H Share	30,000	0	30,000
Directors, Supervisors, Senior Management resigned/retired					
Shuai Shi	Former Employee Representative Supervisor	A Share	40,600	0	40,600
		H Share	31,000	0	31,000
Yang Dongping	Former Chief Risk Officer	A Share	150,000	0	150,000
		H Share	20,000	0	20,000
Lv Benxian	Former Director of Corporate Banking	A Share	80,000	0	80,000
		H Share	40,000	0	40,000

Save as disclosed above, as at 31 December 2016, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares or 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 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) Profit Distribution

Based on the total issued ordinary shares of 74,262,726,645 shares as at 31 December 2016, a cash dividend of RMB0.2715 (before tax) per share (the “**Final Dividend**”) was proposed by the Board of Directors, total RMB20.162 billion. The proposal is subject to approval of the Shareholders’ General Meeting.

The Bank will make further announcement(s) where appropriate in relating to shareholders entitled to attend the 2016 Annual General Meeting (expected to be convened by the end of June 2017), the last registration date for shareholders to receive the Final Dividend, the book closure period, and other relevant information relating to the profit distribution plan. The Bank expects to complete the distribution of the Final Dividend by the end of August 2017.

7. FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		<i>(In millions of RMB)</i>	
		Year ended 31 December	
	<i>Notes</i>	2016	2015
Interest income		289,844	305,126
Interest expense		(154,973)	(160,954)
Net interest income	2	134,871	144,172
Fee and commission income	3	39,884	38,231
Fee and commission expense		(3,089)	(3,204)
Net fee and commission income		36,795	35,027
Net gains arising from trading activities		2,549	2,642
Net gains arising from financial investments		1,079	1,567
Share of profits of associates		96	76
Insurance business income		9,596	4,051
Other operating income		9,076	7,023
Impairment losses on loans and advances to customers	4	(28,480)	(27,160)
Insurance business expense		(8,993)	(4,482)
Other operating expense		(70,479)	(76,904)
Profit before tax		86,110	86,012
Income tax	5	(18,459)	(19,181)
Net profit for the year		67,651	66,831
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Changes in fair value recorded in equity		580	2,371
Changes in fair value reclassified from equity to profit or loss		(551)	(808)
Cash flow hedge reserve			
Changes in fair value recorded in equity		(28)	(64)
Changes in fair value reclassified from equity to profit or loss		(22)	—
Translation difference on foreign operations		1,577	1,116
Others		1,336	—
		2,892	2,615
Item that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on pension benefits		(13)	6
Other comprehensive income for the year		2,879	2,621
Comprehensive income for the year		70,530	69,452
Net profit attributable to:			
Shareholders of the Bank		67,210	66,528
Non-controlling interests		441	303
		67,651	66,831
Total comprehensive income attributable to:			
Shareholders of the Bank		70,284	69,063
Non-controlling interests		246	389
		70,530	69,452
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	6	0.89	0.90

Consolidated Statement of Financial Position

(In millions of RMB)

	As at 31 December 2016	As at 31 December 2015
ASSETS		
Cash and balances with central banks	991,435	920,228
Due from banks and other financial institutions	715,787	611,191
Financial assets at fair value through profit or loss	216,444	173,309
Loans and advances to customers	4,009,046	3,634,568
Financial investments – loans and receivables	385,020	323,679
Financial investments – available-for-sale	342,755	264,739
Financial investments – held-to-maturity	1,407,449	933,683
Investment in associates	714	577
Property and equipment	114,425	90,393
Deferred income tax assets	12,567	16,684
Other assets	207,524	186,311
Total assets	8,403,166	7,155,362
LIABILITIES		
Due to banks and other financial institutions	2,231,060	1,641,239
Financial liabilities at fair value through profit or loss	84,299	62,461
Due to customers	4,728,589	4,484,814
Certificates of deposits issued	318,950	89,265
Current tax liabilities	5,164	8,604
Deferred income tax liabilities	145	119
Debt securities issued	229,515	170,106
Other liabilities	173,037	160,662
Total liabilities	7,770,759	6,617,270
EQUITY		
Share capital	74,263	74,263
Preference shares	59,876	14,924
Capital surplus	113,392	113,392
Other reserves	280,913	259,208
Retained earnings	100,698	73,098
Equity attributable to shareholders of the Bank	629,142	534,885
Non-controlling interests	3,265	3,207
Total equity	632,407	538,092
Total equity and liabilities	8,403,166	7,155,362

Consolidated Statement of Changes in Equity

(In millions of RMB)

	Other reserves											Attributable to the shareholders of the Bank	Non-controlling interests	Total
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for available-for-sale financial assets	Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings Note 8		
Balance at 1 January 2016	74,263	14,924	113,392	44,098	139,764	75,653	1,608	(64)	(1,868)	17	-	73,098	534,885	538,092
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	67,210	67,210	67,651
Other comprehensive income	-	-	-	-	-	-	224	(50)	1,577	(13)	1,336	-	3,074	2,879
Total comprehensive income	-	-	-	-	-	-	224	(50)	1,577	(13)	1,336	67,210	70,284	70,530
Issuance of preference shares	-	44,952	-	-	-	-	-	-	-	-	-	-	44,952	44,952
Increase of non-controlling interests due to acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	227
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)	(48)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(884)	(884)	-
Transfer to reserves	-	-	-	6,552	-	12,079	-	-	-	-	-	(18,631)	-	-
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(44)	(44)	(367)
Balance at 31 December 2016	74,263	59,876	113,392	50,650	139,764	87,732	1,832	(114)	(291)	4	1,336	100,698	629,142	632,407
Balance at 1 January 2015	74,263	-	113,496	37,522	105,242	71,549	131	-	(2,984)	11	-	71,825	471,055	473,605
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	66,528	66,528	66,831
Other comprehensive income	-	-	-	-	-	-	1,477	(64)	1,116	6	-	-	2,535	2,621
Total comprehensive income	-	-	-	-	-	-	1,477	(64)	1,116	6	-	66,528	69,063	69,452
Issuance of preference shares	-	14,924	-	-	-	-	-	-	-	-	-	-	14,924	14,924
Capital increase in a subsidiary	-	-	(12)	-	-	-	-	-	-	-	-	-	(12)	265
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)	(9)
Transfer to reserves	-	-	-	6,578	34,522	4,104	-	-	-	-	-	(45,204)	-	-
Capital increase in an associate	-	-	(97)	-	-	-	-	-	-	-	-	-	(97)	(97)
Others	-	-	5	(2)	-	-	-	-	-	-	-	-	3	3
Balance at 31 December 2015	74,263	14,924	113,392	44,098	139,764	75,653	1,608	(64)	(1,868)	17	-	73,098	534,885	538,092

Consolidated Statement of Cash Flows

(In millions of RMB)
Year ended 31 December
2016 **2015**

Cash flows from operating activities:

Net profit before tax:	86,110	86,012
Adjustments for:		
Provision for impairment losses on loans and advances to customers	28,480	27,160
Provision for impairment of finance lease receivables	973	558
Provision for impairment of financial investments	643	1,151
Provision for/(Reversal of) impairment of others	91	(18)
Provision for impairment losses on property and equipment	3	2
Provision for impairment losses on foreclosed assets	22	61
Provision for insurance contracts reserve	5,856	1,999
Depreciations and amortisations	7,939	7,200
Provision for/(Reversal of) outstanding litigation and unsettled obligation	(40)	179
Net gains on disposal of property and equipment	(60)	(26)
Net gains on disposal of foreclosed assets	(5)	(127)
Interest income from financial investments	(66,978)	(50,049)
Unwind of discount on allowances during the period	(1,959)	(1,971)
Fair value gains/(losses)	2,223	(1,065)
Share of profits of associates	(96)	(76)
Net gains arising from financial investments	(1,079)	(1,567)
Interest expense on debt securities issued	7,781	6,213
Operating cash flows before movements in operating assets and liabilities	69,904	75,636
Net (increase)/decrease in mandatory reserve deposits	(36,490)	10,758
Net (increase)/decrease in due from banks and other financial institutions	(152,643)	(62,280)
Net increase in financial assets at fair value through profit or loss	(41,301)	(15,479)
Net increase in loans and advances to customers	(403,738)	(304,970)
Net increase in other assets	(12,523)	(8,459)
Net increase in due to banks and other financial institutions	586,529	232,964
Net increase in financial liabilities at fair value through profit or loss	16,918	2,657
Net increase/(decrease) in due to customers	481,557	512,864
Net increase in other liabilities	(5,824)	1,621
Net increase/(decrease) in value-added tax, business tax and surcharges payable	349	842
Income tax paid	(17,672)	(20,059)
Net cash from operating activities	485,066	426,095

Consolidated Statement of Cash Flows (Continued)

(In millions of RMB)

Year ended 31 December

	2016	2015
Cash flows from investing activities:		
Purchase of financial investments	(1,158,997)	(795,491)
Disposal or redemption of financial investments	546,036	330,052
Dividends received	353	489
Interest received from financial investments	61,668	46,758
Acquisition of subsidiaries, net of cash acquired	(442)	–
Purchase of non-controlling interests	(411)	–
Purchase of intangible assets and other assets	(770)	(1,056)
Disposal of intangible assets and other assets	60	11
Purchase and construction of property and equipment	(34,814)	(25,711)
Disposal of property and equipment	2,372	560
Net cash from investing activities	(584,945)	(444,388)
Cash flows from financing activities:		
Proceeds from issuance of preference shares	45,000	14,982
Cash payments for transaction cost of preferences shares issued	(48)	(58)
Proceeds from debt securities issued	60,585	42,069
Interest paid on debt securities issued	(3,970)	(6,548)
Dividends paid to ordinary shareholders of the Bank	(20,051)	(20,051)
Dividends paid to preference shareholders of the Bank	(884)	–
Capital contribution by non-controlling interests	–	277
Repayment of principals of debt securities issued	(2,719)	(679)
Dividends paid to non-controlling interests	(48)	(9)
Net cash from financing activities	77,865	29,983
Effect of exchange rate changes on cash and cash equivalents	7,975	5,119
Net increase/(decrease) in cash and cash equivalents	(14,039)	16,809
Cash and cash equivalents at the beginning of the year	330,435	313,626
Cash and cash equivalents at the end of the year	316,396	330,435
Net cash flows from operating activities include:		
Interest received	228,140	250,732
Interest paid	(153,432)	(160,632)

1 Basis of Presentation and Accounting Policies

The consolidated financial statements of the Group have been prepared in accordance with all the applicable International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

1.1 Application of new and revised IFRSs

(a) New and revised IFRSs issued and applied

In the current year, the Group has adopted the following amendments to IFRSs, which were applicable for the Group’s financial year beginning on 1 January 2016 and the relevant impact is set out below:

Amendments to IFRS 11	Accounting for acquisitions of interests in joint operation
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IFRSs	Annual Improvements to IFRSs (2012 – 2014 Cycle)
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative

Amendments to IFRS 11

The amendments require an investor to apply the principles of business combination accounting when they acquire an interest in a joint operation that constitutes a ‘business’ (as defined in IFRS 3, Business combinations). Specifically, an investor will need to:

- measure identifiable assets and liabilities at fair value;
- expense acquisition-related costs;
- recognize deferred tax; and
- recognize the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with IFRS 11.

The amendments are applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

Amendments to IAS 16 and IAS 38

The amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Annual Improvements to IFRSs (2012 – 2014 Cycle)

The Annual Improvements to IFRSs (2012 – 2014 Cycle) include a number of amendments to various IFRSs, including the amendments IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations regarding methods of disposal, the amendments to IFRS 7 – Financial Instruments: Disclosures regarding servicing contracts, the amendments to IAS 19 – Employee Benefits regarding discount rates, the amendments to IAS 34 Interim Financial Reporting regarding disclosure of information.

Amendments to IFRS 10, IFRS 12 and IAS 28

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10.

The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to IAS 28 allow an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture for their subsidiaries when applying the equity method.

Amendments to IAS 1

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

The key areas addressed by the changes are as follows:

- Materiality: an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;
- Disaggregation and subtotals: the amendments clarify what additional subtotals are acceptable and how they should be presented;
- Notes: an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;
- Accounting policies: how to identify a significant accounting policy that should be disclosed;
- Other comprehensive income from equity accounted investments: other comprehensive income of associates and joint ventures should be separated into the share of items that will subsequently be reclassified to profit or loss and those that will not.

(b) *New and revised IFRSs issued but not yet effective*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

		Effective for annual period beginning on or after
Amendments to IAS 7	Statement of cash flows	1 January 2017
Amendments to IAS 12,	Income taxes	1 January 2017
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
Amendments to IAS 40	Transfer of investment property	1 January 2018
Amendments to IAS 28	IASB Annual Improvements 2014 - 2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 12	IASB Annual Improvements 2014 - 2016 cycle	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Lease	1 January 2019

Amendments to IAS 7

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments to IAS 12

The IASB has issued amendments to IAS 12, 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendments to IAS 40

On 8 December 2016, the IASB issued amendments to IAS 40 - Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Amendments to IAS 28 (2014 - 2016 cycle)

The IASB Annual Improvements (2014 - 2016 Cycle) include the amendments to IAS 28 - Investments in Associates and Joint Ventures. These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Amendments to IFRS 2

These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in IFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Amendments to IFRS 4

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

Amendments to IFRS 12

The IASB Annual Improvements (2014 - 2016 Cycle) include the amendments to IFRS 12 -Disclosure of Interest in Other Entities. These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings process to an asset-liability approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

IFRS 9

IFRS 9 (2014) Financial instruments replaces the whole of IAS 39.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income (“**OCI**”) and fair value through profit or loss. Classification is driven by the entity’s business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability’s own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a ‘three stage’ approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

“Hedge accounting” in IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more “rule-based” approach of IAS 39.

The Group is analyzing its business models, loans and other financial instruments' contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Bank's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the risk management organization, process and key functions, budgeting and performance review, as well as the IT systems. The Bank is starting to carry out an assessment of the need for any system modification related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training.

The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Bank's operating results and financial position has not yet been quantified.

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB13,593 million, see Note 36 in 2016 Annual Report. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial information.

Except the above mentioned impact of IFRS 9 and IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 Net interest income

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2016	2015
Interest income		
Balances with central banks	13,701	12,868
Due from banks and other financial institutions	15,026	22,813
Loans and advances to customers	189,973	214,127
Financial investments	71,144	55,318
	<u>289,844</u>	<u>305,126</u>
Interest expense		
Due to banks and other financial institutions	(55,720)	(55,212)
Due to customers	(86,392)	(97,743)
Debt securities issued	(7,781)	(6,213)
Certificates of deposits issued	(5,080)	(1,786)
	<u>(154,973)</u>	<u>(160,954)</u>
Net interest income	<u><u>134,871</u></u>	<u><u>144,172</u></u>
Including:		
Interest income on impaired financial assets	1,959	1,971
Interest income on financial investments at fair value through profit or loss	4,192	5,269
Interest expense on financial liabilities at fair value through profit or loss	<u>610</u>	<u>520</u>

3 Fee and Commission Income

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2016	2015
Settlement service and bank cards	13,787	13,912
Investment banking	5,306	7,472
Guarantee and commitment	2,962	3,014
Management service	12,502	9,697
Agency service	4,636	3,403
Others	691	733
	<u>39,884</u>	<u>38,231</u>
	Year ended 31 December	
	2016	2015
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	<u>873</u>	<u>611</u>
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<u>2,437</u>	<u>1,899</u>

4 Impairment Losses on Loans and Advances to Customers

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2016	2015
Loans and advances to customers		
– Collectively assessed losses provision	9,439	12,420
– Individually assessed losses provision	<u>19,041</u>	<u>14,740</u>
	<u>28,480</u>	<u>27,160</u>

5 Income Tax

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2016	2015
Current tax		
– PRC enterprise income tax	13,718	18,907
– Hong Kong profits tax	770	783
– Overseas taxations	326	349
	14,814	20,039
Deferred income tax	3,645	(858)
	18,459	19,181

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2015: 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% (2015: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2016	2015
Profit before tax	86,110	86,012
Tax calculated at a tax rate of 25%	21,528	21,503
Effect of different tax rates in other countries (or regions)	23	56
Tax effect of expenses not deductible for tax purposes ⁽¹⁾	4,344	1,615
Tax effect arising from income not subject to tax ⁽²⁾	(7,489)	(3,993)
Income tax adjustment for prior years	53	–
Income tax expense	18,459	19,181

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

⁽²⁾ The income not subject to tax mainly represents interest income arising from PRC treasury bonds, which is not taxable in accordance with the PRC tax regulations.

6 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 year.

	Year ended 31 December	
	2016	2015
Net profit attributable to shareholders of the Bank (in millions of RMB)	67,210	66,528
Less: Net profits for the current year attributable to other equity holders of the parent company (in millions of RMB)	(884)	—
Net profits for the current year attributable to ordinary shareholders of the parent company (in millions of RMB)	66,326	66,528
Weighted average number of ordinary shares in issue (expressed in millions)	74,263	74,263
Basic and diluted earnings per share (expressed in RMB Yuan per share)	0.89	0.90

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 in 2016 Annual Report. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared during the year of RMB884 million should be 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 year ended 31 December 2016 and 2015, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

7 Derivative Financial Instruments

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

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

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

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

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

(In millions of RMB)

	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2016			
Foreign exchange contracts	2,102,171	34,546	(32,447)
Interest rate contracts and others	704,429	2,677	(2,152)
Total amount of derivative instruments recognised	2,806,600	37,223	(34,599)

	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2015			
Foreign exchange contracts	1,609,192	32,825	(31,318)
Interest rate contracts and others	<u>504,847</u>	<u>1,485</u>	<u>(1,846)</u>
Total amount of derivative instruments recognised	2,114,039	34,310	(33,164)

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

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

Notional amount of derivative financial instruments by original currency:

	<i>(In millions of RMB)</i>	
	As at 31 December 2016	As at 31 December 2015
RMB	1,305,983	938,269
USD	1,187,380	955,992
HKD	130,261	103,905
Others	<u>182,976</u>	<u>115,873</u>
Total	<u>2,806,600</u>	<u>2,114,039</u>

Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

(In millions of RMB)			
	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2016			
Derivative financial instruments designated as hedging instruments in cash flow hedges	21,103	150	(786)
Derivative financial instruments designated as hedging instruments in fair value hedges	57,004	786	(215)
Total	78,107	936	(1,001)
	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2015			
Derivative financial instruments designated as hedging instruments in cash flow hedges	17,228	187	(74)
Derivative financial instruments designated as hedging instruments in fair value hedges	28,272	127	(281)
Total	45,500	314	(355)

(a) *Fair value hedge*

The Group uses interest rate swaps to hedge against changes in fair value arising from changes in interest rates. Part of the purchased interest rate swap contract is designated as hedging instruments. The interest rate swap contract is identical with the corresponding hedged items in terms of interest rate, term and currency. The Group uses regression analysis to evaluate the effectiveness of hedging. After testing, the Group's management considers the hedging relationship for the current year is highly effective. The hedged items include available-for-sale financial assets, loans and advances to customers and placement with banks.

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

	<i>(In millions of RMB)</i>	
	As at 31 December 2016	As at 31 December 2015
Net gains/(losses) on hedging instruments	727	151
Net gains/(losses) on hedged items attributable to the hedge risk	<u>(780)</u>	<u>(172)</u>
Net gains/(losses) from fair value hedges	<u>(53)</u>	<u>(21)</u>

(b) *Cash flow hedge*

The Group uses foreign exchange contract to hedge against exposures to cash flow variability primarily from foreign exchange risks, and uses interest rate swaps to hedge against exposures to cash flow variability primarily from interest rate risks. The hedged items include placement with banks, loans and advances to customers and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the year ended 31 December 2016, the Group's net loss from the cash flow hedge of RMB37 million (for the year ended 31 December 2015: a net loss of RMB86 million) were recognised in other comprehensive income and the gain and loss arising from ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2016. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2016, as a result of the highly probable cash flows no longer being expected to occur.

8 Dividends

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2016	2015
Dividends to ordinary shareholders of the Bank	20,051	20,051
Dividends to preference shareholders of the Bank	884	—

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from the prior year, 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 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 the Annual General Meeting.

Pursuant to the proposal raised at the Board meeting on 29 March 2016 which was approved by the 2015 Annual General Meeting on 27 June 2016, the Bank resolved that a cash dividend of RMB0.27 (before tax) for each ordinary share, totalling RMB20,051 million, calculated based on 74,263 million shares outstanding as at 31 December 2015, will be distributed to ordinary shareholders. The actual payment day of the A share dividends was on 13 July 2016. The actual payment day of the H share dividends was on 29 July 2016.

Pursuant to the approval by the Board meeting on 28 April 2016, the Bank paid overseas preference dividends on 29 July 2016 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders), totaling RMB884 million.

On 28 March 2017, the Board of Directors of the Bank proposed to appropriate RMB16,116 million to the statutory general reserve. A cash dividend of RMB0.2715 (before tax) for each share, totalling RMB20,162 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2016 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

9 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:

	<i>(In millions of RMB)</i>	
	As at 31 December 2016	As at 31 December 2015
Letters of guarantee	279,694	333,725
Letters of credit commitments	126,885	150,085
Acceptances bills	231,566	294,834
Credit card commitments	528,199	438,608
Loan commitments		
– Under 1 year	21,590	32,700
– 1 year and over	64,535	58,547
	<u>1,252,469</u>	<u>1,308,499</u>

Capital expenditure commitments

	<i>(In millions of RMB)</i>	
	As at 31 December 2016	As at 31 December 2015
Contracted but not provided for	<u>9,371</u>	<u>7,645</u>

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:

	<i>(In millions of RMB)</i>	
	As at	As at
	31 December	31 December
	2016	2015
Within 1 year (inclusive)	3,962	3,021
Beyond 1 year but no more than 2 years (inclusive)	3,005	2,485
Beyond 2 years but no more than 3 years (inclusive)	2,286	1,885
Beyond 3 years but no more than 5 years (inclusive)	2,548	2,282
More than 5 years	1,792	1,683
	<u>13,593</u>	<u>11,356</u>

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:

	<i>(In millions of RMB)</i>	
	As at	As at
	31 December	31 December
	2016	2015
Within 1 year (inclusive)	6,295	3,442
Beyond 1 year but no more than 2 years (inclusive)	6,291	2,958
Beyond 2 years but no more than 3 years (inclusive)	6,287	2,955
Beyond 3 years but no more than 5 years (inclusive)	11,958	5,905
More than 5 years	36,525	17,698
	<u>67,356</u>	<u>32,958</u>

Commitments on Security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2016, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB70,725 million (31 December 2015: RMB67,952 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 31 December 2016, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2015: 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 in 2016 Annual Report. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

	<i>(In millions of RMB)</i>	
	As at 31 December 2016	As at 31 December 2015
Outstanding claims	1,669	1,397
Provision for outstanding litigation	348	369

10 Segmental Analysis

The Group's senior management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided based upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

- (1) Northern China – Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;
- (2) North Eastern China – Including the following provinces: Liaoning, Jilin, and Heilongjiang;
- (3) Eastern China – Including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
- (4) Central and Southern China – Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, and Hainan;
- (5) Western China – Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- (6) Head Office;
- (7) Overseas – Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome and Brazil.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the 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 expense for all reportable segments will be presented on a net basis.

The measure of segment profit or loss reviewed by the Group's senior management 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 expense between the segments.

Operating segment information

(In millions of RMB)

	For the year ended 31 December 2016								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
External interest income	26,252	9,384	67,965	36,828	20,225	15,052	114,138	-	289,844
External interest expense	(29,115)	(8,641)	(50,637)	(28,625)	(12,611)	(9,292)	(16,052)	-	(154,973)
Inter-segment net interest income/ (expense)	19,040	5,007	21,391	16,160	5,594	153	(67,345)	-	-
Net interest income	16,177	5,750	38,719	24,363	13,208	5,913	30,741	-	134,871
Fee and commission income	4,336	1,708	14,009	7,788	3,151	2,531	6,361	-	39,884
Fee and commission expense	(201)	(61)	(1,765)	(403)	(182)	(327)	(150)	-	(3,089)
Net fee and commission income	4,135	1,647	12,244	7,385	2,969	2,204	6,211	-	36,795
Net gains/(losses) arising from trading activities	369	91	793	404	86	138	668	-	2,549
Net gains/(losses) arising from financial investments	-	-	667	56	-	321	35	-	1,079
Insurance business income	-	-	9,552	-	-	44	-	-	9,596
Share of profits of associates	-	-	-	-	-	9	87	-	96
Other operating income	838	165	4,774	715	495	1,936	153	-	9,076
Total operating revenue	21,519	7,653	66,749	32,923	16,758	10,565	37,895	-	194,062
Impairment losses on loans and advances to customers	(2,918)	(675)	(13,527)	(4,159)	(2,949)	(449)	(3,803)	-	(28,480)
Insurance business expense	-	-	(8,975)	-	-	(18)	-	-	(8,993)
Other operating expense	(7,666)	(3,498)	(21,366)	(11,223)	(5,704)	(4,013)	(17,009)	-	(70,479)
Profit before tax	10,935	3,480	21,881	17,541	8,105	6,085	17,083	-	86,110
Income tax									(18,459)
Net profit for the year									67,651
Depreciation and amortisation	(831)	(446)	(3,196)	(1,100)	(668)	(678)	(1,020)	-	(7,939)
Capital expenditure	(545)	(325)	(24,420)	(915)	(572)	(7,730)	(1,098)	-	(35,605)

(In millions of RMB)

For the year ended 31 December 2015

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
External interest income	32,648	10,954	80,011	43,019	23,320	15,697	99,477	–	305,126
External interest expense	(32,211)	(8,492)	(55,732)	(29,339)	(12,687)	(10,015)	(12,478)	–	(160,954)
Inter-segment net interest income/ (expense)	17,184	3,625	19,578	11,362	3,123	2,671	(57,543)	–	–
Net interest income	17,621	6,087	43,857	25,042	13,756	8,353	29,456	–	144,172
Fee and commission income	4,403	1,495	13,016	7,373	3,110	2,490	6,344	–	38,231
Fee and commission expense	(287)	(100)	(1,169)	(489)	(295)	(374)	(490)	–	(3,204)
Net fee and commission income	4,116	1,395	11,847	6,884	2,815	2,116	5,854	–	35,027
Net gains/(losses) arising from trading activities	415	57	818	526	64	(1,769)	2,531	–	2,642
Net gains/(losses) arising from financial investments	3	29	1,136	340	–	(4)	63	–	1,567
Insurance business income	–	–	4,011	–	–	40	–	–	4,051
Share of profits of associates	–	–	–	–	–	4	72	–	76
Other operating income	<u>704</u>	<u>277</u>	<u>2,741</u>	<u>933</u>	<u>545</u>	<u>1,277</u>	<u>546</u>	<u>–</u>	<u>7,023</u>
Total operating revenue	<u>22,859</u>	<u>7,845</u>	<u>64,410</u>	<u>33,725</u>	<u>17,180</u>	<u>10,017</u>	<u>38,522</u>	<u>–</u>	<u>194,558</u>
Impairment losses on loans and advances to customers	(2,268)	(106)	(14,222)	(3,950)	(2,385)	(344)	(3,885)	–	(27,160)
Insurance business expense	–	–	(4,467)	–	–	(15)	–	–	(4,482)
Other operating expense	<u>(8,796)</u>	<u>(4,042)</u>	<u>(22,453)</u>	<u>(12,689)</u>	<u>(6,681)</u>	<u>(3,609)</u>	<u>(18,634)</u>	<u>–</u>	<u>(76,904)</u>
Profit before tax	11,795	3,697	23,268	17,086	8,114	6,049	16,003	–	86,012
Income tax									(19,181)
Net profit for the year									<u>66,831</u>
Depreciation and amortisation	(801)	(445)	(2,332)	(1,027)	(650)	(694)	(1,251)	–	(7,200)
Capital expenditure	<u>(895)</u>	<u>(572)</u>	<u>(17,671)</u>	<u>(1,456)</u>	<u>(640)</u>	<u>(3,634)</u>	<u>(1,899)</u>	<u>–</u>	<u>(26,767)</u>

(In millions of RMB)

As at 31 December 2016									
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
Segment assets	<u>1,194,097</u>	<u>362,425</u>	<u>2,570,737</u>	<u>1,396,181</u>	<u>704,971</u>	<u>849,999</u>	<u>3,662,649</u>	<u>(2,350,460)</u>	<u>8,390,599</u>
Including:									
Investment in associates	-	-	4	9	-	92	609	-	714
Unallocated assets									<u>12,567</u>
Total assets									<u>8,403,166</u>
Segment liabilities	<u>(1,183,712)</u>	<u>(358,149)</u>	<u>(2,502,201)</u>	<u>(1,375,817)</u>	<u>(697,787)</u>	<u>(833,067)</u>	<u>(3,170,341)</u>	<u>2,350,460</u>	<u>(7,770,614)</u>
Unallocated liabilities									<u>(145)</u>
Total liabilities									<u>(7,770,759)</u>

As at 31 December 2015									
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Group Total
Segment assets	<u>1,135,026</u>	<u>341,769</u>	<u>2,336,453</u>	<u>1,240,038</u>	<u>633,404</u>	<u>659,606</u>	<u>3,059,290</u>	<u>(2,266,908)</u>	<u>7,138,678</u>
Including:									
Investment in associates	-	-	-	1	-	53	523	-	577
Unallocated assets									<u>16,684</u>
Total assets									<u>7,155,362</u>
Segment liabilities	<u>(1,129,382)</u>	<u>(338,407)</u>	<u>(2,283,083)</u>	<u>(1,225,180)</u>	<u>(625,688)</u>	<u>(637,153)</u>	<u>(2,645,166)</u>	<u>2,266,908</u>	<u>(6,617,151)</u>
Unallocated liabilities									<u>(119)</u>
Total liabilities									<u>(6,617,270)</u>

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 investments, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The group business information is summarised as follows:

	<i>(In millions of RMB)</i>				
	For the year ended 31 December 2016				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	51,191	27,998	54,443	1,239	134,871
Inter-segment net interest income/ (expense)	20,487	13,125	(33,612)	–	–
Net interest income	71,678	41,123	20,831	1,239	134,871
Net fee and commission income	15,954	17,882	1,046	1,913	36,795
Net gains arising from trading activities	1,977	17	107	448	2,549
Net gains arising from financial investments	–	–	1,079	–	1,079
Share of profits of associates	–	–	–	96	96
Insurance business income	–	–	–	9,596	9,596
Other operating income	5,876	2,051	196	953	9,076
Total operating revenue	95,485	61,073	23,259	14,245	194,062
Impairment losses on loans and advances to customers	(23,857)	(4,623)	–	–	(28,480)
Insurance business expense	–	–	–	(8,993)	(8,993)
Other operating expense					
– Depreciation and amortisation	(2,388)	(5,009)	(174)	(368)	(7,939)
– Others	(25,246)	(32,306)	(2,683)	(2,305)	(62,540)
Profit before tax	43,994	19,135	20,402	2,579	86,110
Income tax					(18,459)
Net profit for the year					67,651
Depreciation and amortisation	(2,388)	(5,009)	(174)	(368)	(7,939)
Capital expenditure	(10,712)	(22,462)	(782)	(1,649)	(35,605)

(In millions of RMB)

	For the year ended 31 December 2015				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	79,118	19,291	44,706	1,057	144,172
Inter-segment net interest income/ (expense)	<u>(907)</u>	<u>18,643</u>	<u>(17,736)</u>	<u>–</u>	<u>–</u>
Net interest income	78,211	37,934	26,970	1,057	144,172
Net fee and commission income	15,887	15,790	1,033	2,317	35,027
Net gains/(losses) arising from trading activities	2,353	(2)	(665)	956	2,642
Net gains arising from financial investments	–	–	1,567	–	1,567
Share of profits of associates	–	–	–	76	76
Insurance business income	–	–	–	4,051	4,051
Other operating income	<u>3,483</u>	<u>2,687</u>	<u>28</u>	<u>825</u>	<u>7,023</u>
Total operating revenue	<u>99,934</u>	<u>56,409</u>	<u>28,933</u>	<u>9,282</u>	<u>194,558</u>
Impairment losses on loans and advances to customers	(21,211)	(5,949)	–	–	(27,160)
Insurance business expense	–	–	–	(4,482)	(4,482)
Other operating expense					
– Depreciation and amortisation	(2,167)	(4,542)	(158)	(333)	(7,200)
– Others	<u>(30,645)</u>	<u>(33,259)</u>	<u>(3,010)</u>	<u>(2,790)</u>	<u>(69,704)</u>
Profit before tax	<u>45,911</u>	<u>12,659</u>	<u>25,765</u>	<u>1,677</u>	<u>86,012</u>
Income tax					<u>(19,181)</u>
Net profit for the year					<u><u>66,831</u></u>
Depreciation and amortisation	(2,167)	(4,542)	(158)	(333)	(7,200)
Capital expenditure	<u>(8,052)</u>	<u>(16,887)</u>	<u>(588)</u>	<u>(1,240)</u>	<u>(26,767)</u>

(In millions of RMB)

As at 31 December 2016					
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	<u>3,013,048</u>	<u>1,250,572</u>	<u>4,079,056</u>	<u>47,923</u>	<u>8,390,599</u>
Including:					
Investment in associates				714	714
Unallocated assets					<u>12,567</u>
Total assets					<u><u>8,403,166</u></u>
Segment liabilities	<u>(3,330,263)</u>	<u>(1,544,633)</u>	<u>(2,882,687)</u>	<u>(13,031)</u>	<u>(7,770,614)</u>
Unallocated liabilities					<u>(145)</u>
Total liabilities					<u><u>(7,770,759)</u></u>

As at 31 December 2015					
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	<u>2,819,081</u>	<u>1,043,997</u>	<u>3,242,760</u>	<u>32,840</u>	<u>7,138,678</u>
Including:					
Investment in associates				577	577
Unallocated assets					<u>16,684</u>
Total assets					<u><u>7,155,362</u></u>
Segment liabilities	<u>(3,275,719)</u>	<u>(1,477,740)</u>	<u>(1,856,510)</u>	<u>(7,182)</u>	<u>(6,617,151)</u>
Unallocated liabilities					<u>(119)</u>
Total liabilities					<u><u>(6,617,270)</u></u>

There were no significant transactions with a single external customer that the Group mainly relies on.

11 Liquidity risk

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.

	<i>(In millions of RMB)</i>								
	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 2016									
Assets									
Cash and balances with central banks	200,358	392	-	240	152	-	-	790,293	991,435
Due from banks and other financial institutions	102,099	221,024	124,080	246,008	22,576	-	-	-	715,787
Financial assets at fair value through profit or loss	3,976	19,494	30,212	88,122	36,646	19,905	-	18,089	216,444
Loans and advances to customers	-	440,981	269,132	1,057,967	1,009,786	1,172,377	58,803	-	4,009,046
Financial investments – loans and receivables	-	2,595	22,482	90,276	181,348	88,219	100	-	385,020
Financial investments – available-for-sale	-	7,559	10,158	47,116	219,857	49,359	-	8,706	342,755
Financial investments – held-to-maturity	-	2,520	42,785	96,907	802,058	463,179	-	-	1,407,449
Other assets	19,088	9,900	17,159	31,075	89,264	28,290	2,021	138,433	335,230
Total assets	325,521	704,465	516,008	1,657,711	2,361,687	1,821,329	60,924	955,521	8,403,166
Liabilities									
Due to banks and other financial institutions	(363,679)	(501,367)	(349,287)	(755,144)	(247,604)	(13,979)	-	-	(2,231,060)
Financial liabilities at fair value through profit or loss	(492)	(13,268)	(16,668)	(44,328)	(9,374)	(169)	-	-	(84,299)
Due to customers	(2,451,037)	(493,534)	(522,833)	(813,426)	(447,620)	(139)	-	-	(4,728,589)
Other liabilities	(44,750)	(43,985)	(62,039)	(136,437)	(322,358)	(117,242)	-	-	(726,811)
Total liabilities	(2,859,958)	(1,052,154)	(950,827)	(1,749,335)	(1,026,956)	(131,529)	-	-	(7,770,759)
Net amount on liquidity gap	(2,534,437)	(347,689)	(434,819)	(91,624)	1,334,731	1,689,800	60,924	955,521	632,407

(In millions of RMB)

	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 2015									
Assets									
Cash and balances with central banks	164,382	–	–	–	–	–	–	755,846	920,228
Due from banks and other financial institutions	124,719	185,497	80,483	201,436	19,054	2	–	–	611,191
Financial assets at fair value through profit or loss	382	16,979	17,887	40,915	68,426	19,280	–	9,440	173,309
Loans and advances to customers	–	433,050	270,186	1,021,046	880,890	964,591	64,805	–	3,634,568
Financial investments – loans and receivables	–	17,437	29,866	73,766	149,817	52,654	139	–	323,679
Financial investments – available-for-sale	–	18,227	24,033	46,395	135,275	35,392	–	5,417	264,739
Financial investments – held-to-maturity	–	6,660	17,195	62,212	546,858	300,758	–	–	933,683
Other assets	16,278	11,137	7,679	37,071	91,881	22,956	549	106,414	293,965
Total assets	305,761	688,987	447,329	1,482,841	1,892,201	1,395,633	65,493	877,117	7,155,362
Liabilities									
Due to banks and other financial institutions	(424,617)	(294,733)	(223,515)	(481,053)	(206,126)	(11,195)	–	–	(1,641,239)
Financial liabilities at fair value through profit or loss	(344)	(20,359)	(10,624)	(22,081)	(6,788)	(2,265)	–	–	(62,461)
Due to customers	(2,030,760)	(488,922)	(661,849)	(876,319)	(426,960)	(4)	–	–	(4,484,814)
Other liabilities	(52,124)	(21,565)	(45,063)	(87,956)	(114,706)	(107,342)	–	–	(428,756)
Total liabilities	(2,507,845)	(825,579)	(941,051)	(1,467,409)	(754,580)	(120,806)	–	–	(6,617,270)
Net amount on liquidity gap	(2,202,084)	(136,592)	(493,722)	15,432	1,137,621	1,274,827	65,493	877,117	538,092

12 Non-Adjusting Event After Reporting Period

On 21 February 2017, the Bank's Hong Kong Branch issued 3 years medium term note with total face value of USD850 million at a floating rate of 0.775%+3M Libor. These note will be matured on 21 February 2020 with interest payable quarterly.

On 6 March 2007, the Bank's head office issued SND with total face value of RMB16,000 million at a coupon rate of 4.13%. These bonds will be matured on 8 March 2022 with interest payable annually. The group has exercised the right of redemption on 8 March 2017.

VIII. PUBLICATION OF THE ANNOUNCEMENT OF ANNUAL RESULTS

This results announcement is extracted from the 2016 Annual Report prepared in accordance with the IFRSs. The full report will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk, as well as the website of the Bank at www.bankcomm.com for the reference of shareholders. The 2016 Annual Report, which is prepared in accordance with Chinese Accounting Standard, will be available on the website of SSE at www.sse.com.cn and the website of the Bank at www.bankcomm.com. For details, investors are advised to read the full text of the 2016 Annual Report. The Annual Report prepared in accordance with the IFRSs is anticipated to be despatched to the holders of H shares in April 2017.

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

By order of the Board of Directors
Bank of Communications Co., Ltd.
Niu Ximing
Chairman of the Board of Directors

Shenzhen, the PRC
28 March 2017

As at the date of this announcement, the Directors of the Bank are Mr. Niu Ximing, Mr. Peng Chun, Mr. Wong Tung Shun, Peter, Ms. Yu Yali, Mr. Hou Weidong, Mr. Hu Huating*, Mr. Wang Taiyin*, Mr. Liu Changshun*, Ms. Wong Pik Kwen, Helen*, Mr. Liu Hanxing*, Mr. Luo Mingde*, Mr. Liu Haoyang*, Mr. Peter Hugh Nolan#, Mr. Chen Zhiwu#, Mr. Yu Yongshun#, Ms. Li Jian#, Mr. Liu Li# and Mr. Yeung Chi Wai, Jason#.*

* *Non-executive Directors*

Independent Non-executive Directors