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SINCE 1908 YOUR WEALTH MANAGEMENT BANK

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

(A joint stock 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 2017

The board of directors (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 2017 (the “**Reporting Period**”), which has been prepared the *International Financial Reporting Standards* (the “**IFRSs**”) issued by the International Accounting Standards Board. The Board of Directors of the Bank and the Audit Committee of the Board of Directors have reviewed and confirmed the Annual Results.

1. 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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2. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

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

Description	2017	2016	2015	2014	2013
Full year results				<i>(in millions of RMB)</i>	
Net interest income	127,366	134,871	144,172	134,776	130,658
Profit before tax	83,265	86,110	86,012	84,927	79,909
Net profit (attributable to shareholders of the Bank)	70,223	67,210	66,528	65,850	62,295
As at the end of the year				<i>(in millions of RMB)</i>	
Total assets	9,038,254	8,403,166	7,155,362	6,268,299	5,960,937
Including: Loans and advances to customers	4,456,914	4,102,959	3,722,006	3,431,735	3,266,368
Total liabilities	8,361,983	7,770,759	6,617,270	5,794,694	5,539,453
Including: Due to customers	4,930,345	4,728,589	4,484,814	4,029,668	4,157,833
Shareholders' equity (attributable to shareholders of the Bank)	671,143	629,142	534,885	471,055	419,561
Per share				<i>(in RMB)</i>	
Earnings per share (attributable to shareholders of the Bank)	0.91	0.89	0.90	0.89	0.84
Net assets per share (attributable to shareholders of the Bank) ¹	8.23	7.67	7.00	6.34	5.65
Key financial ratios				<i>(%)</i>	
Return on average assets	0.81	0.87	1.00	1.08	1.11
Return on average shareholders' equity	11.44	12.18	13.43	14.79	15.58
Cost-to-income ratio ²	31.85	30.90	30.01	30.29	29.35
Impaired loans ratio	1.50	1.52	1.51	1.25	1.05
Provision coverage of impaired loans	153.08	150.50	155.57	178.88	213.65
Capital adequacy indicators				<i>(in millions of RMB unless otherwise stated)</i>	
Net Capital ³	790,381	723,961	627,862	584,502	516,482
Including: Net Core Tier-1 capital ³	609,454	568,131	518,487	470,456	416,961
Other Tier-1 capital ³	59,975	59,920	14,943	10	4
Tier-2 capital ³	120,952	95,910	94,432	114,036	99,517
Risk weighted assets ³	5,646,313	5,163,250	4,653,723	4,164,477	4,274,068
Capital adequacy ratio (%) ³	14.00	14.02	13.49	14.04	12.08
Tier-1 Capital adequacy ratio (%) ³	11.86	12.16	11.46	11.30	9.76
Core Tier-1 Capital adequacy ratio (%) ³	10.79	11.00	11.14	11.30	9.76

Notes:

- Refers to Shareholders' equity attributable to the shareholders of the Bank after the deduction of other equity instruments against the total issued ordinary shares at the end of the Reporting Period.
- Calculated in accordance with China Accounting Standards for business and management fees divided by operating income net of other business costs, consistent with the financial report data compiled in accordance with China Accounting Standards.
- Calculated pursuant to the Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation) issued by the China Banking Regulatory Commission. Upon the approval from regulatory authorities, the Group has used the Advanced Measurement Approach of Capital Management for the measurement of capital adequacy ratio since April 2014.

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

As at the end of the Reporting Period, 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 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
HKSCC Nominees Limited	9,224,548	14,954,499,271	20.14	H Share	Unknown	Foreign legal person
The Hong Kong and Shanghai Banking Corporation Limited	–	13,886,417,698	18.70	H Share	Nil	Foreign legal person
The National Council for Social Security Fund	–	1,877,513,451	2.53	A Share	Nil	The State
China Securities Finance Corporation Limited	706,558,209	2,404,753,018	3.24	H Share	Nil	State-owned legal person
Capital Airport Holding Company	–	1,246,591,087	1.68	A Share	Nil	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	A Share	Nil	State-owned legal person
Wutongshu Investment Platform Co., Ltd.	–	794,557,920	1.07	A Share	Nil	State-owned legal person
Yunnan Hehe (Group) Co., Ltd.	–	745,305,404	1.00	A Share	Nil	State-owned legal person
China FAW Group Corporation	–	663,941,711	0.89	A Share	Nil	State-owned legal person

Notes:

1. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert under *Provisional Measures on Equity Management of Commercial Banks*. The Bank is not aware of the existence of any associated relationships among other top ten shareholders or those acting in concert under *Provisional Measures on Equity Management of Commercial Banks*.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
3. According to the Bank's register of members, The Hong Kong and Shanghai Banking Corporation Limited ("**HSBC**") held 13,886,417,698 H shares of the Bank as at the end of the Reporting Period. According to the disclosure of interests filed with The 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 the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. Please refer to "Substantial Ordinary Shareholders and Holders of Interests 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 Bank's register of members, as at the end of the Reporting Period, the National Council for Social Security Fund (the "**SSF**") held 1,877,513,451 A shares and 1,405,555,555 H shares. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, the SSF held additional 7,637,059,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 609,282,000 H shares were indirectly held by certain asset managers. As at the end of the Reporting Period, the SSF held a total of 10,920,128,783 A shares and H shares of the Bank, representing 14.70% of the Bank's total ordinary shares issued.

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

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

Name of substantial shareholders	Capacity	Number of H shares	Nature of interests ¹	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	9,042,615,332 ³	Long position	25.83	12.18
Ministry of Finance	Beneficial owner	4,553,999,999 ²	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interests of controlled corporations	2,674,232 ⁴	Long position	0.01	0.004
	Total:	<u>14,138,310,845</u>		<u>40.38</u>	<u>19.04</u>
HSBC Finance (Netherlands)	Interests of controlled corporations	14,138,310,845 ⁵	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250 ⁶	Long position	0.0002	0.0001
	Total:	<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 the end of the Reporting Period, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total ordinary shares issued by the Bank, respectively.
3. To the knowledge of the Bank, as at the end of the Reporting Period, the SSF held 9,042,615,332 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 interests in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to own the interests associated with the Bank's H shares held by Hang Seng Bank Limited. Hang Seng Bank Limited is deemed to own the interests associated with the 2,674,232 H shares held by its wholly-owned subsidiaries. These 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
5. 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 the end of the Reporting Period, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of SFO.

4. ISSUANCE OF PREFERENCE SHARES

(I) Issuance and Listing of Preference Shares in the Last Three Years

On 29 July 2015, the Bank completed the overseas non-public issuance of preference shares totalling USD2.45 billion. On 2 September 2016, the Bank completed the domestic non-public issuance of preference shares totalling RMB45 billion. The net raised funds were RMB14.924 billion and RMB44.952 billion respectively, net of commissions and issuance expenses, all of which were used to replenish other Tier-1 capital of the Bank.

Code of preference share	Abbreviation of preference share	Issuance date	Issue price	Nominal dividend yield (%)	Number of shares issued (share)	Listing date	Number of shares approved for trading (share)	Delisting date
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 the end of the Reporting Period, the total number of overseas preference shareholders was 1, and that of domestic preference shareholders was 43. By 28 February 2018, the total number of shareholders of overseas and domestic preference shares remained unchanged.

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

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

3. Top Ten Domestic Preference Shareholders and their Shareholdings as at the end of the Reporting Period

Serial Number	Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Status of shares	Number of shares pledged or frozen of shares	Nature of shareholders
1	China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Unknown	–	State-owned legal person
2	AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
3	CCB Trust Co., Ltd. – “Qian Yuan – Ri Xin Yue Yi” open-ended wealth management single fund trust	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
4	Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
5	Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
6	Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Unknown	–	Others
7	China Ping An Life Insurance Co., Ltd. – Self-owned capital	1,000,000	18,000,000	4.00	Domestic preference share	Unknown	–	Others
8	China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Unknown	–	State-owned legal person
9	China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Unknown	–	Others
10	China Citic Bank Corporation Limited – LeYing Series of CITIC Banking Service	5,000,000	14,000,000	3.11	Domestic preference share	Unknown	–	Others

Notes:

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

(III) Dividends Distribution of Preference Shares

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

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 8th meeting of the 8th Session of the Board of Directors of the Bank was held on 28 April 2017, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares were approved. The total amount of overseas preference shares' dividend distributed by the Bank amounted to USD136,111,111, including USD122,500,000 paid to preference shareholders at the after-tax dividend rate of 5% under the terms of issuance of the overseas preference shares. In addition, in accordance with relevant laws and regulations, 10% withholding tax of USD13,611,111 was withheld by the Bank on behalf of overseas preference shareholders. The above dividends were fully paid in cash on 31 July 2017. The total amount of domestic preference shares' dividend distributed by the Bank amounted to RMB1,755,000,000 with a face dividend rate of 3.9% and were fully paid in cash on 7 September 2017.

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

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

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

(IV) Other Information of Preference Shares

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

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

5. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Business Review

In 2017, the Group actively dealt with challenges of external environment change, grasped the chances of transformational development, set “BoCom Strategy” as the principle of development. Involved in serving the real economy, continuously and comprehensively deepened reform, strictly prevented and controlled various risks, the Group achieved a steady improvement in its operating performance. As at the end of the Reporting Period, the Group’s total assets exceeds RMB9 trillion, increasing by 7.56% from the beginning of the year to RMB9,038.254 billion. During the Reporting Period, the net profit of the Group (attributable to shareholders of the Bank) increased by 4.48% on a year-on-year basis to RMB70.223 billion. The Group was honored with the ‘Top 500 Global Companies’ for nine consecutive years by *FORTUNE*, ranked No.171 in terms of operating income. It was also ranked at No.11 among the global top 1,000 banks rated in terms of Tier-1 Capital by *The Banker*, which hit the record high and ranked as top 20 in this award for four consecutive years.

Persistently served the real economy, contributed to transforming and adjusting structure. The Group actively responded to the State’s strategic development and provided effective financing support to the real economy. As at the end of the Reporting Period, the balance of loans and advances to customers (before allowances, if not specially stated, same applies hereinafter) increased by RMB353.955 billion or 8.63% from the beginning of the year to RMB4,456.914 billion. The Group continually optimized the credit structure, assisted in economic restructuring and upgrading, supported the supply-side structural reform and five major tasks of “de-capacity, de-stocking, de-leveraging, cost reduction, and weakness remediation”. As at the end of the Reporting Period, the loan balance of infrastructure and city construction fields, including transportation, water conservancy, environmental and other public utilities, and services, increased by RMB140.3 billion from the beginning of the year. The loan balance of livelihood protection, including electricity, gas and water, education, science, culture and public health, increased by RMB16.9 billion from the beginning of the year. The percentage of loan in seriously excess capacity industry, such as steel and coal, decreased continuously. The Bank improved the construction of the inclusive finance structure, reduced fee which benefited inclusive finance. As at the end of the Reporting Period, the loan balance of domestic small and micro enterprises increased by 12.69% from the beginning of the year, which was higher than the average growth rate of all loans.

Consolidated the strategic advantages, demonstrated distinct characteristics of the “BoCom Strategy”. The “BoCom Strategy” guided configuration management, resulting in enhancement of the Group’s ability to cooperate and a steady increase in profit. During the Reporting Period, the net profit (attributable to shareholders of the Bank) increased by 4.48% on a year-on-year basis to RMB70.223 billion. The capability of globalization and integration were strengthened continuously. The service level of cross-border, cross-industry and cross-market continuously improved. The total asset value of overseas banking institutions and subsidiaries increased by 15.38% from the beginning of the year, equivalent to 14.18% in the total asset of the Group. The net profit increased by 3.52% on a year-on-year basis, equivalent to 13.27% in net profit of the Group. During the Reporting Period, the establishment of Johannesburg Branch was approved by supervision authority and the completion and spin-off of Hong Kong Subsidiary were successfully executed; BoCom Investment was established successfully; BoCom International was the first Chinese funded securities trader which successfully operated on the Main Board of Hong Kong Stock Exchange. The rapid development of business in bank cards and asset custody led to a significant growth in non-interest income and an improvement of the operation characteristic of wealth management. During the Reporting Period, the net fee and commission income of the Group increased by 10.21% on a year-to-year basis to RMB40.551 billion. The proportion of net fee and commission income increased by 1.67 percentage points on a year-on-year basis to 20.63%, among which the net realised fee and commission income of personal banking businesses increased by 19.59% on a year-to-year basis; and the fee income of bank cards, management and payment settlement fee increased by 34.83%, 19.56% and 9.41% on a year-to-year basis respectively.

Deepened reform and innovation, “two engines” promoted development. The Group deepened the reform of “one-stop” service, as well as the divisional system and mechanism of marketing management, and the development of “two engines” of “branch operation and divisional structure operation” increased both in speed and efficiency. During the Reporting Period, the profit before tax provision of the six major business divisions increased by 14.88% on a year-to-year basis, prominently contributed to the profit of the Group. The Group strengthened the integrated management of provincial branches, promoted branches managed by provinces to transform into retail business as the main reform. The online financial center started smoothly and developed new integrated channels for both online and offline markets. The Group also deepened the application of innovative finance and technology, and promoted the key innovative products such as mobile banking and Interbank platform. As at the end of the Reporting Period, the number of registered customers of mobile banking reached 61.06 million, increased by 21.73% from the beginning of the year; the number of cooperating clients of Interbank platform increased by 204 from the beginning of the year to 533. The Group firstly implemented “mobile-based credit card”, and achieved the “quick approval, quick utilization” credit service of issuance and use, resulting in 3 million issuance within a year.

Adhered to the bottom line of compliance, managed the business and controlled risk prudently. The Group strengthened risk management and control in the key areas, strengthened cases and compliance management, and tightened the fences of risk prevention and control, effectively preventing large risk exposures and resisting external risk shocks. The domestic and overseas compliance risks were under control in general and a number of overseas institutions continuously maintained the best level among local Chinese-funded banks. The assets quality improved smoothly and five of the six major asset quality indicators decreased while one increased compared to the beginning of the year. The Group's provision coverage ratio was 153.08%, representing an increase of 2.58 percentage points from the beginning of the year; impaired loan ratio was 1.50%, decreased by 0.02 percentage points from the beginning of the year; the balance of overdue loans and the balance of overdue loan for more than 90 days decreased by RMB9.426 billion and RMB10.359 billion from the beginning of the year respectively, which represented a decrease of 0.42 percentage points and a decrease of 0.41 percentage points from the beginning of the year, respectively.

Strengthened the customer base, further enhanced the brand image. As at the end of the Reporting Period, the total number of domestic corporate customers increased by 9.31% from the beginning of the year, of which the number of core companies in the industrial chain and the number of cash management companies increased by 14.97% and 11.87% respectively from the beginning of the year; the total number of individual customers increased by 18.19% from the beginning of the year, among which the number of customers of BoCom fortune, OTO Fortune, and private banks increased by 2.73%, 9.23%, and 6.21% respectively from the beginning of the year. The Group increased the cooperating channels of the industry to basically achieve the full cooperation of customers in the head office level banking industry and other major financial industries. The Group continuously enhanced customer experience, and provided customers with more convenient and efficient services. The Group was ranked No.1 in the industry for four consecutive years in the China Retail Banking Satisfaction Study; 20 outlets were rated as top 100 model units by the China Banking Association, the number of which ranked No.1 in the industry for three consecutive years. It was recognized as the only national bank appraised by CBRC for the recognition of consumer rights protection, consolidating the advantage of service brand.

1. Corporate Banking Businesses

- During the Reporting Period, the Group's profit before tax from corporate banking businesses amounted to RMB35.6 billion and net fee and commission income amounted to RMB16.034 billion; the total number of corporate customers of domestic banks increased by 9.31% from the beginning of the year.
- As at the end of the Reporting Period, the Group's corporate deposit balance increased by 4.47% from the beginning of the year to RMB3,349.617 billion; corporate loan balance increased by 4.47% from the beginning of the year to RMB3,047.032 billion.
- As at the end of the Reporting Period, the Group's corporate impaired loan balance was RMB51.004 billion and the impaired loans ratio was 1.67%.

Adhering to the major national and regional strategies, the Group accelerated the transformation and innovation of the company's business system and mechanisms as well as business model, and satisfied customers' comprehensive financing requirements using products portfolio, such as credit, bonds, funds, leasing, trust, asset management, insurance, and investments. The Group continuously improved the ability to serve the real economy, and established a good brand in areas including cash management, supply chain of finance, investment banking and cross-border finance.

(1) Corporate and institutional businesses

The Group increased the support for infrastructure construction, strategic emerging industries, and modern service industries to upgrade the structured economic transformation. The Group relied on business divisions of Head Office and branches, the associate business divisions and the "BoCom-HSBC" 1+1 integrated system, and signed comprehensive strategic cooperation agreements with global and national key group customers, achieving great breakthroughs in various major fund projects such as debt-to-equity conversion and equity investments. The Group also focused on customers' needs, increased innovation, had experimental projects led jointly by Head Office and branches reaching 17, as well as promoted the solutions of scenarios and industrial services. Among them, since the "Court Case Loan Management" went online, the flow of funds reached RMB19 billion. The financial services product "Bank-Connected-Hospital" linked 280 hospitals, and the "Bank-Connected-School" covered 31 provincial branches, with a total of 169 schools coming online.

(2) *Small and micro enterprise businesses*

The Group successfully operated Inclusive Finance Development Committee. It deepened the reform of the service system and mechanisms and promoted the sustainable development of the inclusive finance. The Group perfected the product system, innovated service models, and increased support on key areas of inclusive finance and key customer groups, including micro and small enterprises, “agriculture, rural areas and farmers”, poverty alleviation and “Popular Entrepreneurship Innovation”. The Group strengthened the management of small and micro investment as well, optimized the structure of small and micro customers, and improved the whole process of risk control measures, in order to develop small and micro businesses and risk management. As at the end of the Reporting Period, the domestic bank’s balance of loans for small and micro enterprises meeting the standards of the national four ministries amounted to RMB770.719 billion, representing an increase of 12.69% from the beginning of the year, which was higher than the average growth rate of all loans; the number of loans for small and micro enterprises was 155,309, representing an increase of 10,921 from the beginning of the year. The rate of obtaining loans from small and micro enterprises was 94%, representing an increase of 1.41 percentage points from the beginning of the year.

(3) *Industrial value chain of financial services featured by “One Branch Offering Nationwide Services”*

Relying on “Internet+” and information technology, the Group updated the system platforms such as electronic supply chain and smart cars, developed online financial products covering payment settlement and trade financing, and accelerated the promotion of key products in industrial chain, including “Express Bill Discounting”, “Express Receivable Collector”, “Express Pay”, “Win to Fortune E Chain”, and “Automobile Finance”. The Group cooperated with key customers in the fields of construction, medical and health care, petrochemicals, and automobile. Focusing on industrial value chain, the Group launched small and micro lending business, strengthened business cooperation with financial companies to jointly serve the upstream and downstream member companies of financial companies. The Bank was rewarded as the ‘Best Supply Chain Financing Bank’ for 2017 in *Asian Currency*. As at the end of the Reporting Period, the total number of standardized industrial chain networks exceeded 2,600, and the number of companies reaching the standard chain exceeded 40,000.

(4) *Cash management businesses*

The treasury management system of financial companies was launched to meet the needs of the integration of the operation, risk control and compliance of large-scale enterprise groups. The Group optimized the payment function of the e-commerce settlement platform and enhanced the risk supervision and control of trading funds, with the trend of “Internet+”. The internal billing function of the bill pool was introduced to enhance the centralized management capability of the Head Office of the Group and its members. Combining the needs of multi-scenario applications, the Group accelerated the promotion of C2B collection services and constantly optimized the payment experience. As at the end of the Reporting Period, there were more than 20,000 group customers in the cash management of the “Win to Fortune” account, which involved more than 300,000 cash management accounts.

(5) *International settlement and trade financing*

Actively connected with the strategy of “Belt and Road”, the Group provided enterprises with “Going Global” with diversified cross-border settlement and support on trade financing. The Group promoted cross-border financial products and innovative process, expanded the application of financial technology, and optimized customer experience. During the Reporting Period, the domestic banks handled international settlements of RMB4,322.489 billion; international trade financing amounted to RMB90.434 billion.

(6) *Investment banking businesses*

The Group successfully entered into the list of lead underwriters' Central Huijin credit bonds and was selected as the bond underwriter at the first round. The Group actively promoted the "Bond Connect" (integrated cooperating system of Hong Kong and mainland bond markets) business and was the main underwriter of the nation's first batch of "Bond Connect" projects. Strongly supporting the demand for enterprises' cross-border bond issuance, the Group had overseas bonds of approximately USD70 billion. The Group successfully served as the main joint underwriter, book runner and financial agent of USD sovereign bond in China. The Group successfully issued overseas green bonds of the China Development Bank amounted to EUR1 billion, issued "Jiao Yuan" securities backed by credit and installment assets. The Group enjoyed the advantages of internationalization and integration, provided "one-stop" financial services for companies with Hong Kong IPOs, and conducted comprehensive financing advisory services for mergers and acquisitions. The Group was rewarded as the 'Jun Ding Award of 2017 Chinese Comprehensive Investment Bank' by *Securities Times*, '2017 International Pioneering Investment Bank' by *International Finance News*, and other awards. During the Reporting Period, the Group achieved an income of RMB4.518 billion in investment banking businesses, accounting for 10.25% of the Group's total fee and commission income. The domestic banks cumulatively underwrote 265 bonds (excluding local government bonds), and the issuance amount of underwriting (excluding local government bonds) amounted to RMB410.2 billion.

(7) *Asset custody businesses*

The Group grasped the market opportunities, followed up the customers' needs, did a good job of connecting products and services, and actively promoted asset custody business to an integrated and diversified development. The Group won the bid for the "Asian Investment Fund" custody business and became the only custody bank and central financial fund and trust supervision institution of the fund. Moreover, the Group completed the upgrade and transformation of a new custody business system, improved operational service capabilities, and ensured the security of custody assets. As at the end of the Reporting Period, the total custody assets increased by 17.38% from the beginning of the year to RMB8,227.824 billion.

2. *Personal Banking Businesses*

- During the Reporting Period, the Group's profit before tax from personal banking businesses sector increased by 23.74% on a year-on-year basis to RMB25.377 billion; net fee and commission income increased by 19.59% on a year-on-year basis to RMB20.229 billion; the total number of individual customers in domestic branches increased by 18.19% from the beginning of the year.
- As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 3.93% from the beginning of the year to RMB1,577.273 billion. The balance of personal loans of the Group increased by 18.86% from the beginning of the year to RMB1,409.882 billion.
- As at the end of the Reporting Period, the balance of personal impaired loans was RMB15.898 billion and the personal impaired loans ratio was 1.13%.

Adhering to the “core-centered” principle, the Group provided customers with professional and comprehensive wealth management services, actively responded to the challenges of internet finance, accelerated the transformation of online and offline integration, increased the innovative application of new technologies such as mobile internet, big data and artificial intelligence, and promoted the rapid and steady development of personal financial services.

(1) Personal deposits and loans

The Group innovated the development model of individual deposit business, based on big data analysis, realized scientific management of the sales service behavior of customer managers across all the banking outlets, focused on accurate marketing to salary payment to customers, new customers, and new funds, and continuously promoted the development of personal savings deposits businesses.

The Group had reasonable arrangements for the placement of mortgage loans, and actively supported residents to purchase their own house. The Group also accelerated product and service innovation, launched loans for parking space, personal housing mortgages and consumer loan business, innovated housing mortgage loan and second-hand housing transaction funds custody business. The Group actively expanded the credit consumer loan business, and launched “Salary Loan” products targeting at high-end and mid-to-high-end customers. Through the methods of online applications and centralized approvals, “quick approval, quick loan” was realized. As at the end of the Reporting Period, the balance of personal residential mortgage loans increased by 16.49% from the beginning of the year to RMB897.264 billion.

(2) *Wealth management businesses*

The Group deepened the wealth management business and continuously enriched the goal of “Your Wealth Management Bank”. Focusing on the needs of customers, the Group met the needs of different customers in differentiated wealth management and comprehensively promoted the customer lifecycle and product lifecycle with dual-cycle customer management. The Group enjoyed the advantages of online channels, and launched live-streaming programs such as online live broadcasts and air asset management office, and conducted visual and non-face-to-face communication with customers. Organizing the “OTO Fortune” square dance competition, the Group achieved a good market reputation and effectively increased brand influence. The Group took the advantages of globalization and integration, and continuously improved its professional services in providing global asset allocation to private banking customers.

As at the end of the Reporting Period, the amount of individual financial assets under management (AUM) increased by 6.44% from the beginning of the year to RMB2,881.546 billion. The number of customers of BoCom fortune, OTO Fortune and private banks increased by 2.73%, 9.23% and 6.21% respectively from the beginning of the year, and the customers of wealth management with assets above 50,000 per day in a quarter increased by 6.7% from the beginning of the year.

(3) *Bank card businesses*

Credit card businesses

Vigorously promoting the application and innovation of internet financial technology, the Group firstly issued “mobile-based credit card” in the industry, achieving “quick approval, quick utilization” service from issuance to use. The annual issuance amount nearly reached 3 million cards, receiving industry attention and appreciation. The Group optimized the “Go Pay” App function, with cumulative customers exceeding 38 million, ranking the forefront of the industry. The Group improved exploration of traditional consumer credit products, and innovatively implemented the consumer credit services called “Good Commercial Credit” for customers with large consumption demand and the consumer credit services called “Good Cash Credit” for customers with large cash demand business. The annual transaction volume increased by 55% on a year-on-year basis. The Group realized the consumption discount of “Super Red Friday”, and created an online and offline linked “Super Red Payday”, to increase the influence of brand activities. The Group also optimized the customer structure and increased the number of newly added credit card customers which exceeded 10 million users over the year. The Group continuously optimized service procedures and enhanced customer satisfaction. The number of external complaints on the cards decreased by 42.20% on a year-on-year basis.

As at the end of the Reporting Period, the number of domestic cards (including quasi-credit cards) amounted to 62.43 million, representing a net increase of 12 million from the beginning of the year; the accumulated annual consumption amounted to RMB2,271.15 billion, representing a year-on-year increase of 23.52%; the Group's credit card overdraft balance increased by 29.61% from the beginning of the year to RMB399.004 billion; the credit card overdraft impairment rate was 1.84%, which was a decrease of 0.11 percentage points from the beginning of the year.

Debit card businesses

Relying on the mobile internet, the Group promoted business innovation, introduced electronic debit card products such as "Security Pay", cards without medium, and reshaped the personal account service process to provide customers with more convenient services. Continuously promoting the construction of QR code payment system, the Group promoted C2B and C2C scan code payment, and relied on NFC technology to fully promote mobile payment such as Apple Pay, Huawei Pay, Mi Pay, Samsung Pay, Meizu Pay, Smartisan Pay and HCE. The full coverage of mobile devices of mainstream brand provided customers with more secure and convenient mobile payment services.

As at the end of the Reporting Period, the number of domestic Pacific debit cards amounted to 131.68 million, representing a net increase of 11.51 million from the beginning of the year; the accumulated annual consumption increased by 5.41% to RMB937.4 billion on a year-on-year basis.

3. *Interbank and Treasury Businesses*

- During the Reporting Period, profit before tax of treasury businesses of financial market was RMB19.274 billion.
- As at the end of the Reporting Period, the Group's investments in securities amounted to RMB2,474.348 billion with an increase of 9.85% from the beginning of the year.

The Group adheres to the principle that the finance should return to its origin, focused on serving the main business of the real economy, continuously improved customer service methods, strengthened risk prevention in key areas, and continuously promoted stable operations and compliance development of the interbank and market businesses.

(1) *Institutional financial services*

The Group solidified the foundation of cooperation among customers in the interbank, basically achieved full coverage of customer cooperation in major financial industries such as domestic policy banks, large-scale commercial banks, joint-equity commercial banks, securities, insurance, and futures, and the cooperation coverage of small and medium bank customers exceeded 40%. The Group deepened the cooperation of customers in financial market, obtained the qualifications of domestic bond makers of “Bond Connect”, overseas global custody bank and Hong Kong clearing bank; obtained the qualifications for brokerage depository banks for domestic and foreign customers of Shanghai International Energy Center, and the number of brokerage accounts opened for futures companies ranked No.1 in the market. During the Reporting Period, the average balance of demand deposits among 13 major national financial markets exceeded RMB100 billion.

The Group strengthened innovation of Interbank platform corporation. There were 533 customers on the Interbank platform, increased by 204 from the beginning of the year. The interbank wealth management platform “Interbank Smart Platform” achieved online trading of interbank deposits and up to 230 customers of online banking. The scientific and technological output, training output, and research output for small and medium-sized banks have been launched in upgrading the cooperation from “financing” to “smart financing”. The Group developed “capital chain” finance and improved the ability of clearing services in the direct financing market. The number of cooperative securities companies in businesses of third-party custody, financing, securities clearing, and stock options settlement reached 100, 86, and 64 respectively, and the cooperative coverage rate reached 100%, 91.49%, and 76.19%, respectively. There were 145 futures companies with bank transfer business, with a cooperation coverage rate of 97%. The brokerage deposit of futures companies had a balance of RMB70.994 billion, maintaining its leading position in the market. The Group promoted the standardized development of interbank wealth management services and the number of interbank financial management customers reached 1,305.

(2) *Trading account businesses*

The Group actively responded to price fluctuations in the bond market and foreign exchange market, flexibly adjusted trading strategies, strengthened product innovation, and promoted the steady development of transactional businesses. The Group was one of the first batch of companies having “Bond Connect” business and had the first single transaction in the market. During the Reporting Period, a total of 73 “Bond Connect” transactions were reached, amounting to RMB18.936 billion, ranking the highest in the market. The Group vigorously developed the RMB bond lending business and signed new agreements for RMB bond lending business with 76 institutions. The Group actively innovated foreign exchange capital products and fully performed the foreign exchange market maker and intermediate price quotation. During the Reporting Period, the transaction volume of domestic branches in respect of Renminbi-denominated bonds reached RMB2.57 trillion and the volume of interbank foreign currency transactions reached USD1,559.007 billion.

(3) *Banking book investments*

Studying marketing research, the Group laid out the scale of various products in each quarter, optimized the structure of bond, and reasonably arranged the duration of the portfolio. As at the end of the Reporting Period, the Group’s investments in securities amounted to RMB2,474.348 billion, representing an increase of 9.85% from the beginning of the year. The securities investment yield was 3.60%.

(4) *Precious metal businesses*

Cooperating with the Shanghai Gold Exchange to launch the third edition self-operated and agency trading platform, the Group was ranked as the top place of “Shanghai Gold” centralized pricing transaction, becoming one of the 3 Chinese-funded banks participating in the transaction under the mode of central clearing transactions for price setting of London Bullion. During the Reporting Period, the domestic branches achieved RMB147.248 billion in terms of volume of precious metal brokerage transactions. The sales of real precious metals products businesses amounted to RMB1.966 billion, and the accumulated gold trading accounted to 5,871.34 tons. The gold trading volume of the Shanghai Gold Exchange ranked the top three in the market, and continuously maintained its active banking status in the market.

(5) *Asset management businesses*

The Group continuously promoted the innovation of off-balance sheet wealth management products, accelerated the transformation of net worth products, and met the increasingly diversified investment needs of investors. The Group launched an net worth product of open quasi-money fund with flexible subscription and redemption to serve customers' needs in cash management; promoted the long-term limited net worth products and served customers' needs for medium-term or long-term value-preserving and value-added investments; The Group also launched a theme investment net worth product line to serve customers' needs in personalized investment. As at the end of the Reporting Period, the size of net worth products increased by 2.6 times from the beginning of the year, and ranked top in the market. In the evaluation of Wealth Management Banking Issuance Institution of *China Banking Association*, the Group won the 'Best Integrated Financial Management Award' for three consecutive years and won 'Best Earnings Award', 'Best Innovation Award' and 'Best Compliance Award', etc.

During the Reporting Period, the Bank issued a total of 11,271 wealth management products, raised funds of RMB24.01 trillion, and achieved revenue of more than RMB60 billion for customers. As at the end of the Reporting Period, the scale of on-and-off-balance sheet asset management of the Renminbi increased by 12.19% from the beginning of the year to RMB1.6 trillion, and continued to rank among the top peers in the industry.

4. *“Trinity” Network Construction*

- During the Reporting Period, the profit per person of the Group amounted to RMB769,700, representing an increase of 5.99% on a year-on-year basis. As at the end of the Reporting Period, the deposit per outlet (excluding all-inclusive outlets) increased by 7.02% from the beginning of the year to RMB1.844 billion.
- As at the end of the Reporting Period, the total amount of domestic banking branch outlets decreased by 15 from the beginning of the year to 3,270, of which 71 were newly opened and 86 low-yield ones were closed down.
- As at the end of the Reporting Period, the ratio of self-service banks to traditional branch outlets amounted to 1.23:1. The diversion rate of e-channels increased by 3.12 percentage points from the beginning of the year to 94.54%.
- As at the end of the Reporting Period, the number of relationship managers in domestic branches was 23,726 in total, the proportion of relationship managers reached 30.59%.

The Group 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 the construction of relationship manager team and further enhanced the construction and development of “Trinity” network of physical outlets, e-banking and relationship manager.

(1) Physical outlets

The Bank further promoted the transformation development of low-yield outlets. The Bank increased adjustments of the cross-city, cross-district and cross-county levels in existing outlets, and promoted the integration and transformation of low-yield and inefficient outlets. As at the end of the Reporting Period, the total number of domestic outlets decreased by 15 from the beginning of the year to 3,270, of which 71 were newly opened, 86 were integrated with low-yield outlets. The Bank’s network covered 239 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities increasing by 0.90 percentage points from the beginning of the year to 71.56%. In particular, the coverage ratio in Western China was 45.97%.

The Bank promoted the light construction of outlets and reduced unused area of basic-level outlets, counter services and operating staff. As at the end of the Reporting Period, the number of comprehensive outlets in the Bank increased by 3 from the beginning of the year to 577. The Bank continued to improve the inclusive financial system. At as the end of the Reporting Period, 662 inclusive outlets were opened, with an increase of 57 from the beginning of the year.

(2) E-banking

The Bank put emphasis on the integration of multi-channel platform and continued to improve the integration and collaborative management capabilities of electronic channel services. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 6.473 billion with transaction amounts over RMB224.58 trillion. The diversion rate of e-channels increased by 3.12 percentage points from the beginning of the year to 94.54%.

Self-service banking. As at the end of the Reporting Period, the number of self-service machines in domestic branches was 25,100 and the number of self-service banks was 3,182. The ratio of self-service banks to traditional branches was 1.23:1. The transaction number of self-service banking was 451 million with transaction amounts about RMB2.13 trillion.

Online banking. The Group promoted overseas smart financial construction and successively launched online banking on 6 overseas companies in Toronto and Tokyo, provided convenient financial settlement channels for the implementation of “Belt and Road” strategy. Keeping up with market hotspots, the Group promoted online settlement product innovation and iterative development, and optimized the delivery of new type of settlement products called “Delivery and Guarantee”. As at the end of the Reporting Period, the number of corporate e-banking customers increased by 14.46% from the beginning of the year to over 700,000, and the number of corporate e-banking transactions increased by 22.96% on a year-on-year basis to 1.098 billion. The number of personal e-banking customers increased by 10.77% from the beginning of the year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased by 44.17% on a year-on-year basis to 4.615 billion.

Mobile banking. The Group created an online financial service platform to improve various functions of mobile banking, including the new enlarged deposit receipts, brokerage collective wealth management, structural wealth management, insurance malls, salary loans, pledge loans, and other functions to meet customers’ needs in all aspects. The Group revised comprehensive financial services sector, reconstructed display pages of products, optimized transaction processes, and enhanced customer experience. The Group increased the living payment scenario and added the “pay via code” payment function. As at the end of the Reporting Period, the number of the Group’s mobile banking registered customers reached 61.06 million, representing an increase of 21.73% from the beginning of the year. During the Reporting Period, the number of mobile banking transactions reached 304 million, representing an increase of 10.95% on a year-on-year basis; the transaction amount increased by 12.01% to RMB7.65 trillion on a year-on-year basis.

Financial Technology Leads Innovation and Rapid Development of Online Business

The Bank followed the trend of network and informatized economic development, actively responded to the needs of market competition in the “Internet+”, applied technologies such as big data, mobile internet and artificial intelligence to precision marketing and business development, and promoted the indepth integration of technology and finance. With the establishment of an online financial business center, the Bank accelerated the development of online business and focused on building a financial technology platform for online financial centers.

Relied on the “five special systems” (i.e. special teams, special policies, special resources, special authorizations, and special assessments) of major mobile banking projects, mobile banking maintained a rapid update every two weeks. During the Reporting Period, 31 versions were updated and more than 820 functions were added or optimized, covering all types of financial services and transaction scenarios. A relatively completed living payment scenario covering payment, consumption, and value-added services was initially established. The business functions were comparable to the advanced level of the industry. The monthly active customers of electronic channels (mobile and online banking) reached a high record of 13.77 million, and the annual electronic channel increased its transaction volume by 41.6% over the previous year.

The Bank focused on the comprehensive management of customers and the maximization of customer value. The accurate marketing was conducted for specific customers such as salary payment to customers, wealth management maturity, break-even assets, and square dance to drive data development. Taking full advantage of big data analysis, the Bank launched a “Salary Loan” for small-credit consumer loan targeting high-quality payroll customers. The product has advantages such as pre-authorizing credit for high quality employees on white list, online self-service application, and automatic real-time system approval. The Bank innovated online marketing communication methods and launched live-streaming programs such as online live broadcasts and air finance offices, enjoyed the advantages of intelligent and interconnected online channels, and provided visual and non-face-to-face communication services.

(3) *Relationship Manager*

The Group continued to promote the setup of its relationship manager team, optimized the management mechanism of relationship managers, broadened the room for development for relationship managers and enhanced the education and training of relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic branches reached 23,726, equivalent to 30.59%, among which the number of corporate relationship managers reached 10,829 and the number of retail relationship managers reached 12,897.

Implementing “Return to Origin” of Banking Industry with “Full Service” Concept

The Bank is the first bank to use “service” as its strategic development goal. In the initial restructuring period of 1987, the Bank took “first-class service quality” as its development goal; in 2013, it proposed “being the best bank for financial services”. During the past four years, the Bank based on the origin of serving the real economy, and its service level steadily increased. It sticks to the concept of “Full service”, which means that the total behavior of basis services, middle and back offices, and front desk. Service specifications, service channels, business operations, IT systems, risk management and other aspects are covered in all-round, full-process, and full-person, to serve customers by the whole Bank.

“Full service” realizing “big leap”. The service work was steadily upgraded. The Bank was a top place in “Top 1000” and “Top 100” web commentary leaders for many years. In the 2013, 2015, and 2017 China Banking Association “Top 100” demonstration unit elections, 20 outlets were rated as “Top 100”, ranking the No.1 in the industry for three consecutive sessions. In 2016, a total of 140 outlets were rated as “Top 1000” demonstration units, and they were rated as the new highest record and ranked No.1 in the industry. In the evaluation of banking consumer protection of the CBRC, the Bank was ranked as Tier-1 and No.1 among national banks.

“Full service” highlighting “personalization”. Adhering to the development concept of “One BoCom for One Customer”, the Bank embedded financial services into the customer service ecosystem and integrated financial services into customer life. The Bank firstly launched the smart lobby manager “Jiao Jiao” in China, which can fully interact with users and answer enquiries. The self-service machines such as “Smart Communication”, were promoted, which can be used for common business, including application for cards, authentication and collection, investment and wealth management. The process of card registration was reduced to 2 minutes, and the service efficiency of outlets improved by more than 70%, which greatly saved the business processing time for customers.

“Full service” matching “big strategy”. The Bank insisted on serving the real economy, focused on the structured side of the supply-side reforms, and implemented the 5 major tasks of “de-capacity, de-stocking, de-leverage, cost reduction and weakness strengthening”. As at the end of the Reporting Period, the balance of loans for infrastructure such as transportation, water conservancy and environmental protection, public facilities management, service industries, and urban construction services increased by RMB140.3 billion from the beginning of the year. The balance of loans for the people’s livelihood guarantee and consumption upgrading such as electricity, gas and water, science, education, culture and public health increased by RMB16.9 billion from the beginning of the year; the proportion of loans with serious overcapacity industries such as steel and coal continued to decline. The Bank provided credit support for the “Belt and Road” strategic key projects through internal guarantee loans, overseas syndicated loans, and bilateral loans. In February 2018, BoCom Investment officially started its operation, and a batch of debt-to-equity conversion projects were ready, which were expected to make new contributions to “de-leverage”.

“Full service” supporting “small businesses”. The Inclusive Finance Development Committee was established to achieve continuous innovation for organizational structure and business products. It provided tailor-made products for small and micro enterprises, and implemented a differentiated, accurate, and dynamic financing authorization for small and micro enterprises. As at the end of the Reporting Period, domestic bank loans with the national four ministries amounted to RMB770.719 billion, representing an increase of 12.69% from the beginning of the year, which was higher than the average growth rate of all loans.

5. *Internationalization and Integrated Operation*

(1) *Internationalization strategy*

- During the Reporting Period, net profits of the Group's overseas banking institutions decreased by 4.22% on a year-on-year basis to RMB5.124 billion, accounting for 7.30% of the Group's total net profits, representing a decrease of 0.66 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 12.71% from the beginning of the year to RMB964.67 billion, accounting for 10.67% of the Group's total assets, representing an increase of 0.48 percentage points from the beginning of the year.
- As at the end of the Reporting Period, the impaired loan balances of the Group's overseas banking institutions was RMB728 million, and the impaired loan ratio was 0.17%.

The Group made full use of the internal linkage and synergy advantages of the Group and promoted the internationalization strategy. The Group improved the layout of overseas institutions along the “Belt and Road” strategy, following the pace of “Going Global” of Chinese-funded enterprises, actively adapting the business needs of countries and regions along the roads, and continuously improving cross-border financial service capabilities.

Overseas service network

The landscape of overseas service network was making a steady progress. As at the end of the Reporting Period, the Group set up 21 overseas subsidiaries, branches and representative offices in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco, Taipei, Toronto, Brisbane, Luxembourg, Paris, Roman and Rio de Janeiro with a total of 65 overseas operating outlets (excluding the representative offices). The Bank established agency relationship with 1,580 banks in over 142 countries and regions, set up 241 cross-border Renminbi interbank accounts for 126 overseas agent banks in 36 countries and regions, and opened 83 foreign currency settlement accounts in 26 currencies with 64 banking institutions in over 31 countries and regions.

Domestic and overseas synergetic businesses

Relying on the global service layout and through the “Trinity” network of domestic and foreign funds, products, and markets, the Bank served the multi-level cross-border financial needs of enterprises and helped “Going Global” companies to enhance cross-border and cross-market competitiveness. During the Reporting Period, the total transaction amount of the synergetic businesses was USD51.708 billion, and its accumulated revenue reached RMB4.337 billion.

Cross-border Renminbi transactions

The Bank continuously expanded international use of the Renminbi, took the initiative to connect with key strategies such as the “Belt and Road” and the Free Trade Zone, and increased support for the real economy through products such as RMB cross-border settlement and cross-border financing. The Bank continued to promote the development of the RMB clearing bank. The scale of liquidation and the rate of direct mailings continued to increase. The Bank was rewarded as the ‘Special Contribution Award for Clearing Business’ by *the Ministry of Strategy and Finance of South Korea* for three consecutive years. During the Reporting Period, the transaction amount of the cross-border Renminbi settlements by domestic and overseas banking institutions amounted over RMB2 trillion.

Offshore services

The Bank created innovative products such as “Offshore Global Wage Payment”, “Baihitong” and “Offshore Communication” and absorbed overseas low-cost funds through multiple channels. The Bank strengthened the adjustment of business structure, consolidated the offshore customer base, and achieved rapid growth in cross-border financing and substantial loans. As at the end of the Reporting Period, the total amount of offshore assets was USD17.164 billion, and the loan balance was USD13.027 billion, and deposit balance was USD10.509 billion.

(2) *Integrated operation*

- During the Reporting Period, net profits attributable to shareholders of the Bank from the subsidiaries (excluding UK Subsidiary, Luxembourg Subsidiary and BANCO BOCOM BBM S.A.) amounted to RMB4.194 billion, representing a year-on-year increase of 14.87%, the proportion of which to the net profit of the Group increased by 0.54 percentage points to 5.97% on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of the subsidiaries (excluding UK Subsidiary, Luxembourg Subsidiary and BANCO BOCOM BBM S.A.) increased by 24.34% from the beginning of the year to RMB317.01 billion, the proportion of which to the total assets of the Group increased by 0.48 percentage points to 3.51% from the beginning of the year.

The Group stuck to deepen reforms and continued to expand its integrated businesses to enhance the integrated competitiveness of its subsidiaries. Relying on the Group's resources, each subsidiary speeded up the development of its main business, and highlighted its operating characteristics, with an aim to enhance their market competitiveness and drive the implementation of the integrated strategy of the Group.

BoCom Leasing maintained its leading development trend in the financial lease industry. It led eight financial leasing companies with asset size over hundreds of billions to set up a "financial leasing service strategic in alliance with the Yangtze River Economic Belt", and actively connected high-quality projects in all provinces and cities within the Yangtze River Economic Belt. The Group continued to expand its market share, and led the industry in terms of asset size, profitability and asset quality. As at the end of the Reporting Period, the total leasing asset balance amounted to RMB200.002 billion, representing an increase of 20.44% from the beginning of the year.

BoCom International Trust took full advantage of the benefits of trust business, and actively promoted the development of key businesses such as Buyout funds, shantytown transformation, asset securitization, and other innovative businesses such as trust-based and contractual funds. The Bank was rated as A Grade in the China Trust Association for two consecutive years, and won the 'Excellent Risk Control Trust Company Award' by *Securities Times* and other awards. As at the end of the Reporting Period, its AUM increased by 35.31% from the beginning of the year to RMB976.429 billion.

The public funds under BoCom Fund achieved outstanding performance. BoCom Stable Fund, BoCom New Vitality Fund and BoCom Strategy Fund were ranked top 5% among funds. BoCom Stable Fund was ranked third place with 55.26% return rate among 545 funds. As at the end of the Reporting Period, its AUM amounted RMB471.127 billion (including two subsidiaries).

BoCommLife Insurance created a special service brand, provided customers with professional health services, accelerated the development of transformation services, actively enhanced investment capabilities, strengthened risk prevention and control systems, and innovated service models. During the Reporting Period, the realized original premium income increased by 35.32% on a year-on-year basis to RMB13.131 billion. The development of quality business was rapid. Its bancassurance businesses with premium paid by instalment increased by 76% on a year-on-year basis.

BoCom International was listed on the Main Board of the Hong Kong Stock Exchange on 19 May 2017, becoming the first Chinese funded securities trader listed in Hong Kong.

BoCom Insurance adhered to the principle of “being professional and specialized”. Both the gross premium growth rate and the net compensation ratio were better than the average of Hong Kong interbank market, achieving steady development and outstanding performance in the market.

(II) Financial Statement Analysis

I. Analysis on Key Income Statement Items

(1) Profit Before Tax

During the Reporting Period, the Group's profit before tax decreased by RMB2.845 billion to RMB83.265 billion, equivalent to 3.30% decrease 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>	
	2017	2016
Net interest income	127,366	134,871
Net fee and commission income	40,551	36,795
Impairment losses on loans	(29,787)	(28,480)
Profit Before Tax	83,265	86,110

(2) Net interest income

During the Reporting Period, the Group's net interest income decreased by RMB7.505 billion on a year-on-year basis to RMB127.366 billion, accounting for 64.81% of the Group's net operating income, becoming 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 costs of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2017			For the twelve months ended 31 December 2016		
	Average balance	Interest income/ (expenses) ⁵	Annualized average rate of return/ (cost) (%)	Average balance	Interest income/ (expenses) ⁵	Annualized average rate of return/ (cost) (%)
Assets						
Cash and balances with Central Bank	946,071	13,570	1.43	940,872	13,701	1.46
Due from banks and other financial institutions	737,709	20,528	2.78	613,166	15,026	2.45
Loans and advances to customers and receivables	4,361,925	200,207	4.59	4,003,174	189,973	4.75
Including: Corporate loans and receivables	2,959,565	126,900	4.29	2,786,556	125,458	4.50
Individual loans	1,266,575	67,746	5.35	1,058,139	59,442	5.62
Discounted bills	135,785	5,561	4.10	158,479	5,073	3.20
Securities investments	2,312,613	83,213	3.60	1,917,494	71,144	3.71
Interest-bearing assets	8,081,751 ³	309,615 ³	3.83	7,170,237 ³	281,197 ³	3.92
Non-interest-bearing assets	448,296			347,839		
Total assets	8,530,047³			7,518,076³		
Liabilities and Shareholders' Equity						
Due to customers	4,799,236	89,337	1.86	4,645,472	86,392	1.86
Including: Corporate deposits	3,257,639	57,537	1.77	3,174,125	56,434	1.78
Individual deposits	1,541,597	31,800	2.06	1,471,347	29,958	2.04
Due to banks and other financial institutions	2,410,448	77,576	3.22	1,989,295	55,720	2.80
Debt securities issued and others	702,404	23,239	3.31	397,461	12,861	3.24
Interest-bearing liabilities	7,635,521 ³	182,249 ³	2.39	6,727,759 ³	146,326 ³	2.17
Shareholders' equity and non-interest-bearing liabilities	894,526			790,317		
Total Liabilities and Shareholders' Equity	8,530,047³			7,518,076³		
Net interest income		127,366			134,871	
Net interest spread¹			1.44³			1.75³
Net interest margin²			1.58³			1.88³
Net interest spread¹			1.60⁴			1.89⁴
Net interest margin²			1.73⁴			2.02⁴

Notes:

1. Representing 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. Representing the net interest income to total average interest-bearing assets.
3. Excluding the impact of brokerage wealth management products.
4. Excluding the impact of brokerage wealth management products and taking into account the tax exemption on the interest income from bond investments.
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 5.56% on a year-on-year basis. The net interest spread and net interest margin decreased by 31 and 30 basis points on a year-on-year basis to 1.44% and 1.58%, respectively. The net interest spread and net interest margin in the fourth quarter both increased by 1 basis point 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 28 and 27 basis points on a year-on-year basis to 1.58% and 1.72% respectively.

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

Item (%)	2017			
	January – March	April – June	July – September	October – December
Net interest spreads ¹	1.44	1.43	1.44	1.45
Net interest margin ¹	1.57	1.57	1.58	1.59
Net interest spreads ²	1.59	1.59	1.61	1.62
Net interest margin ²	1.72	1.72	1.74	1.75

Notes:

1. Excluding the impact of brokerage wealth management products.
2. Excluding the impact of brokerage wealth management products, and taking into account the tax exemption of interest income from bond investments.

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

<i>(in millions of RMB)</i>			
Comparison between 2017 and 2016			
	Increase/(decrease) due to		
	Amount	Interest rate^{Note}	Net increase/(decrease)
Interest-bearing assets			
Cash and balances with Central Bank	76	(207)	(131)
Due from banks and other financial institutions	3,051	2,451	5,502
Loans and advances to customers and receivables	17,041	(6,807)	10,234
Securities investments	14,659	(2,590)	12,069
Changes in interest income	34,827	(7,153)	27,674
Interest-bearing liabilities			
Due to customers	2,860	85	2,945
Due to banks and other financial institutions	11,792	10,064	21,856
Debt securities issued and others	9,880	498	10,378
Changes in interest expenses	24,532	10,647	35,179
Changes in net interest income	10,295	(17,800)	(7,505)

Note: 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; the deduction amounts were included in "interest rate" item.

During the Reporting Period, the Group's net interest income decreased by RMB7.505 billion on a year-on-year basis, of which the increase of RMB10.295 billion was due to changes in the average balances of assets and liabilities and the decrease of RMB17.8 billion was due to changes in the average rate of return and average cost ratio.

① Interest income

During the Reporting Period, the Group's interest income increased by RMB27.674 billion or 9.55% on a year-on-year basis to RMB317.518 billion.

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

Interest income from loans and advances to customers and receivables was the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB10.234 billion or 5.39% on a year-on-year basis to RMB200.207 billion, which was largely due to the impact on the average balance of loans and advances to customers and receivables increased by RMB358.751 billion on a year-on-year basis.

B. Interest income from securities investments

During the Reporting Period, interest income from securities investments increased by RMB12.069 billion or 16.96% on a year-on-year basis to RMB83.213 billion, which was largely due to the year-on-year increase in the average balance of securities investments of RMB395.119 billion.

C. Interest income from cash and balances with Central Bank

The balances with Central Bank mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, the average balances with the Central Bank decreased by RMB131 million or 0.96% on a year-on-year basis to RMB13.57 billion, which was largely due to that the average rate of return from the balances in Central Bank decreased by 3 basis points on a year-on-year basis.

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

During the Reporting Period, the interest income from balances due from banks and other financial institutions increased by RMB5.502 billion or 36.62% on a year-on-year basis to RMB20.528 billion. This was largely due to the year-on-year increase in the average rate of return due from banks and other financial institutions of 33 basis points, and a year-on-year increase in the average balance of RMB124.543 billion.

② Interest expenses

During the Reporting Period, the Group's interest expenses increased by RMB35.179 billion or 22.70% on a year-on-year basis to RMB190.152 billion.

A. Interest expenses of customer deposits

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expenses of customer deposits increased by RMB2.945 billion or 3.41% on a year-on-year basis to RMB89.337 billion, accounting for 46.98% of total interest expenses. The increase in interest expenses of customer deposits was largely due to a year-on-year increase in the average balance of customer deposits of RMB153.764 billion.

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 RMB21.856 billion or 39.22% on a year-on-year basis to RMB77.576 billion. This was largely due to a year-on-year increase in the average balance due to banks and other financial institutions of RMB421.153 billion, as well as an increase of 42 basis points of average cost ratio.

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

During the Reporting Period, interest expenses on bonds payable and other interest-bearing liabilities increased by RMB10.378 billion or 80.69% on a year-on-year basis to RMB23.239 billion. This was largely due to a year-on-year increase in average balance of bonds payable and other interest-bearing liabilities of RMB304.943 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 facilitating the transformation of its profit-making mode and moved towards a business mode with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB3.756 billion or 10.21% on a year-on-year basis to RMB40.551 billion. Bank cards 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>	
	2017	2016
Bank cards	16,267	12,065
Management services	14,948	12,502
Investment banking	4,518	5,306
Brokerage services	3,216	4,636
Guarantees and commitments	2,554	2,962
Settlement services	1,884	1,722
Others	673	691
Total fee and commission income	44,060	39,884
Less: Fee and commission expenses	(3,509)	(3,089)
Net fee and commission income	40,551	36,795

Fee income from bank card services increased by RMB4.202 billion or 34.83% on a year-on-year basis to RMB16.267 billion, which was mainly due to an increase of issued volume and development of card business.

Fee income from management services increased by RMB2.446 billion or 19.56% on a year-on-year basis to RMB14.948 billion, which was mainly driven by the increase in the fee income from asset management and brokerage wealth management services.

Fee income from investment banking decreased by RMB788 million or 14.85% on a year-on-year basis to RMB4.518 billion, which was mainly due to a decrease of consulting services.

Fee income from brokerage services decreased by RMB1.42 billion or 30.63% on a year-on-year basis to RMB3.216 billion, which was mainly due to a decrease in the fee income from insurance brokerage services.

Fee income from guarantee and commitment services decreased by RMB408 million or 13.77% on a year-on-year basis to RMB2.554 billion, which was mainly due to a decrease of bill risk exposure management fee.

Fee income from settlement services increased by RMB162 million or 9.41% on a year-on-year basis to RMB1.884 billion, which was mainly due to an increase in income of settlement fee for overseas banking operations.

(4) *Operating costs*

During the Reporting Period, the Group's operating costs increased by RMB2.002 billion or 3.43% on a year-on-year basis to RMB60.405 billion. Cost-to-income ratio was 31.85%, representing a year-on-year increase of 0.95 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 30.04%, representing a year-on-year increase of 0.27 percentage points.

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

	<i>(in millions of RMB)</i>	
	2017	2016
Staff costs and welfare	27,942	26,040
Operating expenses	26,585	26,310
Depreciation and amortization	5,878	6,053
Total operating costs	60,405	58,403

(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 RMB1.307 billion or 4.59% on a year-on-year basis to RMB29.787 billion. The increase comprised of: (1) collective assessment increased by RMB5.221 billion on a year-on-year basis to RMB14.66 billion; and (2) individual assessment decreased by RMB3.914 billion on a year-on-year basis to RMB15.127 billion. During the Reporting Period, credit cost ratio decreased by 0.02 percentage points on a year-on-year basis to 0.67%.

(6) *Income tax*

During the Reporting Period, the Group's income tax expenses decreased by RMB5.885 billion or 31.88% on a year-on-year basis to RMB12.574 billion. The effective tax rate of 15.10% is lower than the statutory tax rate of 25%, which was largely due to the tax exemption on interest income from government bonds and local government bonds held by the Group, as promulgated in relevant tax provisions.

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

	<i>(in millions of RMB)</i>	
	2017	2016
Current income tax	14,836	14,814
Deferred income tax	(2,262)	3,645

2. Analysis on Key Balance Sheet Items

(1) Assets

As at the end of the Reporting Period, the Group's total assets were RMB9,038.254 billion, representing an increase of RMB635.088 billion, equivalent to an increase of 7.56% from the beginning of the year.

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

	<i>(in millions of RMB unless otherwise stated)</i>			
	31 December 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Loan and advances	4,354,499	48.18	4,009,046	47.71
Securities investments	2,474,348	27.38	2,252,392	26.80
Cash and balances with Central Bank	938,571	10.38	991,435	11.80
Lendings to Banks and Other Financial Institutions	782,468	8.66	715,787	8.52
Total Assets	9,038,254		8,403,166	

① Loans and advances to customers

During the Reporting Period, the Group achieved a balanced and steady growth in loans with reasonably controlling of the amount, direction and pace of credit. As at the end of the Reporting Period, the Group's total loans and advances to customers were RMB4,456.914 billion, representing an increase of RMB353.955 billion or 8.63% from the beginning of the year, among which the increase in Renminbi loans from domestic branches increased by RMB307.878 billion or 8.78% 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 the real economy, as well as promoted the optimization of its own business structure.

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

(in millions of RMB unless otherwise stated)

	31 December 2017		31 December 2016	
	Balance	Proportion	Balance	Proportion
		(%)		(%)
Mining	109,215	2.45	107,787	2.63
Manufacturing				
– Petroleum and chemical	106,999	2.40	106,514	2.60
– Electronics	76,261	1.71	59,942	1.46
– Steel	34,893	0.78	36,841	0.90
– Machinery	96,092	2.16	118,200	2.88
– Textile and clothing	30,043	0.67	33,714	0.82
– Other manufacturing	224,368	5.04	224,455	5.47
Electricity, gas and water production and supply	162,821	3.65	147,141	3.59
Construction	106,679	2.39	99,487	2.42
Transportation, storage and postal services	523,339	11.74	495,427	12.07
Telecommunication, IT services and software	25,769	0.58	20,594	0.51
Wholesale and retail	281,689	6.32	319,579	7.79
Accommodation and catering	35,143	0.79	34,489	0.84
Financial institutions	117,923	2.65	94,464	2.30
Real estate	186,784	4.19	204,111	4.97
Services	353,325	7.93	300,929	7.33
Water conservancy, environmental and other public utilities	248,641	5.58	188,622	4.60
Education, science, culture and public health	81,812	1.84	80,597	1.96
Others	106,278	2.38	117,290	2.86
Discounted bills	138,958	3.12	126,589	3.09
Total corporate loans	3,047,032	68.37	2,916,772	71.09
Mortgage loans	897,264	20.13	770,280	18.78
Credit card overdraft	399,004	8.95	307,857	7.50
Others	113,614	2.55	108,050	2.63
Total individual loans	1,409,882	31.63	1,186,187	28.91
Gross amount of loans and advances to customers before impairment allowances	4,456,914	100.00	4,102,959	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB130.26 billion or 4.47% from the beginning of the year to RMB3,047.032 billion. Among them, the four most concentrated industries were manufacturing, transportation, storage and postal services, services, as well as wholesale and retail services, which accounted for 56.68% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's individual loans increased by RMB223.695 billion or 18.86% from the beginning of the year to RMB1,409.882 billion. The proportion of personal loans to total loans and advances to customers increased by 2.72 percentage points from the beginning of the year to 31.63%.

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 2.63% of the Group's net capital, and the total loans of Top 10 customers accounted for 12.90% 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 year end date indicated:

(in millions of RMB unless otherwise stated)

		31 December 2017	
		Loan	Percentage of
		balances	total loans
			and advances
			(%)
Type of industry			
Customer A	Transportation, storage and postal service	20,770	0.47
Customer B	Transportation, storage and postal service	16,976	0.38
Customer C	Transportation, storage and postal service	12,302	0.28
Customer D	Transportation, storage and postal service	9,983	0.22
Customer E	Transportation, storage and postal service	9,105	0.20
Customer F	Transportation, storage and postal service	7,184	0.16
Customer G	Wholesale and retail	6,740	0.15
Customer H	Manufacturing – other manufacturing	6,500	0.15
Customer I	Transportation, storage and postal service	6,286	0.14
Customer J	Transportation, storage and postal service	6,122	0.14
Total of Top Ten Customers		101,968	2.29

Loan concentration by geography

The Group's credit customers were mainly located in Yangtze River Delta, Bohai Rim Economic Zone and Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 31.77%, 17.02% and 7.90%, respectively, with an increase of 8.94%, 3.43% and 10.56%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.50%, representing a decrease of 0.02 percentage points from the beginning of the year. The provision coverage ratio of impaired loans increased by 2.58 percentage points from the beginning of the year to 153.08%.

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

	<i>(in millions of RMB unless otherwise stated)</i>	
	31 December 2017	31 December 2016
Impaired loans	66,902	62,400
Overdue loans for more than 90 days	76,423	86,782
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.50	1.52

② Securities investments

As at the end of the Reporting Period, the Group's net balance of securities investments increased by RMB221.956 billion or 9.85% from the beginning of the year to RMB2,474.348 billion. Return on securities investments reached 3.60%. In the future, the Group's securities investments in bond varieties will be based on interest rate bonds and AAA and AA+ rated credit bonds as the main configuration types in the current credit-diverse market environment, to minimize the investment of bonds with AA grade and below, and to prevent default risk and valuation risk; In the bond duration, we will continue to pay high attention to changes in the macroeconomic situation and monetary policy, and timely adjust bond portfolio duration to maintain continuity and stability.

Breakdown of the Group's securities investments

The table below illustrates the breakdown of the Group's securities investments 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 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	173,102	7.00	117,168	5.20
Securities investments – loans and receivables	387,733	15.67	385,020	17.09
Securities investments – available-for-sale	402,138	16.25	342,755	15.22
Securities investments – held-to-maturity	1,511,375	61.08	1,407,449	62.49
Total	2,474,348	100.00	2,252,392	100.00

– By issuers

	<i>(in millions of RMB unless otherwise stated)</i>			
	31 December 2017		31 December 2016	
	Balance	Proportion (%)	Balance	Proportion (%)
Government and Central Bank	1,306,610	52.80	1,132,581	50.28
Public sector entities	35,663	1.44	33,451	1.49
Banks and other financial institutions	730,088	29.51	652,835	28.98
Corporate entities	401,987	16.25	433,525	19.25
Total	2,474,348	100.00	2,252,392	100.00

As at the end of the Reporting Period, financial bonds held by the Group amounted to RMB730.088 billion, including bonds of policy banks of RMB303.794 billion and bonds of banks and non-bank financial institutions of RMB426.294 billion, which accounted for 41.61% and 58.39% of the total bonds, respectively.

Top 10 financial bonds held by the Group:

<i>(in millions of RMB unless otherwise stated)</i>				
Bond Name	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	5,860	3.74	10/09/2025	—
2017 banks and non-bank financial institutions bond	4,400	4.45	08/11/2027	—
2017 banks and non-bank financial institutions bond	4,400	4.20	17/04/2020	—
2016 policy bank bond	4,050	2.72	03/03/2019	—
2014 banks and non-bank financial institutions bond	4,000	5.98	18/08/2029	—
2017 banks and non-bank financial institutions bond	4,000	4.00	09/03/2020	—
2017 banks and non-bank financial institutions bond	4,000	4.20	28/04/2020	—
2016 policy bank bond	3,850	2.79	27/07/2019	—
2016 policy bank bond	3,280	3.33	22/02/2026	—

(2) *Liabilities*

As at the end of the Reporting Period, the Group's total liabilities increased by RMB591.224 billion or 7.61% from the beginning of the year to RM8,361.983 billion. Customer deposits increased by RMB201.756 billion or 4.27% from the beginning of the year, which accounted for 58.96% of total liabilities and represented a decrease of 1.89 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB151.684 billion or 6.80% from the beginning of the year, which accounted for 28.49% of total liabilities and represented a decrease of 0.22 percentage points from the beginning of the year.

Customer deposits

Customer deposits are the Group's main source of funding. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB201.756 billion or 4.27% from the beginning of the year to RMB4,930.345 billion. In terms of the Group's customer structure, the proportion of corporate customer deposits accounted for 67.94%, representing an increase of 0.13 percentage points from the beginning of the year. The proportion of individual deposits was 31.99%, representing a decrease of 0.10 percentage points from the beginning of the year. In terms of deposit tenure, the proportion of demand deposits decreased by 1.10 percentage points from the beginning of the year to 50.67%, while the proportion of time deposits increased by 1.13 percentage points from the beginning of the year to 49.26%. The table below illustrates the Group's corporate and individual deposits as of the dates indicated:

	<i>(in millions of RMB)</i>	
	31 December 2017	31 December 2016
Corporate deposits	3,349,617	3,206,241
Including: Corporate demand deposits	1,842,317	1,725,948
Corporate time deposits	1,507,300	1,480,293
Individual deposits	1,577,273	1,517,560
Including: Individual demand deposits	655,559	722,225
Individual time deposits	921,714	795,335

3. *Analysis on Key Cash Flow Items*

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB87.477 billion from the beginning of the year to RMB228.919 billion.

The net cash inflows from operating activities decreased by RMB474.339 billion on a year-on-year basis to RMB10.727 billion, which was mainly due to a year-on-year decrease in the net increase in financial assets borrowed from and sold back to the Central Bank.

The net cash outflows from investing activities decreased by RMB461.986 billion on a year-on-year basis to RMB122.959 billion, which was mainly due to a year-on-year decrease in net cash outflows related to securities investment activities.

The net cash inflows from financing activities decreased by RMB47.383 billion on a year-on-year basis to RMB30.482 billion, which was mainly due to a year-on-year decrease in the cash inflows related to the issuance of preference shares 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:

	2017		<i>(in millions of RMB)</i> 2016	
	Profit before tax	Operating income¹	Profit before tax	Operating income¹
Northern China	13,468	22,748	12,439	22,202
North Eastern China	2,457	7,340	4,015	7,881
Eastern China	26,091	73,501	26,296	68,109
Central and Southern China	21,408	35,881	19,782	33,983
Western China	7,772	16,603	9,320	17,320
Overseas	6,909	11,410	6,085	10,518
Head Office	5,160	26,556	8,173	28,087
Total²	<u>83,265</u>	<u>194,039</u>	<u>86,110</u>	<u>188,100</u>

Notes:

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

(2) *Deposits and loans and advances by geographical segments*

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

	31 December 2017		<i>(in millions of RMB)</i> 31 December 2016	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	755,865	588,224	703,472	568,598
North Eastern China	254,035	207,142	250,716	202,216
Eastern China	1,754,618	1,506,194	1,751,799	1,441,942
Central and Southern China	1,148,975	851,780	1,067,991	761,294
Western China	610,080	447,924	593,674	417,904
Overseas	402,687	421,901	358,061	384,396
Head Office	4,085	433,749	2,876	326,609
Total	<u>4,930,345</u>	<u>4,456,914</u>	<u>4,728,589</u>	<u>4,102,959</u>

(3) *Operating results by business segments*

The Group's four main business segments are corporate banking, personal banking, treasury businesses and other businesses. The corporate banking segment formed as the primary source of profit for the Group, accounting for 42.76% 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:

	2017		<i>(in millions of RMB)</i> 2016	
	Profit before tax	Net operating income	Profit before tax	Net operating income
Corporate banking	35,600	88,134	42,989	90,570
Personal banking	25,377	65,239	20,508	60,604
Treasury business	19,274	21,891	20,034	22,752
Other businesses	3,014	18,775	2,579	14,174
Total	<u>83,265</u>	<u>194,039</u>	<u>86,110</u>	<u>188,100</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.

As at the end of the Reporting Period, the Group's capital adequacy ratio was 14.00%, Tier-1 Capital adequacy ratio was 11.86%, and Core Tier-1 Capital adequacy ratio was 10.79%, 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 ^{Notes}

Item	The Group	The Bank
Net Core Tier-1 Capital	609,454	562,697
Net Tier-1 Capital	669,429	622,573
Net Capital	790,381	743,119
Core Tier-1 Capital adequacy ratio (%)	10.79	10.39
Tier-1 Capital adequacy ratio (%)	11.86	11.49
Capital adequacy ratio (%)	14.00	13.72

Notes:

- (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-based 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 (%)	10.51	10.33
Capital Adequacy Ratio (%)	13.72	13.44

For further information on the Group's capital measurement, please refer to the *2017 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd.* at the website of Shanghai Stock Exchange, the website of Hong Kong Stock Exchange or the official website of the Group.

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 the CBRC in January 2015. As at the end of the Reporting Period, the Group's leverage ratio was 6.88%, which met the regulatory requirements.

The Group

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

(in millions of RMB unless otherwise stated)

Item	31 December 2017
Net Tier-1 Capital	669,429
Balance of adjusted on-and-off-balance sheet assets	9,731,368
Leverage ratio (%)	6.88

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 2017
1	Total consolidated assets	9,038,254
2	Adjusted items of consolidation	(18,885)
3	Adjusted items of customer's assets	—
4	Adjusted items of derivatives	31,114
5	Adjusted items of securities financing transactions	3,418
6	Adjusted items of off-balance sheet items	681,117
7	Other adjusted items	(3,650)
8	Balance of adjusted on-and-off-balance sheet assets	9,731,368

Information relating to Leverage Ratio

(in millions of RMB unless otherwise stated)

Serial Number	Item	31 December 2017
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,834,567
2	Less: deduction of Tier-1 Capital	(3,650)
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	8,830,917
4	Replacement costs of derivatives (less eligible margin)	33,995
5	Potential risk exposure of derivatives	31,114
6	Sum of collaterals that have been deducted from the balance sheet	—
7	Less: assets receivable from providing eligible margin	—
8	Less: asset balance of derivatives from transactions with central counterparties in providing clearing services for customers	—
9	Notional principal of sold credit derivatives	—
10	Less: balance of deductible sold credit derivatives	—
11	Balance of derivatives	65,109
12	Accounting asset balance of securities financing transactions	150,807
13	Less: balance of deductible securities financing transaction assets	—
14	Counterparty credit risk exposure of securities financing transactions	3,418
15	Balance of securities financing transaction assets from acting for securities financing transactions	—
16	Asset balance of securities financing transactions	154,225
17	Balance of off-balance sheet items	1,622,588
18	Less: balance of off-balance sheet items from reduction of credit transfer	(941,471)
19	Balance of adjusted off-balance sheet items	681,117
20	Net Tier-1 Capital	669,429
21	Balance of adjusted on-and-off-balance sheet items	9,731,368
22	Leverage ratio (%)	6.88

7. *Liquidity Coverage Ratio*

Pursuant to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks*, starting from 2017, the seasonal daily average of liquidity coverage ratio of commercial banks should be disclosed. The liquidity coverage ratio for the fourth quarter reached 110.20% (the seasonal daily average rate means the simple average calculation of daily data in a quarter, 92 daily data for such average calculation), which increased 0.32 percentage points from the last quarter. This was mainly because of the impacts of the increase in the qualified high-quality liquid assets. The table below illustrates the liquidity coverage ratio and average of each detailed items in the fourth quarter.

(in millions of RMB unless otherwise stated)

Serial Number	Amount before conversion	Amount after conversion
The qualified high-quality liquid assets		
1 The qualified high-quality liquid assets		1,341,303
Cash Outflow		
2 Retail deposits, small business deposits, including:	1,425,925	133,501
3 Stable deposit	178,937	8,802
4 Less stable deposit	1,246,988	124,699
5 Unsecured wholesale funding, including:	3,760,115	1,605,529
6 Business relationship deposit (excluding agency business)	2,347,088	584,847
7 Non-business relationship deposit (including all counterparties)	1,407,442	1,015,097
8 Unsecured wholesale funding	5,585	5,585
9 Secured funding		25,567
10 Other items, including:	1,420,401	676,015
11 Cash outflow relates to derivatives and other derivatives and collateral/pledged assets	644,198	632,547
12 Cash outflow relates to loss of funding on asset- blocked securities	66	66
13 Committed credit and liquidity facilities	776,137	43,402
14 Other contractual obligation to extend funds	49,584	49,584
15 Contingent funding obligations	1,047,636	24,692
16 Total expected cash outflow		2,514,888

(in millions of RMB unless otherwise stated)

Serial Number	Amount before conversion	Amount after conversion
Cash Inflow		
17 Secured lending, including reverse repos and securities borrowing	63,736	58,480
18 Committed facilities	796,018	587,807
19 Other cash inflow	663,881	648,319
20 Total expected cash inflow	1,523,635	1,294,606
		Amount after adjustment
21 The qualified high-quality liquid assets		1,341,303
22 Net cash outflow		1,220,282
23 Liquidity Coverage Ratio (%)		110.20

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 leveraging the experience from its peers and international practices to further optimize its internal control system regarding fair value measurement. The Group primarily used 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 items of fair value measurement of the Group during the Reporting Period:

<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	179,221	(745)	–	–	227,030
2. Derivative financial assets	37,223	(2,930)	57	–	34,007
3. Available-for-sale financial assets	342,755	(348)	(3,449)	(412)	402,138
Total financial assets	559,199	(4,023)	(3,392)	(412)	663,175
Investment properties	8,762	192	–	–	8,217
Total	567,961	(3,831)	(3,392)	(412)	671,392
Financial liabilities ^{Note}	(104,934)	3,630	(51)	–	(78,355)

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

(2) *Commitments and contingencies*

<i>(in millions of RMB)</i>		
	31 December 2017	31 December 2016
Credit commitments and financial guarantees	1,412,703	1,252,469
Including: Loan commitments	70,306	86,125
Credit card commitments	742,011	528,199
Letters of credit commitments	131,280	126,885
Letters of guarantee	272,981	279,694
Acceptances bills	196,125	231,566
Operating lease commitments	13,806	13,593
Capital expenditure commitments	70,236	66,570

(3) *Restructured loans and overdue loans*

(in millions of RMB unless otherwise stated)

	31 December 2017	31 December 2016	Increase or decrease from the beginning of the year (%)
Restructured loans	10,843	15,464	(29.88)
Overdue loans	98,757	108,183	(8.71)

(4) *Others*

(1) Overall analysis in external equity investments

As at the end of the Reporting Period, the long term equity investments of the Group increased by RMB2.643 billion from the beginning of the year to RMB3.357 billion.

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

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

(III) Business Innovation and New Products

During the Reporting Period, based on the Outline of the "13th Five-Year" Plan for product innovation and 2017 Action Plan, the Group innovatively developed core business in three business fields including the company, retail and industry, and was rewarded as 'Best Finance Innovation Award 2017' by *The Banker*.

1. Consummated business innovation institutional mechanisms

First, the Group reformed the promotion process of huge innovation projects and developed seasonal special evaluation mechanism. There were 7 huge innovation projects gaining a phased success, such as mobile banking, treasury management and Interbank platform.

Second, the Group improved the project mechanism of innovative experiments cooperated between the Head Office and branches. During the Reporting Period, 18 projects of innovative experiments have started due to the needs of branches.

Third, the Group improved the proactivity of innovation of branches. During the Reporting Period, each branch vigorously carried out innovative research and development and promotion sharing based on the needs of domestic market and customers, and promoted the construction of 45 projects of innovative experiments throughout the year.

2. ***With regard to corporate businesses, product innovation and improvement in various fields, including cash management, industrial value chain of financial products, investment banks, international businesses, and small and micro businesses, were started.***

First, the Group improved the service of cash management. The Group innovated the cash management system service for financial companies and tailor-made core business system for the banking-level financial companies, firstly launched the centralized receipts and payments of foreign exchange funds and net settlement system with leading position in the market. The Group also promoted the plan of several multi-scene payment application service like Payments to Party Committee, promoted the calculation function for bank notes pool, to enhance the control of central bill management of the Group's business.

Second, the Group improved industrial value chain of financial products. The Group promoted "online discounting" and the annual business value exceeded 65 billion. Additionally, the Bank implemented the innovative service "Express Pay", which served for large enterprise payments and express financing of small and medium-sized enterprises, integrated packaging and upgraded the products for payment settlement and trade financing, which faced the industrial value chain, and launched the "Win to Fortune E Chain" service brand.

Third, the Group continuously promoted new investment banking products and businesses. During the Reporting Period, the Group implemented innovative products such as poverty alleviation bonds, innovation bonds and green bonds, as well as new businesses such as Bond Connect, China-US currency sovereign debt, overseas debt of South America, and underwriting of debt financing programs; the Group promoted market-based debt-to-equity conversion; the Group also promoted businesses of assets securitization and asset-backed medium-term notes, and firstly issued securities backed by trust beneficial rights in the interbank market.

Fourth, the Group improved cross-border financial businesses. The Group increased corporate settlement of foreign exchange and remittance business of United Arab Emirates Dirham (AED), which caused that the number of currencies of foreign exchange treasury operations reached 23, and the number of currencies of cross-border remittance transactions reached 17, further expanding the cross-border payment service sector. The Group launched services such as Global Payment Innovation (GPI), batch remittances, and online delivery of orders. The Group introduced cross-currency swaps (CCS) and overseas commodity hedging services. The Group expanded 15 new varieties of new commodity transactions and launched Bank-Connected-Enterprise. The Group introduced businesses and had the first local transaction in the Free Trade Zones, such as Liaoning, Chongqing, Hena, Sichuan, etc., and promoted structural deposit in Shanghai Free Trade Zone.

Fifth, the Group increased the support of the inclusive finance. The Group promoted a strong guarantee plus credit combination loan program to effectively alleviate the problem of “difficult financing and expensive financing” of small and micro enterprises.

3. ***With regard to retail businesses, the Group strengthened the product innovation in credit card, wealth management, payment, credit loan and other products, to promote integrated and comprehensive channel construction.***

First, the Group strengthened the innovation of credit card and consumption credit service in the industry. During the Reporting Period, the Bank firstly implemented the mobile-based credit card service system in the industry, released the “Mobile-based Credit Card White Paper”, implemented the business model of “Register then Use” of credit cards, and led the industry to open the “era of no card” and the era of instant service experience of credit card. The project was honored as One of the Ten Major Events in 2017 Financial Informatization and the 2017 Shanghai Banking Innovation Award. The Group deepened the scenes construction of “Go Pay” living service, and cooperated with industry giants such as “ele.me”, “Yiguo.com”, to provide customers with quality and comprehensive living service scenarios. In the fields of autos, decoration, and study abroad, the Group launched a new product “Good Commercial Credit” for designated consumer credit use, and a large amount of cash loan products “Good Cash Credit”, to enrich the ways of enjoying consumer credit. The Group issued the “China Railway Network Credit Card of Bank of Communications”, promoted the reduction in the price of ticket purchase which can enjoy 5 times bonus points, to provide multiple discounts to customers. Platinum Card 2.0 was upgraded, becoming the pioneer in the industry for compensation for flight delay in seconds. The Group’s Platinum Card was selected as the Best Platinum Credit Card of the Year by a number of professional and independent institutions, such as the 21st Century Media and Blueberry Assessment.

Second, the Group strengthened innovation of wealth management products.

The Group innovatively launched precious metal wallets and upgraded physical gold picking. For the salary payment to customers, the Group launched the product “Salary Pay” to realize the automatic purchase of on-balance-sheet wealth management. For private banking customers, a variety of cash management products, net return-based wealth management products and a variety of high-end insurance products were introduced.

Third, the Group strengthened innovation of payment products. Relying on the mobile internet, the Group launched a small secure electronic account for opening online account, insurance protection, and special payment for quick payment – “Security Pay”, to provide customers with a safer mobile payment experience.

Fourth, the Group strengthened innovation of credit business. The Group launched a consumer loan product based on mobile internet and big data technology – salary loan. The Group launched a personal mobile platform to facilitate customer applications.

Fifth, the Group improved the channel construction. During the Reporting Period, the Bank set up a cash-coupon-for-reward system for retail customer to expand the coverage of financial transactions; it established a BoCom live platform in online mobile banking, to create a 7*24-hour intimate service of “out of the store but still in the bank”; it also strengthened the integrated transactions function of “smart device”, and deepened the innovation of customer service in stores. Online services (registration, application for account, transaction processing, smart customer service, and network reservation) were connected with the account managers to realize the integration of comprehensive online and offline services. The Group optimized the model of customer service of credit card business and innovatively introduced intelligent service projects of man-machine collaboration, which significantly increased operational efficiency and reduced operating costs. The Group carried out large-scale events such as public square dance competitions and group purchase financing to enhance the effectiveness of customer integrated services.

4. *With regard to interbank business, the Group actively promoted business and product innovation around transactional business and wealth management.*

First, the Group obtained a number of business qualifications and promoted the construction of transactional banks. During the Reporting Period, the Bank obtained the qualifications of “Bond Connect” of domestic market makers, overseas global custodian banks and Hong Kong clearing banks, and got the first single transaction in the market; and the Group obtained the bank qualifications of domestic and foreign client deposit guarantee of the Shanghai International Energy Exchange. As at the end of the Reporting Period, the number of guaranty accounts of the futures companies of the Group ranked first in the market. At the same time, the Group also obtained the first batch of comprehensive clearing membership qualifications for the credit default swap of Shanghai Clearing House, and had the comprehensive clearing qualification for all the businesses of Shanghai Clearing House; successfully launched the Group’s first interest rate swap business for clients, the first currency exchange business for clients and the first commodity hedging transactions for clients.

Second, the Group insisted on service innovation and created an interbank cooperation platform. “Interbank Smart Platform” – an interbank wealth management platform – achieved online trading of deposits in the same industry; launched interbank cooperation in third-party custody, consignment and wealth management as well as wallet mobile app function of precious metal brokerage transactions; fully started technology, training and research output, and upgraded interbank cooperation from “financing” to “smart financing”.

Third, the Group accelerated product innovation and promoted the standardized development of wealth management services. The Group launched the first T+0 net-returned currency products, the first net-value product with the “minimum holding period” as the highlight; the Group launched the currency swap US dollar financial products, and issued “Golden Sun D” and the “Golden Moon Jade Plate” standardized interbank wealth management products. The “Golden Sun” series of interbank wealth management products won the ‘2017 Jun Ding Award of Wealth Management Product of China Open Bank’ in *Securities Times*.

(IV) Risk Management

In 2017, the Group's credit structure matched with the State's significant strategic implementation and the position of serving the real economy which achieved an active success in risk management and control. The asset quality is stable with good momentum for growth, thus effectively refraining from exposing in the huge business risks, safeguarding against external risks and upholding the bottom line of risk. As at the end of the Reporting Period, five of the six major asset quality indicators decreased while one increased compared to the beginning of the year. Among them, the provision coverage rate was 153.08%, an increase of 2.58 percentage points from the beginning of the year; the non-performing rate was 1.50%, which was a decrease of 0.02 percentage points from the beginning of the year; the overdue loan balance and the balance of over 90 days overdue loans decreased by RMB9.426 billion and RMB10.359 billion from the beginning of the year, respectively, representing a decrease of 0.42 and 0.41 percentage points from the beginning of the year. There were no material fraud cases and risk events throughout the year.

1. Risk Appetite

The Board of Directors of the Bank established the overall risk appetite of "Stability, Balance, Compliance and Innovation" for the whole Bank, defined its four-dimensional risk tolerance in the form of return, capital, quality and risk rating. The Board of Directors further set 20 detailed risk limits indicators against eight major risk areas including credit, market, operation, liquidity, interest rate of banking book, information technology and country (economic entity) risk and reputation, in order to control the overall risk changes on a regular basis.

During the Reporting Period, the Group adhered to a strong commitment in lawful and stable compliance operation to strictly implement various risk management basic policies and continue to strengthen the constraints from the bottom line of risk compliance. The Group fully implemented the risk prevention and control responsibility, striving to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and efficiency. The implementation of the Group's overall risk appetite was overall satisfactory throughout the year.

2. *Risk Management Framework*

The Board of Directors of the Bank assumes the ultimate responsibility and serves the highest function of decision-making for the Bank's risk management and controls the Bank's risk management through its Risk Management Committee. The Senior Management established a "1+3+2" Risk Management Committee, where three sub-committees were established under Comprehensive Risk Management Committee, namely Credit Risk Management Committee, Market and Liquidity Risk Management Committee, and Operational Risk Management and Compliance (Anti-Money Laundering) Committee. Two business review committees, namely Credit Review/Noncredit Review Committee and High-risk Asset Review Committee were also established and performed their respective duties.

Each Tier-1 branch, overseas branch, subsidiary and directly operating institutions correspondingly established simplified and practical Risk Management Committees referring to the above mentioned framework. The Group ensured the full implementation of risk management requirements through the mechanism of "Leadership and Execution, Supervision and Reporting" between Risk Management Committee and sub-committees, and between committees of Head Office and branches, forming a unified and coordinated risk management system. In 2017, Comprehensive Risk Management Committee and Special Risk Management Committee of Head Office held 16 meetings, and 64 proposals were considered and approved.

During the Reporting Period, the Group's comprehensive, level and categorized risk management policy system has become stronger. It fulfilled the regulation of the State's financial risk management, announced eighteen financial risk prevention rules and attached more importance on the financial risk prevention and cases. The Group implemented comprehensive risk management policy to ensure the unity of various types of risk management and the consistency of regulations and procedures of different risk management and comprehensive risk management.

3. *Risk Management Tool*

The Group laid great importance to the establishment and application of risk management tools, information systems and econometric models. During the Reporting Period, through innovative data mining, the ability of information consolidation was strengthened and the controls of risk management of assets was enhanced. The Group proactively upgraded the risk monitoring approaches, and achieved the monitoring scope from current dominant equity investment relationship to hidden control relationship, guarantee relationship and funding relationship. The Group implemented comprehensive monitoring from top to bottom, based on the new recognition principle of iteration developing system with new risk characteristic, in order to upgrade the accuracy of risk detection, sensitivity of risk alarm and speed in reaction to emergency. The Group enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk, improved the application of risk management tools in business management, and strengthened real time control over operating risk, fraud risk and money laundering risk through types of information system so as to continuously improve the effectiveness of risk management.

The Group established a complete system in implementation of Advanced Measurement Approach of Capital Management covering areas such as policy procedure building, module developing and management, data accumulation 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 risk and standard approach for operational risk to measure capital requirements. During the Reporting Period, the Group continued to optimize the econometric models and management systems which covered credit risk, market risk, operational risk, liquidity risk, interest rate risk of banking book and other risks. The Group consistently implemented operation model in monitoring and analysis, optimized the model and steadily expanded the implementation scope of advanced methods and carried out the research and development of new measuring tools. The Group widely applied measuring results extensively in customer access, quota management, risk monitoring and control as well as performance appraisal.

4. *Credit Risk Management*

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

The Group was determined to implement central government's economic and financial policies, and the decisions and deployments of the State Council. In response to State's policies and market fluctuations, the Bank issued an outline regarding the risk of credit authorization policy and guidelines on industrial or regional direction. The Group also proactively served the real economy, supported national strategies, grasped industrial transformation and advancement, and made a good use of both existing and additional monetary and financial resources. The increase in corporate credits was mainly invested in areas that met the characteristics of national economy, the direction of transformation, and the needs and operations of the macro economy.

Emphasized on risk control in key areas: carried out the inspection of over-production industry, maintained the targeted customers, implemented specific risk management controls; monitored bank bill business risk seasonally, recognized suspicious customers that issued invoice by data system, decreased the new cash advance rate; inspected credit default risk and formed the debt list of potential risk quarterly, utilized risk management of bond investment and annuity credit debt for the Group and each department. The Group also started the inspection and monitoring in corporate customer's cluster risk, new business risks of small entrepreneur and Internet and illegal fund raising, thus correspondingly enlisting potential customers to implement flexible management and raising the accuracy of risk management.

Strengthened the post-loan management and post-investment management. The Group formed and completed systems and measures, formed supporting framework of post-loan and post-investment management, continuously completed various mechanisms and perfected procedure tools.

Put effort to the disposal of risks. Firstly, the Group focused on disposal of high risk loans and credit mitigation on high risk loans. Total high risk loans disposed or with additional credit risk mitigation during the year amounted to RMB89.204 billion. Secondly, the Group proactively made a use of different disposal strategies to resolute the risk timely, and the total amount of disposal of non-performing loans was RMB44.674 billion. Thirdly, the Group also conducted the securitization of non-performing assets, of which the first issuance was successfully completed in the small and micro enterprise. The amount of issuance was RMB570 million and the amount of non-performing loan was RMB1.13 billion.

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

(in millions of RMB unless otherwise stated)

Categories	31 December 2017		31 December 2016		31 December 2015	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass loan	4,259,345	95.57	3,916,818	95.46	3,547,697	95.32
Special mention loan	130,667	2.93	123,741	3.02	118,103	3.17
Total performing loan balance	4,390,012	98.50	4,040,559	98.48	3,665,800	98.49
Sub-standard loan	17,120	0.38	17,513	0.42	22,953	0.62
Doubtful loan	24,865	0.56	26,950	0.66	22,521	0.61
Loss loan	24,917	0.56	17,937	0.44	10,732	0.28
Total non-performing loan balance	66,902	1.50	62,400	1.52	56,206	1.51
Total	4,456,914	100.00	4,102,959	100.00	3,722,006	100.00

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

Loan migration rates (%)	2017	2016	2015
Pass loan	2.09	2.80	2.52
Special mention loan	21.62	24.60	27.32
Sub-standard loan	53.59	50.04	32.14
Doubtful loan	26.86	33.72	21.78

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 2018, with the impact of economic downturn and de-capacity, the Group is still under pressure. The risk management and control environment is expected to be severe.

5. Market Risk Management

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

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

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

During the Reporting Period, the Group kept improving its market risk management system by setting up the administrative measures for the market risk of overseas banking institutions and strengthening oversea market risk management. The Group also put effort in optimizing the market risk information system by constructing overseas funds product management system. The Group established new valuation models, parameters and market data for new businesses and products. In addition, the risk management models and configurations were constantly updated, in which the newly established models were tested independently and the data quality was reviewed on a regular basis.

The Group continued to promote the application of the results derived from market risk measurement into management's practice. Daily capital transaction positions of the whole Bank and the most updated market data were obtained to perform position valuation and sensitivity analysis in a timely manner. In addition, the Group quantified market risk and measured VaR on a daily basis from different perspectives, such as different risk factors and different investment portfolios and products, using the historical simulation method. The results were also applied to capital measurement using the internal model-based approach, quota monitoring and management, performance assessment and risk monitoring and analysis. Furthermore, the Group performed reverse testing on a daily basis to verify the accuracy of the VaR model. Regular stress testing and analysis of the risk of investment portfolios under stressed scenarios were conducted. The results of 2017 revealed that the market risk measurement model was able to the changes in financial market in a timely manner and objectively reflected market risk encountered by the Group. Meanwhile, the Group closely followed up the changes of both overseas and domestic market risk management. In addition, the Group actively participated in CBRC's quantitative testing and in-depth analysis of the feasibility and challenges of developing new market risk management systems, timely provided comments and recommendations.

6. *Liquidity Risk Management*

The liquidity management of the Group aimed at identifying, effectively measuring, constantly monitoring and properly controlling the liquidity risk of the Group as a whole and its products, each business line, each business process, and at all levels, ensuring that the Group would have sufficient fund to carry out its normal operations and meet its debt and other obligations when they are due, under both normal or under stress business environment. The governance structure of liquidity risk management of the Group consists of a decision-making body comprised of the Board of Directors and its subordinate Risk Management and Related Transactions Control Committee, Senior Management and its subordinate Market and Liquidity Risk Management Committee. A supervisory body, comprised of the Board of Supervisors and Audit Supervision Bureau, was also established. Furthermore, an 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 each business, was set up.

The Group adopted an integrated approach of centralization and independence, in relation to the liquidity risk management model. “Centralization” was reflected in the consolidation management applied to liquidity risk and the consideration of the overall liquidity risk level of both the legal entity and the Group, while “independence” was reflected in the separate reporting and management of liquidity risk of subsidiaries and specific business departments or businesses, and the accountability of each operating unit to its own liquidity risk.

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

During the Reporting Period, the businesses of the Group were developed in a coordinative manner under a stable liquidity risk condition, with satisfactory liquidity indicators under regulatory requirements. The Group strengthened on-and-off-balance sheet liquidity risk management in accordance with the requirements of the regulatory authorities and industrial reformation. First, the Group revised specifications such as *Management of BoCom Domestic Branch Renminbi Liquidity Indicators* and *Opinions on Comprehensive Improvement Liquidity Risk Management in Overseas Branches in 2017*, all of which further improved the liquidity management framework. Second, the Group constantly strengthened predictions on macroeconomic situation, monetary policies, market interest rate trend and liquidity gap. The Group also reinforced the coordination and integration of liquidity risk management. Third, the Group launched regular stress testing for liquidity risk in a prudent manner, in which the stressed scenarios were established under the consideration of the correlation between different risks and liquidity risk, and the impacts of market liquidity on the Group’s liquidity. Fourth, based on changes in macroeconomic situation and business characteristics, the Group organized emergency drills for liquidity risk, which further clarified and optimized emergency procedures and measures. The speed of response of related units and capability of coping with liquidity risk were increased.

7. Operational Risk Management

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

During the Reporting Period, the Group improved operational risk management system, amended and improved the basic system to concrete management foundation. Focusing on business operational risk control and recognition, the Group strengthened the application of output of assessment and detection using the operational risk management tools. Moreover, the Group set up and improved tracking system and helped to continuously concrete the internal management foundation. Additionally, the Group standardized the business outsourcing management and strengthened inspection and assessment in outsourcing business of information technology risk. The Group also started specialized risk assessments for oversea branches (and subsidiaries) information system, internet information security controls, to strengthen the risk management in the field of information technology. Furthermore, the Group amended the business continuing management policy, improved comprehensive emergency drills of city disasters, analyzed the impact of important businesses, sorted out and improved the key business contingency plans and business continuing plans.

8. *Legal Compliance and Anti-Money Laundering*

The Group continued to improve the legal compliance management mechanism, strengthened the capacity in legal compliance management, enhanced the initiative and effectiveness of legal compliance management and strived for realizing the whole-process management mechanism of the monitoring and identification, inspection and supervision, resolution and disposal, rectification and improvement of compliance risk. The Group constantly improved the compliance management mechanism and the initiative and effectiveness of the legal control ability. The “reform and innovation, transformation and development” of the Group is strongly supported and responsible by this mechanism.

During the Reporting Period, the Group adhered to the operational concept of compliance first and continuously improved the domestic and overseas long-term management strategy. In 2017, the Group well managed and controlled overseas compliance risks, the management of compliance operates smoothly and orderly, and a number of overseas institutions kept the best among local Chinese-funded banks in the regulatory rating. The Group continued to improve the domestic legal compliance management, further standardized the whole-process management of policies and procedures which was organized across the Group, and developed into a scientific system. The Group further tested the non-financing special authorization, stimulated trading environment, started simplifying seal management, and developed the seal digitalization.

The Group continued to strengthen the anti-money laundering management. According to the requirement of the People's Bank of China, the Group seriously planned and implemented the related works of *Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions* (Order No.3). In addition, the Group strengthened identification of customers and continuously improved the quality of the report of huge and suspicious trading. The Group seriously screened risks and provided assistance in anti-terrorism funding investigation, which received compliment letter from 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. Risks of negative comments from various stakeholders during the Group's operation, management, any other behaviors or external events were well prevented. Myriad reputational risk events were appropriately handled. The Group continued to improve reputational risk management system and mechanism. The Group intensified the identification, warning, assessment and monitoring of reputational risk, tracked and monitored the occurrence and changes of reputational risk factors in real time, and promptly adjusted corresponding strategy and measures. During the Reporting Period, negative public opinions were actively responded and the reputational risk was under control.

In 2017, the Group was elected as Reputation Risk Management Committee of the 4th Session of Standing Committee of China Banking Association, and rewarded 'Special Contribution Prize' and 'Unit Contribution Prize'.

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

The Group established cross-industry, cross-border risk management system with "centralized management, clear task allocation, complete and adequate system tools, IT support, quantitative risk, and consolidation of substantially controlled entities". The Group promoted all subsidiaries and overseas institutions to prevent risks arising from cross-industry and cross-border operations under both the Group's standardized requirements and the respective requirements from local regulatory governing bodies.

During the Reporting Period, the Group issued *Opinions on Further Strengthening Risk Management of Overseas Institutions under the New Situation*, thus improving the overseas institutions risk management. The Group maintained a system of the Group's risk report, information sharing, risk inspection, business controls and risk management cooperation. The Group continued to promote domestic and overseas institutions to develop recovery and disposal plan, based on the requirements of local and the industry's regulatory authorities and the Group's plan framework. The Group also promoted overseas institutions to effectively cope with various requirements of regulatory authorities with flexibility in the course of cross-industry and cross-border operations, and improve the management and control of consolidation risk.

The Group enhanced the country risk management and continued to carry out in-depth assessment on the country risk of key countries practicing "Going Global" and countries alongside the "Belt and Road". The Group improved country risk rating and analysis reporting system and continuously intensified management and control over country risk tolerance.

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

(V) Outlook

Looking ahead to 2018, the global economy will continue its recovery. China's economy will shift from high speed to high quality, structural reform on the supply side will be deepened, and new momentum for economic growth will accelerate. This will provide a favorable macro environment for the development of the banking industry and create new businesses opportunity. However, opportunities and challenges will exist at the same time, and some new trends and changes have also emerged in the operation of the economy and finance. Commercial banks need to pay attention and actively respond to the layout. They must grasp opportunities, take advantages, and face challenges.

On one hand, the macro-environment becomes stable and the effects of economic restructuring gradually appear, corporate profitability has improved, which are conducive to supporting the growth of the Bank's performance and the stabilization of asset quality; the national strategy of "Belt and Road" has been steadily promoted. The strategy of "entrepreneurship and innovation by the general public" continues to be promoted. New areas such as mid-end to high-end consumption, green and low carbon, sharing economy, modern supply chain, and modern service industry are flourishing, bringing new opportunities for the Bank to approach new customers and expand new business; the development of financial technology is fast-changing. Banking business, product and service innovations have provided greater motivation. On the other hand, under the background of financial de-leverage and risk prevention, the overall monetary policy is expected to be tight, the market funds will remain tight, the interest rate and exchange rate risk will increase uncertainly, and the development of liquidity management and liabilities will remain facing great pressure; the financial rectification continued to be strengthened, the requirements of operation and compliance continued to be stricter, the cross-industry unified financial supervision reform accelerated, and the banking industry development model, business structure and management structure all faced restructuring challenges.

2018 is the 40th anniversary of China's reform and opening-up. It is a crucial year for the implementation of "13th Five Year Plan" and is also the 110th anniversary of the establishment of BoCom. As the successor of the hundred-year national financial brand and the pioneer of China's financial system reform, the Group will continuously adhere to "BoCom Strategy", serve the real economy, aiming to improve the strategy, and strongly promote the BoCom's spirit of "promoting development with unremitting effort, consolidate enterprise with absolute responsibility; transcend limitations with endless creativity". The Bank will strive to create a large-scale integrated service financial group with stable development, active innovation, distinctive characteristics and high quality of service. Specifically, the Group will focus on the following work:

First, focusing on serving the real economic and improving the quality and efficiency of financial services. The Group actively connects with the State's major strategic implementation and key engineering project construction, and continuously increases the full financing support relying on an internationalized and integrated business platform. In order to promote economic structure optimization adjustment, the Group grasps the policy direction and changing corporate needs, and focuses on supporting strategic emerging industries and key manufacturing sectors, deepening the reform of the Inclusive Finance Development Committee, promoting financial precision in poverty alleviation, increasing the support for "agriculture, rural areas and farmers", and increasing the ability of inclusive finance.

Second, adhering to the operating concept of stable management and risk management of financial risks. The Group strengthens risk responsibility, improves risk management organizational structure, and improves a comprehensive risk management system, deepens the application of financial technology tools and data mining technologies and strengthens risk monitoring and control in key areas. Additionally, the Group increases the overall resources allocation and continues to strengthen the management of liquidity risk and market risk, maintains the strategy against high risks, and to improve the internal control and compliance management system.

Third, adhering to the “BoCom Strategy” and accelerating the pace of transformation and development. The Group strengthens the overall balance sheet allocation management, optimizes resource integration, strengthens business linkages between domestic and overseas regions, domestic and foreign currencies, bank and non-banking business linkages, and improves the Group’s ability to coordinate operations. The Group also strengthens the financial markets, asset management, brokerage transactions, bank cards and custody services, and wealth management characteristics. In 2018, it is expected that the Group’s total assets will increase by no less than 5%¹.

Fourth, deepening the reform of the management mechanism and continuously releasing the development momentum. The Group continuously improves the business structure and mode of the business department, and enhances the direct operation ability and professional service ability of the business department, promotes the development of two engines of divisions and branches. Additionally, the Group fully promotes the transformation and development of basis-level business organizations and the reform and promotion of branches, to further release their operating dynamism and improve their operating efficiency. The Group deepens the reform of salary distribution, promotes the professional manager system, establishes key ethnic group incentive mechanisms and strengthens risk responsibility regulations.

Fifth, promoting the application and innovation of finance and technology, and building new competitive development advantages. The Group optimizes the scientific and technological R&D system and strengthens the basic research of forward-looking financial technology to create an innovative product base for the Group. The Group makes a full use of core business system in customer services, data analysis, fast product innovation and business transformation, which accelerates the transition from technological advantages to development and competitive advantages. Furthermore, the Group strengthens online and offline integration, resulting in supporting and improving customer service in all areas.

¹ The business plan does not constitute performance commitment to investors, prompting investors to be reminded that the investors should have sufficient risk awareness to understand the difference between business plan and commitment.

(VI). OTHER INFORMATION

(I) Human Resources

1. Basic Information of Employees

As at the end of the Reporting Period, the Bank had a total of 91,240 domestic and overseas employees, of which 88,906 employees were based domestically and 2,334 were local employees in overseas branches. There were 2,877 employees in the Bank's major subsidiaries.

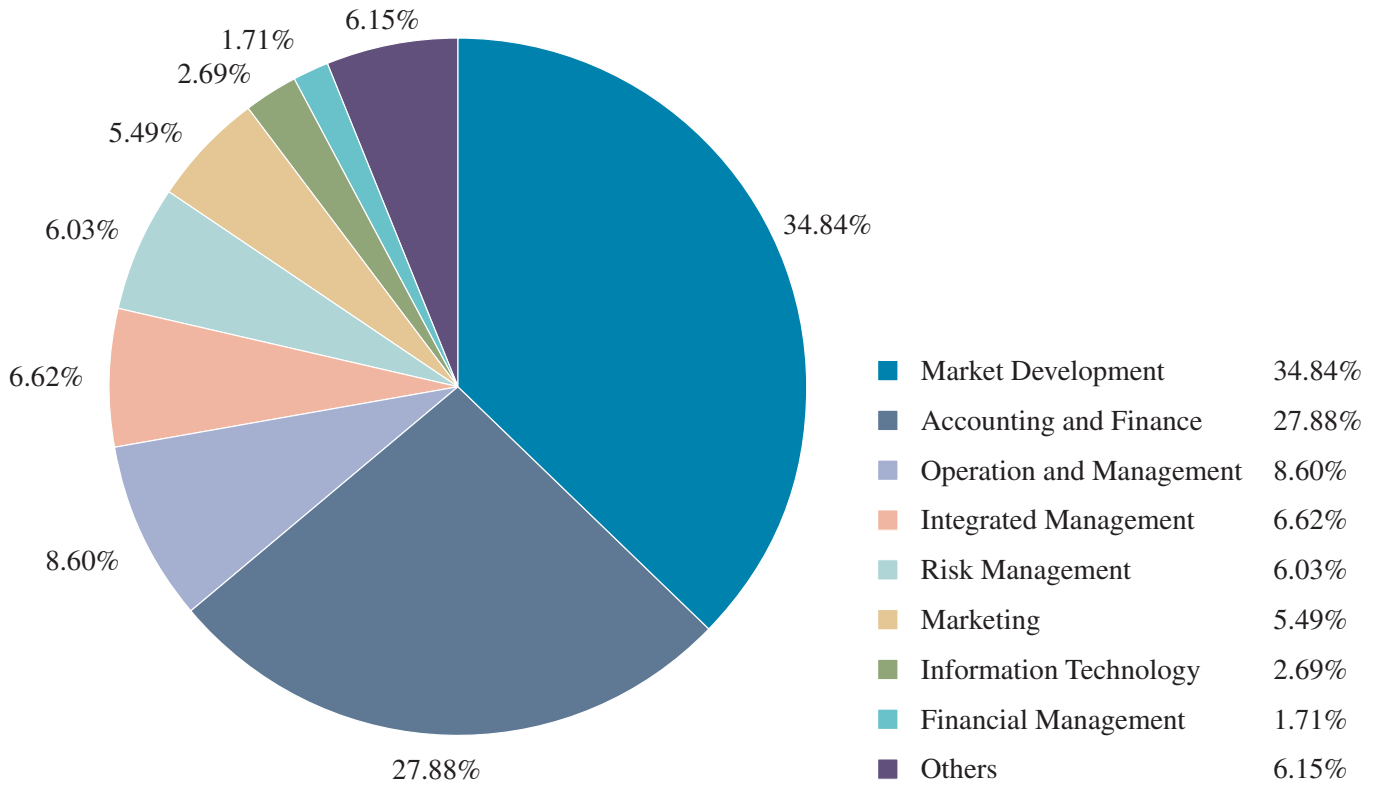
	Head Office	Northern China	Eastern China	Central and Southern China	Western China	North Eastern China	Overseas
Number of employees	2,729	11,334	37,757	17,947	9,951	9,188	2,334

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

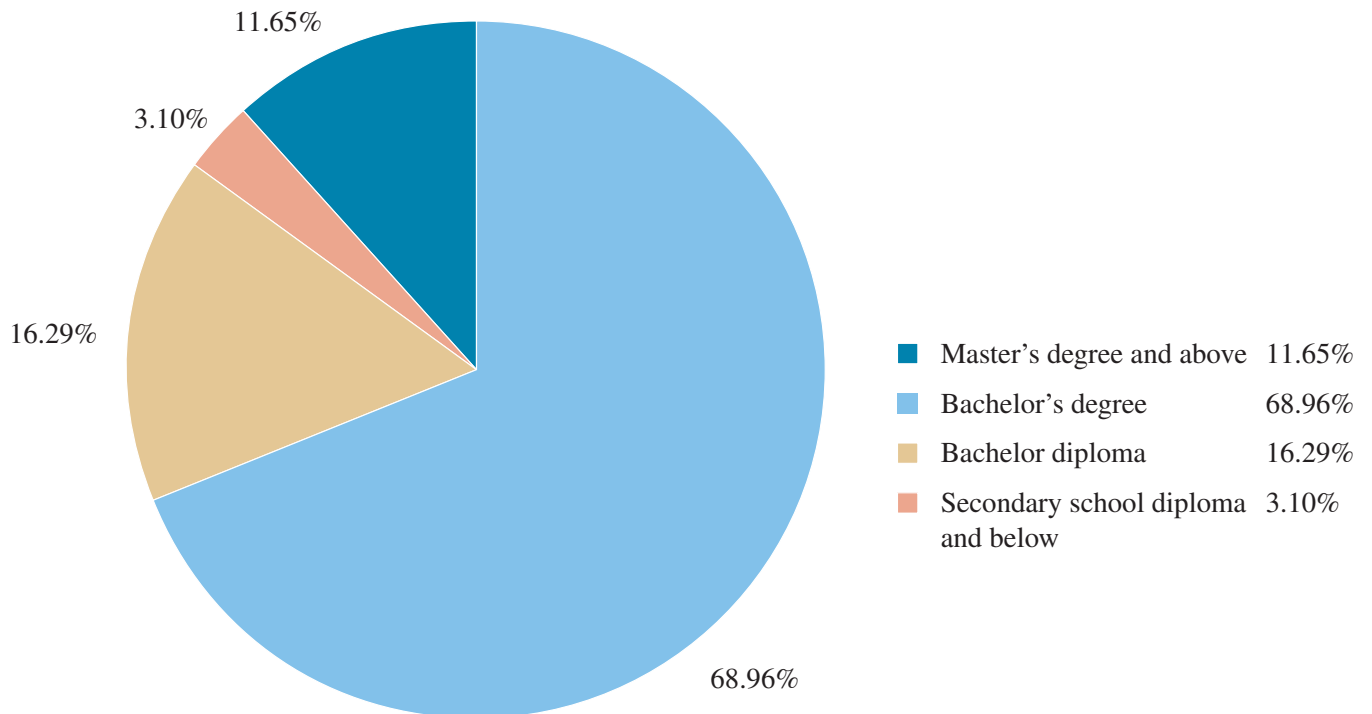
Among employees in domestic institutions, 31,853 employees hold professional and technical qualifications, of which 546 employees hold senior professional and technical qualifications, accounting for approximately 0.61%; 16,493 employees hold intermediate professional and technical qualifications, accounting for approximately 18.55%; and 14,814 employees hold junior professional and technical qualifications, accounting for approximately 16.66%.

As at the end of the Reporting Period, the number of resigned and retired employees the Bank had obligation to bear the cost to was 2,640.

Employee mix pie chart



Educational level pie chart



2. *Remuneration Policy*

Under the requirement of the State's 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", adhered to giving priority to efficiency and giving consideration to fairness as well, optimized the allocation of remuneration resources, improved the efficiency of resource allocation; insisted on performance-oriented distribution according to work; actively explored the market-based assessment distribution model and stimulated innovation and vitality of basis units. Based on the risk accountability system, the Bank continued to improve the deferred payment system for the performance based incentives of the employees in key positions on corporate governance and risk management for the purpose of stable operation and sustainable development. In addition to basic social pension and insurance, the Bank cared the staff and implemented the supplementary benefits such as annuity.

3. *Performance Management*

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

4. *Training Management*

The Group sincerely implemented the educational training requirements of the Party Committee of the State and the Head Office, fully implemented the spirit of the 19th National Congress of the Communist Party of China, and thoroughly Xi Jinping Thought on Socialism with Chinese Characteristics for a new era and the constructing working spirit of state-owned enterprises, closely focused on the deepening reform, transformation and development, strictly followed the tasks of the Party, actively followed the studies on the theoretical and practical issues of Party building, implemented construction plan of the “13th Five-Year” education and training system, adhered to the fundamental party principle of the Party School, highlighted political theory and Party education, and implemented the person in charge of the specialized workshops of “carrying forward the spirit of Jinggang Mountains”, the secretary of the Party Committee workshop, the deputy branch of the agency directly and cadres of the main class of Party School for the middle-aged teens.

The Bank provided professional ability trainings, held strategic thinking and decision-making trainings for persons in charge from institutions under the Bank, held HSBC special management trainings and young and middle-aged talent pilot programs; continued to carry out the “talent plan”, “youth talents”, held trainings for management trainees , and pre-job trainings for new senior managers and persons in charge from basis level business institutions; firstly implemented trainings for the presidents of the branch; held a total of 22 series trainings for 940 experts from 13 series such as companies, financial institutions, international business, small enterprises and personal banking services. The Bank also implemented 13 series trainings for 673 elite customer managers from companies, financial institutions and small enterprises; started “home” training for overseas employees working in overseas subsidiaries; held a knowledge and skill competition named “new generation • new dream • new style” for new employees, and “Creation Cup” mini competition.

During the Reporting Period, the Bank organized trainings for nearly 1.1 million staffs from different levels and departments, centralized trainings for over 400,000 staffs and online trainings for over 700,000 staffs. The Group also developed over 4,600 online courses. Staff satisfaction rate of major project courses was around 97.4%. The training system was basically set up. The Simulation Bank successfully went on-line, and the Finance College of Bank of Communications was established, which strengthened the qualifications of teachers, courses, and construction of bases, promoted the construction and sharing of high-quality training resources, and steadily improved the quality of training with various training methods and achievements.

5. *Talent Training and Reserve*

The Group continued to carry out the cultivation of expert talents. The Group formulated the *Administrative Measures for the Appointment of Experts in BoCom*. According to this regulation, the Group clarified the job responsibilities, position system, qualifications, salary standards, recruitment process and assessment management of all the experts. In addition, the Group improved the training system and explored the training mode of “online course, field teaching, and on-job practice”. Furthermore, the Group innovated appraisal way, focusing on “performance + capacity + qualification”, and built the evaluation templates of talents, including professional qualifications, performance, achievements and contribution of real achievement. For next step, the Group established the evaluation process of basic recommendations, first trial in line of department and joint conference between organization department and lines of department. During the Reporting Period, the Bank promoted nearly 200 specialists in Head Office and other branches. The Bank implemented intensive training and on-job practice for 800 reserve talents in 12 periods and accumulated talent pool of 2,200 talents.

The Group continuously reinforced to develop talent overseas. Under the strategy of internationalization and BoCom Talent Reserve Five-Year Plan for Overseas Institutions, the Group integrated overseas development. Considering the overseas business development layout, the Group continued to promote the construction of C/B grade reserve talent team in overseas institutions and the international reserves team in order to strengthen the cultivation of talents who are professional in risk compliance and minority language. In addition, the Group also optimized the structure of international talent team and met the demand for talents in overseas institutions at all levels and internationalization. The Group had completed the selection and training of more than 130 international talents, and sent about 50 talents in different kinds of professional and minor language to overseas institutions from 2016 to 2017.

(II) Purchase, Sale or Repurchase of listed securities of the Bank

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

(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 promoting 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 Board of the Supervisors and the Senior Management.

Mr. Niu Ximing did not attend the 2016 Annual General Meeting due to job arrangement, and the Annual General Meeting was chaired by Mr. Peng Chun, the former Vice Chairman of the Board of Directors. Save as disclosed above, the Board of Directors of the Bank confirmed that during the Reporting Period, the Bank 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 followed most of the best recommended practices contained in the *Corporate Governance Code*, as well as complied with the majority of best regulations.

(IV) Compliance with *Model Code for Securities Transactions by Directors of Listed Issuers*

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* as set out in Appendix 10 to the Listing Rules. During the Reporting Period, all the Directors, Supervisors and Senior Management of the Bank complied with the above rules.

(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)
Peng Chun	Chairman of the Board of Directors and Executive Director	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
Wang Taiyin	Non-executive Director	A share	80,000	0	80,000
		H share	30,000	0	30,000
Song Shuguang	Chairman of the Board of Supervisors	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	40,000	0	40,000
		H share	0	0	0
Shou Meisheng	Commissioner of Discipline Inspection	A share	79,100	0	79,100
		H share	20,000	0	20,000
Shen Rujun	Executive Vice President	A share	0	0	0
		H share	20,000	0	20,000
Wu Wei	Executive Vice President and Chief Financial Officer	A share	46,000	0	46,000
		H share	20,000	0	20,000
Du Jianglong	Secretary of the Board of Directors	A share	80,000	0	80,000
		H share	0	0	0
Guo Mang	Corporate Business Director	A share	50,000	0	50,000
		H share	0	0	0
Ng Siu On	BoCom-HSBC Strategic Cooperation Consultant	A share	0	0	0
		H share	30,000	0	30,000

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)
Directors, Supervisors, Senior Management resigned/retired					
Niu Ximing	Former Chairman of the Board of Directors and Former Executive Director	A share	210,000	0	210,000
		H share	180,000	0	180,000
Hu Huating	Former Non-executive Director	A share	80,000	0	80,000
		H share	30,000	0	30,000
Liu Changshun	Former Non-executive Director	A share	50,000	0	50,000
		H share	30,000	0	30,000
Wang Jiang	Former Executive Vice President	A share	0	0	0
		H share	30,000	(30,000)	0
Yang Dongping	Former Chief Risk Officer	A share	150,000	(33,000)	117,000
		H share	20,000	(20,000)	0

Save as disclosed above, as at the end of the Reporting Period, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares 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 the end of the Reporting Period, a cash dividend of RMB0.2856 (before tax) per share (the “**Final Dividend**”) will be distributed to the registered shareholders of A share and H share of the Bank, totalling RMB21.209 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 2017 Annual General Meeting (expected to be convened by the end of June 2018), 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 2018.

7. FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2017	2016
Interest income	317,518	289,844
Interest expense	(190,152)	(154,973)
Net interest income	127,366	134,871
Fee and commission income	44,060	39,884
Fee and commission expense	(3,509)	(3,089)
Net fee and commission income	40,551	36,795
Net gains arising from trading activities	(397)	2,549
Net gains arising from financial investments	3,084	1,079
Share of profits of associates and joint venture	132	96
Insurance business income	12,968	9,596
Other operating income	12,816	9,076
Impairment losses on loans and advances to customers	(29,787)	(28,480)
Insurance business expense	(12,211)	(8,993)
Other operating expense	(71,257)	(70,479)
Profit before tax	83,265	86,110
Income tax	(12,574)	(18,459)
Net profit for the year	70,691	67,651
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
<i>Changes in fair value recorded in equity</i>	(2,317)	580
<i>Changes in fair value reclassified from equity to profit or loss</i>	(2,111)	(551)
Cash flow hedge reserve		
<i>Changes in fair value recorded in equity</i>	18	(28)
<i>Changes in fair value reclassified from equity to profit or loss</i>	103	(22)
Translation difference on foreign operations	(1,592)	1,577
Others	(9)	1,336
	(5,908)	2,892
Item that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on pension benefits	31	(13)
Other comprehensive income for the year	(5,877)	2,879
Comprehensive income for the year	64,814	70,530
Net profit attributable to:		
Shareholders of the Bank	70,223	67,210
Non-controlling interests	468	441
	70,691	67,651
Total comprehensive income attributable to:		
Shareholders of the Bank	64,585	70,284
Non-controlling interests	229	246
	64,814	70,530
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	0.91	0.89

Consolidated Statement of Financial Position

(In millions of RMB)

	As at 2017 31 December	As at 2016 31 December
ASSETS		
Cash and balances with central banks	938,571	991,435
Due from banks and other financial institutions	782,468	715,787
Financial assets at fair value through profit or loss	261,037	216,444
Loans and advances to customers	4,354,499	4,009,046
Financial investments – loans and receivables	387,733	385,020
Financial investments – available-for-sale	402,138	342,755
Financial investments – held-to-maturity	1,511,375	1,407,449
Investment in associates and joint venture	3,357	714
Property and equipment	132,492	114,425
Deferred income tax assets	16,456	12,567
Other assets	248,128	207,524
Total assets	9,038,254	8,403,166
LIABILITIES		
Due to banks and other financial institutions	2,382,744	2,231,060
Financial liabilities at fair value through profit or loss	60,308	84,299
Due to customers	4,930,345	4,728,589
Certificates of deposits issued	488,951	318,950
Current tax liabilities	7,943	5,164
Deferred income tax liabilities	520	145
Debt securities issued	287,662	229,515
Other liabilities	203,510	173,037
Total liabilities	8,361,983	7,770,759
EQUITY		
Share capital	74,263	74,263
Preference shares	59,876	59,876
Capital surplus	113,663	113,392
Other reserves	298,827	280,913
Retained earnings	124,514	100,698
Equity attributable to shareholders of the Bank	671,143	629,142
Non-controlling interests	5,128	3,265
Total equity	676,271	632,407
Total equity and liabilities	9,038,254	8,403,166

Consolidated Statement of Changes in Equity

(In millions of RMB)

	Other reserves											Attributable to the shareholders of the Bank			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	Non-controlling interests		
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	70,223	70,223	468	70,691
Other comprehensive income	-	-	-	-	-	-	(4,197)	121	(1,584)	31	(9)	-	(5,638)	(239)	(5,877)
Total comprehensive income	-	-	-	-	-	-	(4,197)	121	(1,584)	31	(9)	70,223	64,585	229	64,814
Capital contribution by non-controlling shareholders	-	-	277	-	-	-	-	-	-	-	-	-	277	1,667	1,944
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,162)	(20,162)	(33)	(20,195)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(2,693)	(2,693)	-	(2,693)
Transfer to reserves	-	-	-	6,811	3	16,738	-	-	-	-	-	(23,552)	-	-	-
Others	-	-	(6)	-	-	-	-	-	-	-	-	-	(6)	-	(6)
Balance at 31 December 2017	<u>74,263</u>	<u>59,876</u>	<u>113,663</u>	<u>57,461</u>	<u>139,767</u>	<u>104,470</u>	<u>(2,365)</u>	<u>7</u>	<u>(1,875)</u>	<u>35</u>	<u>1,327</u>	<u>124,514</u>	<u>671,143</u>	<u>5,128</u>	<u>676,271</u>
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	3,207	538,092
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	67,210	67,210	441	67,651
Other comprehensive income	-	-	-	-	-	-	224	(50)	1,577	(13)	1,336	-	3,074	(195)	2,879
Total comprehensive income	-	-	-	-	-	-	224	(50)	1,577	(13)	1,336	67,210	70,284	246	70,530
Issuance of preference shares	-	44,952	-	-	-	-	-	-	-	-	-	-	44,952	-	44,952
Increase by acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	227	227
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(20,051)	(20,051)	(48)	(20,099)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	(884)	(884)	-	(884)
Transfer to reserves	-	-	-	6,552	-	12,079	-	-	-	-	-	(18,631)	-	-	-
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(44)	(44)	(367)	(411)
Balance at 31 December 2016	<u>74,263</u>	<u>59,876</u>	<u>113,392</u>	<u>50,650</u>	<u>139,764</u>	<u>87,732</u>	<u>1,832</u>	<u>(114)</u>	<u>(291)</u>	<u>4</u>	<u>1,336</u>	<u>100,698</u>	<u>629,142</u>	<u>3,265</u>	<u>632,407</u>

Consolidated Statement of Cash Flows

(In millions of RMB unless otherwise stated)

Year ended 31 December

	2017	2016
Cash flows from operating activities:		
Net profit before tax:	83,265	86,110
Adjustments for:		
Provision for impairment losses on loans and advances to customers	29,787	28,480
Provision for impairment of finance lease receivables	374	973
Provision for impairment of financial investments	221	643
Provision for/(Reversal of) impairment of other receivables	1,002	91
Provision for impairment of fixed assets	80	3
Provision for impairment losses on foreclosed assets	6	22
Provision for/(Reversal of) impairment losses on assets pending for disposal	(1)	—
Provision for insurance contracts reserve	8,916	5,856
Depreciations and amortisations	9,315	7,939
Provision for/(Reversal of) outstanding litigation and unsettled obligation	110	(40)
Net gains on disposal of property and equipment	(110)	(60)
Net gains on disposal of foreclosed assets	(13)	(5)
Interest income from financial investments	(79,895)	(66,978)
Unwind of discount on allowances during the period	(1,812)	(1,959)
Fair value (gains)/losses	5,756	2,223
Share of profits of associates and joint venture	(132)	(96)
Net gains arising from financial investments	(3,084)	(1,079)
Interest expense on debt securities issued	10,068	7,781
Operating cash flows before movements in operating assets and liabilities	63,853	69,904
Net (increase)/decrease in mandatory reserve deposits	(29,838)	(36,490)
Net (increase)/decrease in due from banks and other financial institutions	(71,456)	(152,643)
Net increase in financial assets at fair value through profit or loss	(56,908)	(41,301)
Net increase in loans and advances to customers	(374,620)	(403,738)
Net increase in other assets	(34,951)	(12,523)
Net increase in due to banks and other financial institutions	151,684	586,529
Net increase/(decrease) in financial liabilities at fair value through profit or loss	(17,823)	16,918
Net increase/(decrease) in due to customers	369,296	481,557
Net increase/(decrease) in other liabilities	24,137	(5,824)
Net increase/(decrease) in value-added tax, business tax and surcharges payable	(590)	349
Income tax paid	(12,057)	(17,672)
Net cash from operating activities	10,727	485,066

Consolidated Statement of Cash Flows (Continued)

(In millions of RMB unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from investing activities:		
Purchase of financial investments	(530,249)	(1,158,997)
Disposal or redemption of financial investments	355,053	546,036
Dividends received	420	353
Interest received from financial investments	79,977	61,668
Acquisition of subsidiaries, net of cash paid	–	(442)
Purchase of non-controlling interest	–	(411)
Purchase of intangible assets and other assets	(1,535)	(770)
Disposal of intangible assets and other assets	34	60
Purchase and construction of property and equipment	(27,736)	(34,814)
Disposal of property and equipment	<u>1,077</u>	<u>2,372</u>
Net cash from investing activities	(122,959)	(584,945)
Cash flows from financing activities:		
Proceeds from issuance of preference shares	–	45,000
Cash payments for transaction cost of preferences shares issued	–	(48)
Proceeds from debt securities issued	90,028	60,585
Cash payments for distribution of dividends, profits or interest expenses	(32,062)	(24,905)
Capital contribution by non-controlling interests	1,944	–
Repayment of principals of debt securities issued	(29,395)	(2,719)
Dividends paid to non-controlling interests	<u>(33)</u>	<u>(48)</u>
Net cash from financing activities	30,482	77,865
Effect of exchange rate changes on cash and cash equivalents	<u>(5,727)</u>	<u>7,975</u>
Net increase/(decrease) in cash and cash equivalents	(87,477)	(14,039)
Cash and cash equivalents at the beginning of the year	<u>316,396</u>	<u>330,435</u>
Cash and cash equivalents at the end of the year	<u><u>228,919</u></u>	<u><u>316,396</u></u>
Net cash flows from operating activities include:		
Interest received	243,096	228,140
Interest paid	<u>(167,796)</u>	<u>(153,432)</u>

1 Basis of Preparation

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

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 2017 and the relevant impact is set out below:

Amendments to IAS 7	Cash Flow Statements
Amendments to IAS 12	Income Tax
Amendments to IFRS 12	Annual Improvements to IFRSs 2014-2016 Cycle

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.

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 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, associates and joint ventures apply to an entity’s interests which are classified as held for sale or discontinued operations in accordance with IFRS 5. The adoption of the amendments does not have a significant impact on the Group’s consolidated financial statements.

Amendments to IFRSs effective for the year ended 31 December 2017 do not have a material impact to the Group.

(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 40	Transfer of investment Property	1 January 2018
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 28	Annual Improvements to IFRSs 2014-2016 cycle	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax	1 January 2019
Amendments to IFRS 2	Share-based Payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019

Amendments to IAS 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 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 28

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

International Financial Reporting Interpretations Committee (“IFRIC”) 22

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group’s consolidated financial statements.

IFRIC 23

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group’s consolidated financial statements.

Amendments to IFRS 2

On 20 June 2016, the IASB issued amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions, which provide guidance on three matters regarding classification and measurement. These amendments provide additional guidance on the accounting for cash-settled share-based payments and provision of award with a net settlement feature for withholding tax obligations.

These amendments clarify the measurement basis for cash-settled awards and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception that requires an award to be treated as if it is wholly equity-settled, where it has a net settlement feature for withholding tax obligations.

Amendments to IFRS 4

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

IFRS 15

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

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

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

IFRS 9

IFRS 9 (2014) Financial instruments replaces the whole of IAS 39, effective from 1 January 2018. In a simplified standard-allowed manner, the Group can adjust the shareholder equity at the beginning of 2018 instead of restating the comparable figures of the prior period.

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 recognised 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 recognised 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 recognised 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 estimates that the adoption of IFRS 9 will reduce the shareholder equity at the beginning of 2018. The Group is still assessing the full impact of adopting IFRS 9 and the possible quantitative impact on the Bank's financial position will be disclosed in quarter 1 report of 2018.

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 recognise 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 recognise 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 2017, the Group has non-cancellable operating lease commitments of RMB13,806 million. 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.

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has not completed its assessment of the impact on the Group’s operating results and financial position of adopting IFRS 17.

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

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	
	2017	2016
Interest income		
Loans and advances to customers	200,207	189,973
Financial investments	83,213	71,144
Due from banks and other financial institutions	20,528	15,026
Balances with central banks	13,570	13,701
	317,518	289,844
Interest expense		
Due to customers	(89,337)	(86,392)
Due to banks and other financial institutions	(77,576)	(55,720)
Certificates of deposits issued	(13,171)	(5,080)
Debt securities issued	(10,068)	(7,781)
	(190,152)	(154,973)
Net interest income	127,366	134,871
Including:		
Interest income on impaired financial assets	1,812	1,959
Interest income on financial investments at fair value through profit or loss	3,318	4,192
Interest expense on financial liabilities at fair value through profit or loss	773	610

3 Fee and Commission Income

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2017	2016
Bank cards	16,267	12,065
Management service	14,948	12,502
Investment banking	4,518	5,306
Agency service	3,216	4,636
Guarantee and commitment	2,554	2,962
Settlement service	1,884	1,722
Others	673	691
	44,060	39,884

	Year ended 31 December	
	2017	2016
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	907	873
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	3,124	2,437

4 Impairment Losses on Loans and Advances to Customers

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2017	2016
Loans and advances to customers		
– Collectively assessed losses provision	14,660	9,439
– Individually assessed losses provision	15,127	19,041
	29,787	28,480

5 Income Tax

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2017	2016
Current tax		
– PRC enterprise income tax	13,602	13,718
– Hong Kong profits tax	826	770
– Overseas taxations	408	326
	14,836	14,814
Deferred income tax	(2,262)	3,645
	12,574	18,459

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2016: 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% (2016: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2017	2016
Profit before tax	83,265	86,110
Tax calculated at a tax rate of 25%	20,816	21,528
Effect of different tax rates in other countries (or regions)	(31)	23
Tax effect of expenses not deductible for tax purposes ⁽¹⁾	1,966	4,344
Tax effect arising from income not subject to tax ⁽²⁾	(10,282)	(7,489)
Income tax adjustment for prior years	105	53
Income tax expense	12,574	18,459

Notes:

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

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

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	
	2017	2016
Net profit attributable to shareholders of the Bank	70,223	67,210
Less: Net profit attributable to preference shareholders of the Bank	<u>(2,693)</u>	<u>(884)</u>
Net profit attributable to ordinary shareholders of the Bank	<u>67,530</u>	<u>66,326</u>
Weighted average number of ordinary shares in issue (<i>expressed in millions</i>) at the end of period	<u>74,263</u>	<u>74,263</u>
Basic and diluted earnings per share (<i>expressed in RMB per share</i>)	<u><u>0.91</u></u>	<u><u>0.89</u></u>

The Bank issued non-cumulative preference shares on 29 July 2015 and 2 September 2016. For the purpose of calculating basic earnings per share, a cash dividend of RMB2,693 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the period ended 31 December 2017, 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 favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

		<i>(In millions of RMB)</i>	
	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2017			
Foreign exchange and commodity contracts	2,472,503	31,655	(31,819)
Interest rate contracts and others	721,892	2,352	(1,525)
Total amount of derivative instruments recognised	3,194,395	34,007	(33,344)

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

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 2017	As at 31 December 2016
RMB	1,518,866	1,305,983
USD	1,343,072	1,187,380
HKD	200,543	130,261
Others	<u>131,914</u>	<u>182,976</u>
Total	<u>3,194,395</u>	<u>2,806,600</u>

Hedge accounting

The above derivative financial instruments include 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 2017			
Derivative financial instruments			
designated as hedging instruments			
in fair value hedges	73,235	927	(129)
Derivative financial instruments			
designated as hedging instruments			
in cash flow hedges	24,414	401	(228)
Total	97,649	1,328	(357)
	Contractual/ notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2016			
Derivative financial instruments			
designated as hedging instruments			
in fair value hedges	57,004	786	(215)
Derivative financial instruments			
designated as hedging instruments			
in cash flow hedges	21,103	150	(786)
Total	78,107	936	(1,001)

(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 certificates of deposits issued.

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

	<i>(In millions of RMB)</i>	
	As at 31 December 2017	As at 31 December 2016
Net gains on hedging instruments	256	727
Net losses on hedged items attributable to the hedge risk	<u>(348)</u>	<u>(780)</u>
Net losses from fair value hedges	<u>(92)</u>	<u>(53)</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 and certificates of deposits issued. The Group mainly uses regression analysis to evaluate the effectiveness of hedging.

For the year ended 31 December 2017, the Group's profit from the hedge instrument of RMB23 million (for the year ended 31 December 2016: a net loss of RMB37 million) was recognised in other comprehensive income and the gain and loss arising from the ineffective portion of cash flow hedge was immaterial for the year ended 31 December 2017. There were no transactions for which cash flow hedge accounting had to be ceased for the year ended 31 December 2017, as a result of the highly probable cash flows no longer being expected to occur.

8 Dividends

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2017	2016
Dividends to ordinary shareholders of the Bank	20,162	20,051
Dividends to preference shareholders of the Bank	2,693	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 Annual General Meeting.

Pursuant to the proposal raised at the Board meeting on 28 March 2017 and the approval by the Annual General Meeting of Shareholders on 22 June 2017, the Bank appropriated RMB16,116 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2715 (before tax) for each ordinary share, with total amount of RMB20,162 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2016, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 28 April 2017, the Bank appropriated overseas preference dividends on 31 July 2017 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders), with total amount of USD136 million. The Bank appropriated domestic preference dividends on 7 September 2017 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders) and total amount of RMB1,755 million.

On 29 March 2018, the Board of Directors of the Bank proposed to appropriate RMB8,705 million to the statutory general reserve. A cash dividend of RMB0.2856 (before tax) for each share, totalling RMB21,209 million, calculated based on the total number of shares outstanding of 74,263 million shares (RMB1 per share) as at 31 December 2017 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 2017	As at 31 December 2016
Letters of guarantee	272,981	279,694
Letters of credit commitments	131,280	126,885
Acceptances bills	196,125	231,566
Credit card commitments	742,011	528,199
Loan commitments		
– Under 1 year	16,147	21,590
– 1 year and over	54,159	64,535
	<u>1,412,703</u>	<u>1,252,469</u>

Capital expenditure commitments

	<i>(In millions of RMB)</i>	
	As at 31 December 2017	As at 31 December 2016
Contracted but not provided for	<u>70,236</u>	<u>66,570</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
	2017	2016
Within 1 year (inclusive)	4,185	3,962
Beyond 1 year but no more than 2 years (inclusive)	3,124	3,005
Beyond 2 years but no more than 3 years (inclusive)	2,186	2,286
Beyond 3 years but no more than 5 years (inclusive)	2,492	2,548
More than 5 years	<u>1,819</u>	<u>1,792</u>
	<u>13,806</u>	<u>13,593</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
	2017	2016
Within 1 year (inclusive)	8,411	6,295
Beyond 1 year but no more than 2 years (inclusive)	8,388	6,291
Beyond 2 years but no more than 3 years (inclusive)	8,139	6,287
Beyond 3 years but no more than 5 years (inclusive)	14,892	11,958
More than 5 years	<u>37,053</u>	<u>36,525</u>
	<u>76,883</u>	<u>67,356</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 2017, the principal value of the Treasury Bonds that the Bank had the obligation to buy back amounted to RMB73,271 million (31 December 2016: RMB70,725 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 2017, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2016: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

	<i>(In millions of RMB)</i>	
	As at 31 December 2017	As at 31 December 2016
Outstanding claims	3,694	3,327
Provision for outstanding litigation	449	348

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, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- (6) Head Office;
- (7) Overseas – including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, United Kingdom, Toronto, Luxembourg, Brisbane, Taipei, Paris, Rome and Brazil.

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

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the condensed consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expenses for all reportable segments will be presented on a net basis.

The basis under which the Group's senior management reviews the segment performance is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expenses between the segments.

Operating segment information

(In millions of RMB)

	For the year ended 31 December 2017								
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
External interest income	26,790	9,374	71,911	38,861	20,626	20,693	129,263	-	317,518
External interest expense	(32,819)	(8,792)	(58,026)	(33,832)	(14,144)	(14,075)	(28,464)	-	(190,152)
Inter-segment net									
Interest income/									
(expense)	23,116	4,984	25,232	21,602	6,651	(400)	(81,185)	-	-
Net Interest income	17,087	5,566	39,117	26,631	13,133	6,218	19,614	-	127,366
Net fee and commission									
income	4,458	1,632	12,581	8,420	3,169	2,628	7,663	-	40,551
Net gains/(losses) arising									
from trading activities	279	59	937	432	90	735	(2,929)	-	(397)
Net gains/(losses)									
arising from financial									
investments	-	-	556	70	-	425	2,033	-	3,084
Insurance business									
income	-	-	12,932	-	-	36	-	-	12,968
Share of profit of									
associates and joint									
venture	-	-	-	-	-	(5)	137	-	132
Other operating income	1,285	204	8,192	819	453	1,489	374	-	12,816
Total operating income	23,109	7,461	74,315	36,372	16,845	11,526	26,892	-	196,520
Impairment losses on									
loans and advances to									
customers	(2,395)	(1,689)	(13,852)	(3,870)	(3,591)	(234)	(4,156)	-	(29,787)
Insurance business									
expense	-	-	(12,198)	-	-	(13)	-	-	(12,211)
Other operating expense	(7,246)	(3,315)	(22,174)	(11,094)	(5,482)	(4,370)	(17,576)	-	(71,257)
Profit before tax	13,468	2,457	26,091	21,408	7,772	6,909	5,160	-	83,265
Income tax									(12,574)
Net profit for the year									70,691
Depreciation and									
amortisation	(787)	(383)	(1,762)	(1,120)	(658)	(195)	(973)	-	(5,878)
Capital expenditure	(411)	(179)	(24,075)	(1,049)	(590)	(394)	(2,107)	-	(28,805)

(In millions of RMB)

	For the year ended 31 December 2016							Head Office	Eliminations	Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas				
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)	20,544	5,542	24,806	18,401	6,809	153	(76,255)	–		–
Net Interest income	17,681	6,285	42,134	26,604	14,423	5,913	21,831	–		134,871
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 profit of associates and joint venture	–	–	–	–	–	9	87	–		96
Other operating income	838	165	4,774	715	495	1,936	153	–		9,076
Total operating income	<u>23,023</u>	<u>8,188</u>	<u>70,164</u>	<u>35,164</u>	<u>17,973</u>	<u>10,565</u>	<u>28,985</u>	<u>–</u>		<u>194,062</u>
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	12,439	4,015	26,296	19,782	9,320	6,085	8,173	–		86,110
Income tax										(18,459)
Net profit for the year										<u>67,651</u>
Depreciation and amortisation	(831)	(446)	(1,768)	(1,100)	(668)	(220)	(1,020)	–		(6,053)
Capital expenditure	(545)	(325)	(24,420)	(915)	(572)	(7,730)	(1,098)	–		(35,605)

(In millions of RMB)

For the year ended 31 December 2017									
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	<u>1,278,373</u>	<u>365,648</u>	<u>2,692,078</u>	<u>1,523,081</u>	<u>727,652</u>	<u>939,297</u>	<u>4,077,988</u>	<u>(2,582,319)</u>	<u>9,021,798</u>
Including:									
Investment in associates and joint venture	-	-	4	6	-	82	3,265	-	3,357
Unallocated assets									<u>16,456</u>
Total assets									<u>9,038,254</u>
Segment liabilities	<u>(1,265,063)</u>	<u>(363,044)</u>	<u>(2,597,457)</u>	<u>(1,493,665)</u>	<u>(721,874)</u>	<u>(931,308)</u>	<u>(3,571,371)</u>	<u>2,582,319</u>	<u>(8,361,463)</u>
Unallocated liabilities									<u>(520)</u>
Total liabilities									<u>(8,361,983)</u>
For the year ended 31 December 2016									
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	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 and joint venture	-	-	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>

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit cards and remittance. Treasury mainly comprises money market placements and takings, financial investment, and securities sold under repurchase agreements. The “Others Business” segment mainly comprises items which cannot be categorised in the above business segments.

The group business information is summarised as follows:

	<i>(In millions of RMB)</i>				
	For the year ended 31 December 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	50,787	32,986	41,644	1,949	127,366
Inter-segment net interest income/ (expense)	11,802	10,330	(22,132)	–	–
Net interest income	62,589	43,316	19,512	1,949	127,366
Net fee and commission income	16,034	20,229	2,483	1,805	40,551
Net gains/(losses) arising from trading activities	1,959	99	(3,004)	549	(397)
Net gains/(losses) arising from financial investments	–	–	3,084	–	3,084
Share of profit of associates and joint venture	–	–	–	132	132
Insurance business income	–	–	–	12,968	12,968
Other operating income	9,064	2,308	10	1,434	12,816
Total operating income	89,646	65,952	22,085	18,837	196,520
Impairment losses on loans and advances to customers	(27,223)	(2,564)	–	–	(29,787)
Insurance business expense	–	–	–	(12,211)	(12,211)
Other operating expense					
– Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
– Others	(25,054)	(34,303)	(2,682)	(3,340)	(65,379)
Profit before tax	35,600	25,377	19,274	3,014	83,265
Income tax					(12,574)
Net profit for the year					70,691
Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
Capital expenditure	(8,667)	(18,172)	(632)	(1,334)	(28,805)

	For the year ended 31 December 2016				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	54,359	28,631	50,642	1,239	134,871
Inter-segment net interest income/ (expense)	<u>16,460</u>	<u>14,832</u>	<u>(31,292)</u>	<u>–</u>	<u>–</u>
Net interest income	70,819	43,463	19,350	1,239	134,871
Net fee and commission income	15,833	16,915	2,134	1,913	36,795
Net gains/(losses) arising from trading activities	1,952	17	132	448	2,549
Net gains/(losses) arising from financial investments	–	–	1,079	–	1,079
Share of profit of associates and joint venture	–	–	–	96	96
Insurance business income	–	–	–	9,596	9,596
Other operating income	<u>5,876</u>	<u>2,051</u>	<u>196</u>	<u>953</u>	<u>9,076</u>
Total operating income	<u>94,480</u>	<u>62,446</u>	<u>22,891</u>	<u>14,245</u>	<u>194,062</u>
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	(1,821)	(3,818)	(133)	(281)	(6,053)
– Others	<u>(25,813)</u>	<u>(33,497)</u>	<u>(2,724)</u>	<u>(2,392)</u>	<u>(64,426)</u>
Profit before tax	<u>42,989</u>	<u>20,508</u>	<u>20,034</u>	<u>2,579</u>	<u>86,110</u>
Income tax					<u>(18,459)</u>
Net profit for the year					<u><u>67,651</u></u>
Depreciation and amortisation	(1,821)	(3,818)	(133)	(281)	(6,053)
Capital expenditure	<u>(10,712)</u>	<u>(22,462)</u>	<u>(782)</u>	<u>(1,649)</u>	<u>(35,605)</u>

(In millions of RMB)

	As at 31 December 2017				Total
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	
Segment assets	<u>3,145,789</u>	<u>1,487,329</u>	<u>4,307,392</u>	<u>81,288</u>	<u>9,021,798</u>
Including:					
Investment in associates and joint venture	–	–	–	3,357	3,357
Unallocated assets					<u>16,456</u>
Total assets					<u><u>9,038,254</u></u>
Segment liabilities	<u>(3,621,436)</u>	<u>(1,606,949)</u>	<u>(3,110,385)</u>	<u>(22,693)</u>	<u>(8,361,463)</u>
Unallocated assets					<u>(520)</u>
Total liabilities					<u><u>(8,361,983)</u></u>
	As at 31 December 2016				Total
	Corporate Banking Business	Personal banking Business	Treasury Business	Other Business	
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 and joint venture	–	–	–	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 assets					<u>(145)</u>
Total liabilities					<u><u>(7,770,759)</u></u>

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 2017									
Assets									
Cash and balances with central banks	129,158	-	-	152	-	-	-	809,261	938,571
Due from banks and other financial institutions	76,427	357,109	81,883	234,917	32,132	-	-	-	782,468
Financial assets at fair value through profit or loss	4,968	15,175	25,693	70,746	50,297	9,717	270	84,171	261,037
Loans and advances to customers	-	541,564	285,737	1,089,280	1,041,785	1,347,692	48,441	-	4,354,499
Financial investments – loans and receivables	-	5,144	6,701	57,857	205,004	112,947	80	-	387,733
Financial investments – available-for-sale	-	17,690	22,554	55,866	234,404	63,234	-	8,390	402,138
Financial investments – held-to-maturity	-	26,455	36,150	134,704	895,522	418,544	-	-	1,511,375
Other assets	50,526	12,095	20,412	31,938	96,116	30,237	418	158,691	400,433
Total assets	261,079	975,232	479,130	1,675,460	2,555,260	1,982,371	49,209	1,060,513	9,038,254
Liabilities									
Due to banks and other financial institutions	(392,232)	(450,152)	(544,681)	(727,104)	(247,529)	(21,046)	-	-	(2,382,744)
Financial liabilities at fair value through profit or loss	(585)	(13,558)	(15,552)	(23,735)	(6,677)	(201)	-	-	(60,308)
Due to customers	(2,501,308)	(670,109)	(541,850)	(813,336)	(399,275)	(4,467)	-	-	(4,930,345)
Other liabilities	(47,566)	(67,837)	(91,797)	(212,335)	(419,739)	(149,312)	-	-	(988,586)
Total liabilities	(2,941,691)	(1,201,656)	(1,193,880)	(1,776,510)	(1,073,220)	(175,026)	-	-	(8,361,983)
Net amount on liquidity gap	(2,680,612)	(226,424)	(714,750)	(101,050)	1,482,040	1,807,345	49,209	1,060,513	676,271

(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 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	–	441,919	267,736	1,050,597	1,003,801	1,183,888	61,105	–	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	<u>20,804</u>	<u>9,900</u>	<u>17,159</u>	<u>31,075</u>	<u>89,264</u>	<u>28,290</u>	<u>305</u>	<u>138,433</u>	<u>335,230</u>
Total assets	<u><u>327,237</u></u>	<u><u>705,403</u></u>	<u><u>514,612</u></u>	<u><u>1,650,341</u></u>	<u><u>2,355,702</u></u>	<u><u>1,832,840</u></u>	<u><u>61,510</u></u>	<u><u>955,521</u></u>	<u><u>8,403,166</u></u>
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	<u>(44,750)</u>	<u>(43,985)</u>	<u>(62,039)</u>	<u>(136,437)</u>	<u>(322,358)</u>	<u>(117,242)</u>	<u>–</u>	<u>–</u>	<u>(726,811)</u>
Total liabilities	<u><u>(2,859,958)</u></u>	<u><u>(1,052,154)</u></u>	<u><u>(950,827)</u></u>	<u><u>(1,749,335)</u></u>	<u><u>(1,026,956)</u></u>	<u><u>(131,529)</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>(7,770,759)</u></u>
Net amount on liquidity gap	<u><u>(2,532,721)</u></u>	<u><u>(346,751)</u></u>	<u><u>(436,215)</u></u>	<u><u>(98,994)</u></u>	<u><u>1,328,746</u></u>	<u><u>1,701,311</u></u>	<u><u>61,510</u></u>	<u><u>955,521</u></u>	<u><u>632,407</u></u>

12 Non-Adjusting Event After the Reporting Period

The Bank held the 19th meeting of the sixth board of directors of the Bank whereby the Resolution on establishing a wholly-owned subsidiary in Hong Kong, Bank of Communications (Hong Kong), was considered and approved. On 29 January 2018, the existing activities, assets and liabilities which constitute the retail banking business and private banking business of the Hong Kong branch of the Bank has been transferred to Bank of Communications (Hong Kong) Limited in accordance with section 4(1) of the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the laws of Hong Kong).

8. PUBLICATION OF THE ANNOUNCEMENT OF ANNUAL RESULTS

This results announcement is extracted from the 2017 Annual Report prepared in accordance with the IFRSs. The full report will be published on the website of HKEX News at www.hkexnews.hk, as well as the website of the Bank at www.bankcomm.com for the reference of shareholders. The 2017 Annual Report, which is prepared in accordance with China Accounting Standards, 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 2017 Annual Report. The Annual Report prepared in accordance with the IFRSs is anticipated to be despatched to the shareholders of H shares in April 2018.

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.
Peng Chun
Chairman of the Board of Directors

Hong Kong, the PRC
29 March 2018

As at the date of this announcement, the Directors of the Bank are Mr. Peng Chun, Mr. Wong Tung Shun, Peter, Ms. Yu Yali, Mr. Hou Weidong, Mr. Wang Taiyin*, Mr. Song Guobin*, Mr. He Zhaobin*, Ms. Wong Pik Kuen, Helen*, Mr. Liu Hanxing*, Mr. Luo Mingde*, Mr. Liu Haoyang*, Mr. Chen Zhiwu#, Mr. Yu Yongshun#, Ms. Li Jian#, Mr. Liu Li#, Mr. Yeung Chi Wai, Jason# and Mr. Woo Chin Wan, Raymond#.*

* *Non-executive Directors*

Independent Non-executive Directors