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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 2018

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 2018 (the “**Reporting Period**”), which was prepared in accordance with 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.

I. CORPORATE INFORMATION

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

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II. KEY FINANCIAL DATA AND FINANCIAL INDICATORS

The Group adopted new accounting standards of financial instruments from 1 January 2018. According to new standards of the transitional provisions, the Group elected not to restate comparative figures of prior period. Any adjustments to the carrying amounts at the date of transition were recognised in the opening retained earnings and other reserves. For the related impact, please refer to this results announcement and 2018 Annual Report of the Bank to be published on the HKEx News website of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”).

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

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

Notes:

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

III. ORDINARY SHAREHOLDERS AND THEIR SHAREHOLDINGS

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

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

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

Notes:

1. Shanghai Haiyan Investment Management Co., Ltd. and Yunnan Hehe (Group) Co., Ltd. are parties acting in concert. The Bank is not aware of the existence of any associated relationships among other top ten shareholders or those acting in concert.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at the end of the Reporting Period.
3. According to the Bank's register of members, the Hongkong 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 Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at the end of the Reporting Period, representing 19.03% of the Bank's total ordinary shares issued. The number of beneficial shares held by HSBC was 249,218,915 shares more than that recorded in the Bank's register of members. This difference was caused by HSBC's purchase of H shares from the secondary market in 2007 and its subsequent acquisition of bonus shares and participation in the allotment of shares. This part of shares were registered under the name of HKSCC Nominees Limited. Please refer to "Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the *Securities and Futures Ordinance*" for details of the H shares that deemed to be beneficially owned by HSBC.

4. According to the Bank's register of members, as at the end of the Reporting Period, the SSF held 1,877,513,451 A Shares and 1,405,555,555 H Shares. According to the information provided by the SSF to the Bank, as at the end of the Reporting Period, other than the shareholdings recorded in the register of members of the Bank, the SSF held additional 7,640,085,777 H shares of the Bank, of which 7,027,777,777 H shares were registered under HKSCC Nominees Limited and 612,308,000 H shares were indirectly held by certain asset managers. As at the end of the Reporting Period, the SSF held a total of 10,923,154,783 A shares and H shares of the Bank, representing 14.71% of the Bank's total ordinary shares issued.

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

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

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

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

Notes:

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

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

IV. INFORMATION OF PREFERENCE SHARES

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

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

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

(II) Preference Shareholders and Their Shareholdings

1. 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	Shares pledged or frozen Number of shares	Nature of shareholder
1	DB Nominees (Hong Kong) Limited	–	122,500,000	100.00	Overseas preference share	Unknown	–	Foreign legal person

Notes:

- Shareholdings of overseas preference shareholders are summarized according to the Bank's register of members of overseas preference shareholders.
- 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.
- "Percentage" refers to the percentage of number of overseas preference shares held by overseas preference shareholders in the total number of overseas preference shares.
- 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.

2. Top 10 domestic preference shareholders and their shareholdings as at the end of the Reporting Period

Serial Number	Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Status of shares	Shares pledged or frozen Number of shares	Nature of shareholders
1	China Mobile Communications Corporation	–	100,000,000	22.22	Domestic preference share	Nil	–	State-owned legal person
2	AXA SPDB Investment Managers – SPDB – Shanghai Pudong Development Bank Shanghai Branch	–	20,000,000	4.44	Domestic preference share	Nil	–	Others
3	CCB Trust Co., Ltd. – "Qian Yuan – Ri Xin Yue Yi" open-ended wealth management single fund trust	–	20,000,000	4.44	Domestic preference share	Nil	–	Others

Serial Number	Name of shareholders	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Percentage (%)	Class of shares held	Shares pledged or frozen	
						Status of shares	Number Nature of shares shareholders
4	Truvalue Asset Management – CMBC – China Merchants Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	– Others
5	Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi-customer Asset Management Plan	–	20,000,000	4.44	Domestic preference share	Nil	– Others
6	Wisdom Asset Management – Ping An Bank – Ping An Bank Co., Ltd.	–	20,000,000	4.44	Domestic preference share	Nil	– Others
7	China Ping An Life Insurance Co., Ltd. – Self-owned capital	–	18,000,000	4.00	Domestic preference share	Nil	– Others
8	China National Tobacco Corporation – Henan Branch	–	15,000,000	3.33	Domestic preference share	Nil	– State-owned legal person
9	China Life Property & Casualty Insurance Company Limited – Traditional – Common insurance product	–	15,000,000	3.33	Domestic preference share	Nil	– Others
10	China Citic Bank Corporation Limited – LeYing Series of CITIC Banking Service	(2,000,000)	12,000,000	2.67	Domestic preference share	Nil	– Others

Notes:

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

(III) Dividends Distribution of Preference Shares

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

In accordance with the resolution and authorization of the Shareholders' General Meeting, the 15th meeting of the 8th Session of Board of Directors of the Bank was held on 27 April 2018, during which the proposal for the dividend distribution of the overseas preference shares and the dividend distribution of the domestic preference shares were approved. The total amount of overseas preference shares' dividend was 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. The above dividends were fully paid in cash on 30 July 2018. The total amount of domestic preference shares' dividend was RMB1,755,000,000 with a nominal dividend yield of 3.9% and was fully paid in cash on 7 September 2018.

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

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

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

(IV) 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* issued by Ministry of Finance, *International Financial Report Standards 9 – Financial Instruments* and *International Accounting Standards 32 – Financial Instruments: Presentation* issued by International Accounting Standards Board as well as terms and conditions of the preference shares, the issued preference shares met the requirements to be recognized as equity instruments and the issuance of preference shares was therefore classified as equity instruments.

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

V. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Business Review

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

Under the new guidance of “186” strategy, the Group stepped on a new journey

In 2008, BoCom brought forward the development strategy, which was “becoming a first class listed comprehensive banking group focusing on international expansion and specializing in wealth management” (the “**BoCom Strategy**”). In the recent decade, under the guidance of “BoCom Strategy”, the Group maintained a stable performance with good momentum, significantly promoted internationalization and integration and prominently increased service capabilities across borders, industries and markets. Facing the international and domestic

macro-economic financial situation, BoCom kept going with the times in 2018. BoCom injected new interpretation in development strategy. The revised strategy was “taking the road of internationalization and integration, building the best wealth management bank.” The Bank also initiated “186” strategic landscape (“1 goal + 8 measures + 6 strategies”) with the objective to further promote high-quality development of BoCom.

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

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

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

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

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

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

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

Risk management was strengthened and capital strength was significantly enhanced. The Group promoted the reform of credit risk management and improved the forward-looking risk decision making system with the committee as its core. The Group also strengthened the credit risk management characterized by “horizontal, vertical and full coverage”. The Group further enhanced the ability of risk management by improving the Group’s unified system of risk monitoring, measurement, elimination and supervision. As at the end of the Reporting Period, the impaired loan ratio decreased by 0.01 percentage point over the end of the previous year to 1.49%. The balance of overdue loans and the balance of overdue loans over 90 days decreased by RMB10.334 billion and RMB13.520 billion respectively over the end of the previous year, which represented a decrease of 0.33 percentage point and 0.38 percentage point respectively over the end of the previous year. The provision

coverage of impaired loans sharply increased by 18.40 percentage points over the end of the previous year to 173.13%. Given the capital intensive development, active business restructure and internal capital control, the growth rate of risk-weighted assets (RWA) was lower than the growth rate of assets by 4.67 percentage points. The proportion of RWA in total assets was 59.70%, representing a decrease of 2.77 percentage points over the end of the previous year. As at the end of the Reporting Period, the core Tier-1 capital adequacy ratio, the Tier-1 capital adequacy ratio and the capital adequacy ratio of the Group were 11.16%, 12.21% and 14.37% respectively, representing an increase of 0.37, 0.35 and 0.37 percentage point over the end of the previous year respectively.

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

(I) Corporate Banking Businesses

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

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

1. Corporate and institutional businesses

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

2. Inclusive finance businesses

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

3. *Industrial value chain financial services*

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

4. *Cash management businesses*

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

5. *International settlement and trade finance businesses*

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

6. *Investment banking businesses*

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

7. *Asset custody businesses*

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

Fast Breakthrough in Innovation of Mobile Financial Services Products

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

(II) Personal Banking Businesses

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

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

1. Personal deposits and loans

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

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

2. Wealth management businesses

The Group continuously enriched the interpretation of “Your Wealth Management Bank”. The number of public funds distributed by the Group as the sale agent ranked first in the industry. The Group sold “tax-deferred pension insurance” online as the first Bank in the country and won the Ninth Jin Li Cai “Top Award of Wealth Management Bank of the Year 2018”. The Group continuously promoted and optimized the intelligent “OTO Financial Advisor”, creatively launched the OTO Financial Quotient Index, Wealth Diagnosis System and Product Recommendation System and won the “2018 China Financial Science and Technology Innovation List” as the annual excellent example of financial science and technology innovative application. BoCom live broadcasting platform was available and accessible anytime, anywhere and won the “Most Influential Brand Award” of the 9th Golden Mouse Digital Marketing Competition. Based on mobile banking. The Group launched the new online customer service model of one-to-one “My Account Manager”. The Group promoted “collective wealth management” as the first bank in the industry, with a total of nearly 10,000 groups. The Group organized the Second “OTO Fortune” square dancing competition, which attracted tens of thousands of dance teams.

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

3. *Bank card businesses*

Credit card businesses

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

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

Debit card businesses

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

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

The Best Wealth Management Bank in China For You

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

Focusing on common values, the Group was committed to preserve or increase the value of wealth for individual customers.

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

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

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

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

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

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

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

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

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

(III) Interbank and Financial Market Businesses

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

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

1. Interbank business

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

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

2. Financial market businesses

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

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

3. Wealth management

The Group actively promoted the transformation of asset management and improved product structure to meet the increasingly diversified investment requirements of investors. During the Reporting Period, the average daily value of net-worth wealth management products increased by RMB35.619 billion over the previous year. The proportion of net-worth wealth management products in

off-balance-sheet wealth management increased by 4.83 percentage points over the previous year to 15.52%. During the Reporting Period, the Bank issued a total of 6,208 wealth management products, raised funds amounting to RMB17.59 trillion and achieved revenue of more than RMB61.279 billion for customers. As at the end of the Reporting Period, the scale of RMB off-balance sheet asset management amounted to RMB769.669 billion, representing an increase of 11.83% over the end of previous year.

4. *Precious metals businesses*

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

(IV) Construction of “Online and Offline” Channel

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

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

1. Online network construction

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

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

2. Offline network construction

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

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

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

Technology Empowerment Promoted the Intelligent Transformation of the Group

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

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

a comprehensive ecosystem of “finance + scenario” to provide cross-border integrated services for customers. The Group comprehensively improved the risk detection and prevention in quality and effectiveness and compliance with the technologies such as data mining and deep learning.

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

(V) Internationalization and Integrated Operation

1. Internationalization strategy

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

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

Overseas service network

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

Domestic and overseas synergetic businesses

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

Cross-border RMB transactions

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

Offshore services

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

2. *Integrated operation*

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

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

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

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

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

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

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

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

II. FINANCIAL STATEMENT ANALYSIS

(I) Analysis on Key Income Statement Items

1. Profit before tax

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

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

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

2. Net interest income

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

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

<i>(in millions of RMB unless otherwise stated)</i>						
	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
	Average balance	Interest income/ (expense)	Annualized average rate of return (cost)(%)	Average balance	Interest income/ (expense)	Annualized average rate of return (cost)(%)
Assets						
Cash and balances with central banks	892,407	13,048	1.46	946,071	13,570	1.43
Due from banks and other financial institutions	791,264	24,945	3.15	737,709	20,528	2.78
Loans and advances to customers	4,625,409	225,422	4.87	4,361,925	200,207	4.59
Including: Corporate loans	2,974,243	135,890	4.57	2,959,565	126,900	4.29
Individual loans	1,507,695	82,821	5.49	1,266,575	67,746	5.35
Discounted bills	143,471	6,711	4.68	135,785	5,561	4.10
Investment securities	2,383,808	85,449	3.58	2,227,051	79,895	3.59
Interest-bearing assets	8,692,888	348,864	4.01	8,272,756	314,200	3.80
Non-interest-bearing assets	662,259			533,858		
Total assets	9,355,147			8,806,614		
Liabilities and Shareholders' Equity						
Due to customers	5,668,198	128,589	2.27	5,395,166	111,366	2.06
Including: Corporate deposits	3,905,635	86,677	2.22	3,755,836	76,240	2.03
Individual deposits	1,762,563	41,912	2.38	1,639,330	35,126	2.14
Due to banks and other financial institutions	2,066,506	66,788	3.23	2,123,709	64,751	3.05
Debt securities issued and others	575,704	22,579	3.92	356,690	13,210	3.70
Interest-bearing liabilities	8,310,408	217,956	2.62	7,875,565	189,327	2.40
Shareholders' equity and non-interest-bearing liabilities	1,044,739			931,049		
Total Liabilities and Shareholders' Equity	9,355,147			8,806,614		
Net interest income		130,908			124,873	
Net interest spread¹			1.39			1.40⁴
Net interest margin²			1.51			1.51⁴
Net interest spread^{1,3}			1.56			1.55⁴
Net interest margin^{2,3}			1.68			1.66⁴

Notes:

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

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

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

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

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

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

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

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

① Interest income

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

A. Interest income from loans and advances to customers

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

B. Interest income from investment securities

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

C. Interest income from cash and balances with central banks

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

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

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

② Interest expenses

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

A. Interest expenses on due to customers

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

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

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

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

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

3. *Net fee and commission income*

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

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

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

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

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

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

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

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

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

4. *Credit impairment losses*

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

5. *Operating costs*

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

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

	<i>(in millions of RMB)</i>	
	2018	2017
Staff costs and welfare	29,519	28,193
Operating expenses	28,844	26,334
Depreciation and amortization	5,677	5,878
Total operating costs	64,040	60,405

6. *Income tax*

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

(II) *Analysis on Key Balance Sheet Items*

1. *Assets*

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

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

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

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

① Loans and advances to customers

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

Loan concentration by industry

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

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

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

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

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

Loan concentration by borrowers

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

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

(in millions of RMB unless otherwise stated)

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

Loan concentration by geography

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

Loan quality

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

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

	<i>(in millions of RMB unless otherwise stated)</i>	
	31 December 2018	31 December 2017
Impaired loans	72,512	68,506
Overdue loans for more than 90 days	63,321	76,841
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.49	1.50

② Financial investment

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

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

– The breakdown of investments by nature

	<i>(in millions of RMB)</i>	
	31 December 2018	31 December 2017
Bonds	2,369,521	2,111,329
Equity instruments	17,720	6,107
Others	434,668	410,840
Total	<u>2,821,909</u>	<u>2,528,276</u>

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

(in millions of RMB unless otherwise stated)

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

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

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

(in millions of RMB unless otherwise stated)

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

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

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

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

2. *Liabilities*

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

Due to customers

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

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

	<i>(in millions of RMB)</i>	
	31 December 2018	31 December 2017
Corporate deposits	3,944,098	3,856,119
Including: Corporate demand deposits	1,748,857	1,852,676
Corporate time deposits	2,195,241	2,003,443
Individual deposits	1,776,488	1,685,792
Including: Individual demand deposits	687,393	655,559
Individual time deposits	1,089,095	1,030,233

(III) Analysis on Key Cash Flow Items

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

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

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

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

(IV) Segment Analysis

1. Operating results by geographical segments

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

	2018		<i>(in millions of RMB)</i> 2017	
	Profit before tax	Net operating income¹	Profit before tax	Net operating income¹
Northern China	12,471	22,100	13,468	23,109
North Eastern China	(3,907)	7,130	2,457	7,461
Eastern China	32,914	75,696	26,091	74,315
Central and Southern China	22,268	39,060	21,408	36,372
Western China	6,694	17,529	7,772	16,845
Overseas	7,899	13,285	6,909	11,526
Head Office	7,728	38,255	5,160	26,892
Total²	<u>86,067</u>	<u>213,055</u>	<u>83,265</u>	<u>196,520</u>

Notes:

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

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

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

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

3. *Operating results by business segments*

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

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

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

(V) Capital Adequacy Ratio

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

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

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

Note:

1. Pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial Implementation)*, the above calculation excluded BoCom Insurance and BoCommLife Insurance.
2. According to the implementation scope of the Advanced Measurement Approach of Capital Management approved by the CBIRC, the credit risk met the regulatory requirements was assessed by the internal rating-based approach, the market risk by the internal model approach, the operational risk by the standardized approach. The credit risk not covered by the internal rating-based approach was assessed by the weighted approach. The market risk not covered by the internal rating-based approach was assessed by the standardized approach. The operational risk not covered by the standardized approach was assessed by the basic-indicator approach.

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

Item	The Group	The Bank
Core capital adequacy ratio (%)	10.09	9.92
Capital adequacy ratio (%)	13.09	12.75

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

(VI) Leverage Ratio

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

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

Information relating to leverage ratio

(in millions of RMB unless otherwise stated)

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

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

(in millions of RMB unless otherwise stated)

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

(VII) Liquidity Coverage Ratio

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

(in millions of RMB unless otherwise stated)

Serial Number		Amount before conversion	Amount after conversion
The qualified high-quality liquid assets			
1	The qualified high-quality liquid assets		1,548,570
Cash Outflow			
2	Retail deposits, small business deposits, including:	1,405,920	132,530
3	Stable deposit	157,694	7,707
4	Less stable deposit	1,248,226	124,823
5	Unsecured wholesale funding, including:	3,844,898	1,682,923
6	Business relationship deposit (excluding agency business)	2,310,425	576,072
7	Non-business relationship deposit (including all counterparties)	1,530,511	1,102,889
8	Unsecured debts	3,962	3,962
9	Secured funding	–	15,085
10	Other items, including:	1,496,832	699,699
11	Cash outflow relates to derivatives and other collateral/pledged assets	656,880	652,017
12	Cash outflow relates to loss of funding on asset-blocked securities	85	85
13	Committed credit and liquidity facilities	839,867	47,597
14	Other contractual obligation to extend funds	43,195	43,195
15	Contingent funding obligations	1,034,325	33,454
16	Total expected cash outflow		2,606,886
Cash Inflow			
17	Secured lending (including reverse repos and securities borrowing)	59,732	58,150
18	Inflows from fully performing exposure	754,633	496,515
19	Other cash inflow	683,727	669,971
20	Total expected cash inflow	1,498,092	1,224,636
			Amount after adjustment
21	The qualified high-quality liquid assets		1,548,570
22	Net cash outflow		1,382,250
23	Liquidity Coverage Ratio (%)		112.03

(VIII) Other Financial Information

The relevant information disclosed below is set out in accordance with the requirements of the China Securities Regulatory Commission.

1. Fair value measurement related items

The Group established a market risk management with the ultimate responsibility and leadership of the Board of Directors. The Group established an internal controls framework based on fair value measurement to meet the requirements of relevant internal controls and information disclosure. The Group also gradually improved the systematic management of market risk by connecting all relevant front, middle and back office departments and encompassing fair value acquisition, measurement, monitoring and verification. The Group continued leveraging the experience from its peers and international practices to further optimize its internal controls system regarding fair value measurement. The Group primarily used quoted market prices as the fair value of financial instruments 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 were reviewed by the relevant risk management departments.

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

<i>(in millions of RMB)</i>					
Item	Closing balance as at 31 December 2017	Gains/(Losses) on changes in fair value for the year	Cumulative fair value gains/(losses) recognized in equity	Impairment losses (accrued)/ reversed for the year	Closing balance as at 31 December 2018
Financial assets					
1. Financial investments – financial assets at fair value through profit or loss	227,030	4,909	–	–	376,386
2. Derivative financial assets	34,007	1,541	11	–	30,730
3. Financial investments – financial investments at fair value through other comprehensive income	N/A	(81)	(1,696)	(265)	445,018
4. Financial investments – available- for-sale	402,138	N/A	N/A	N/A	N/A

Item	Closing balance as at 31 December 2017	Gains/(Losses) on changes in fair value for the year	Cumulative fair value gains/(losses) recognized in equity	Impairment losses (accrued)/ reversed for the year	Closing balance as at 31 December 2018
5. Loans and advances to customers at fair value through profit or loss	N/A	1	–	–	494
6. Loans and advances to customers at fair value through other comprehensive income	N/A	–	(259)	317	184,184
Financial assets subtotal	663,175	6,370	(1,944)	52	1,036,812
Investment properties	8,217	117	–	–	7,899
Total	671,392	6,487	(1,944)	52	1,044,711
Financial liabilities^{Note}	(78,355)	(3,238)	19	–	(67,643)

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

2. *Restructured loans and overdue loans*

(in millions of RMB unless otherwise stated)

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

3. *Commitments and contingencies*

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

4. *Others*

- (1) Overall analysis in external equity investments. As at the end of the Reporting Period, the long term external equity investments of the Group increased by RMB0.296 billion over the end of the previous year to RMB3.653 billion.
- (2) During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures.
- (3) The Group's assets pledged were mainly collateral under repurchase agreements and loans from banks and other financial institutions. Save as disclosed above, there were no other significant assets pledged to be disclosed during the Reporting Period.

III. BUSINESS INNOVATION AND NEW PRODUCTS

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

(I) Consummated business innovation mechanisms

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

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

(II) Corporate financial business innovation

1. Cash management

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

2. Industrial value chain finance

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

3. *Investment banking business*

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

4. *International settlement and trade finance*

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

5. *Inclusive finance business*

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

(III) Personal financial business innovation

1. *Credit card business*

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

2. *Wealth management services*

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

3. *Deposits and financial management products*

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

4. *Retail credit*

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

5. *Mobile payment*

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

6. *Online services*

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

(IV) *Interbank and financial market business innovation*

1. *Financial market business*

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

2. *Asset management business*

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

IV. RISK MANAGEMENT

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

1 Risk Appetite

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

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

2 Risk Management Framework

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

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

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

3 *Risk Management Tool*

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

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

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

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, reporting, business review and approval, distribution of fund, duration management, overdue impaired loan management, all of which eliminated credit risk to an acceptable level and reached a balance between risks and returns.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 *Liquidity Risk Management*

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

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

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

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

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

7 *Operational Risk Management*

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

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

8 *Legal Compliance and Anti-Money Laundering*

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

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

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

9 *Reputational Risk*

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

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

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

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

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

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

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

11 *Management of Large Exposure*

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

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

V. OUTLOOK

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

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

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

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

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

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

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

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

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

VI. OTHER INFORMATION

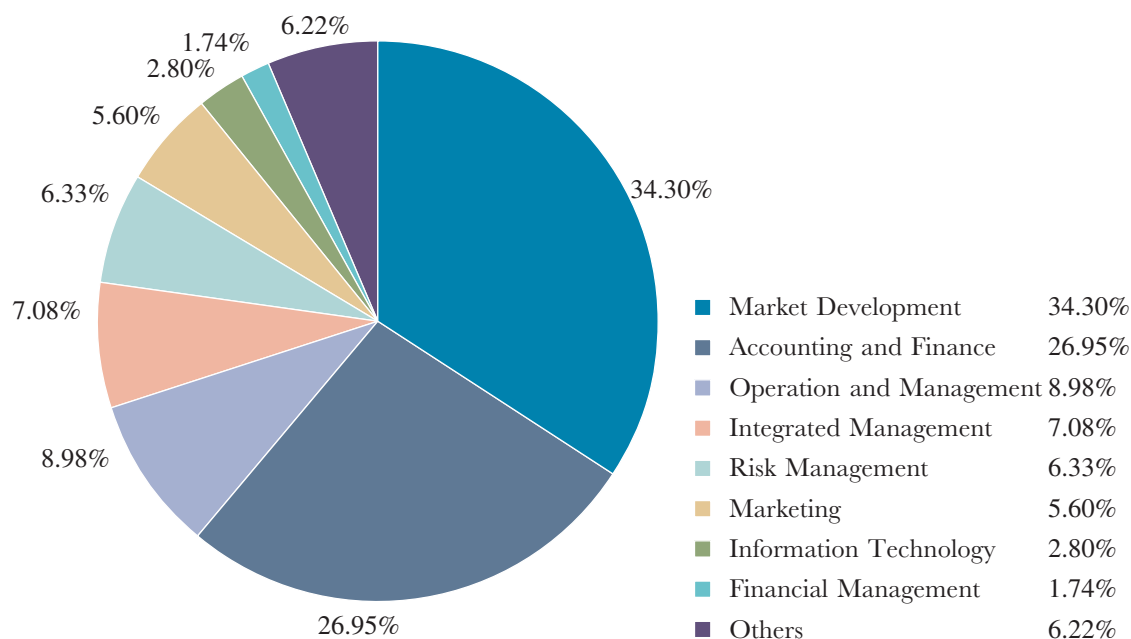
(I) Human Resources

1 Basic Information of Employees and Institutions

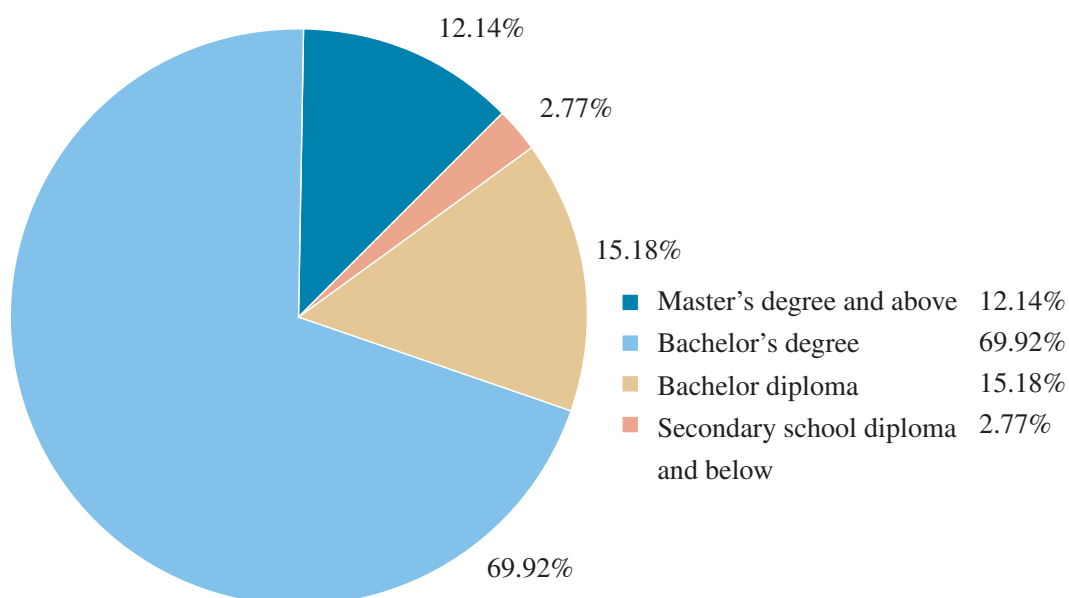
As at the end of the Reporting Period, the Bank had a total of 89,542 domestic and overseas employees, of which 87,090 employees were based domestically and 2,452 were local employees in overseas branches. There were 3,204 employees in the Bank's major subsidiaries. For employees in domestic institutions,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

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

Employee mix pie chart



Educational level pie chart



31 December 2018

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

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

2 *Remuneration Policy*

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

3 *Performance Management*

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

4 *Training Management*

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

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

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

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

During the Reporting Period, the Bank organized cadre trainings for nearly 1,100,000 staffs, including off-job trainings for over 300,000 staffs and online trainings for over 800,000 staffs. The Group had 2,316 certified part-time trainers, over 300 core courses and over 5,700 online courses. Staff satisfaction rate of major project courses was 97.4%. The construction of training system was further deepened, the capacity construction of teachers, courses and bases were further enhanced. The work of education and training achieved high-quality development.

5 *Talent Training and Reserve*

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

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

(II) Purchase, Sale or Repurchase of listed securities

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 Hong Kong Listing Rules

Under the goal of becoming the “best bank in corporate governance”, the Bank always adheres to the key initiatives of enhancing the standardization and efficiency of its corporate governance in order to strengthen core competitiveness and promote strategy implementation. During the Reporting Period, the Bank successfully completed the decision-making process of corporate governance for adding the Party building into the Articles of Association and continuously improved the corporate governance mechanisms based on “the core leadership

by the Party Committees, strategic decision-making by the Board of Directors, the legal supervision by the Board of Supervisors and the authorized operation of Senior Management” for large-scale commercial bank with Chinese characteristics. The bank promoted the work in key areas such as strategic management, overall risk management, restricted incentives, capital management and internal control, which focused on three major tasks of serving the real economy, preventing financial risks and deepening financial reforms, to achieve the Bank’s development of high-quality and protect the legitimate rights and interests of shareholders and other stakeholders.

In compliance with Code A.2.1 of the *Corporate Governance Code* in Appendix 14 of *The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the “**Hong Kong Listing Rules**”), on 1 February 2018, the Board of Directors of the Bank appointed Mr. Peng Chun as Chairman of the Bank. On the same day, Mr. Peng Chun resigned from his position as President of the Bank. Before the appointment of the new President who is appointed by the Board of Directors and approved by the CBIRC, Mr. Peng Chun temporarily performed the duties of President. On 12 June 2018, the Board of Directors of the Bank appointed Mr. Ren Deqi as President of the Bank. As of the date of his qualification approved by the CBIRC on 6 August 2018, Mr. Peng Chun ceased to temporarily perform the duties of President.

Save as disclosed above, the Board of Directors confirmed that the Bank fully complied with the principles and provisions under the *Corporate Governance Code* as set out in Appendix 14 of the Hong Kong Listing Rules, and adhered to majority of the recommended best practices as set out in the *Corporate Governance Code* during the Reporting Period.

(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 Hong Kong Listing Rules (“**Model Code**”). 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 and Their Changes

Name	Position	Class of shares	Number of shares held at the beginning of the Reporting Period (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Peng Chun	Chairman of the Board of Directors and Executive Director	A share	150,000	100,000	250,000
		H share	50,000	0	50,000
Ren Deqi	Vice Chairman of the Board of Directors, Executive Director and President	A share	0	0	0
		H share	0	100,000	100,000
Hou Weidong	Executive Director and Executive Vice President	A share	80,000	0	80,000
		H share	20,000	0	20,000
Wu Wei	Executive Director, Executive Vice President and Chief Financial Officer	A share	46,000	50,000	96,000
		H share	20,000	0	20,000
Wang Taiyin	Non-executive Director	A share	80,000	0	80,000
		H share	30,000	20,000	50,000
Song Guobin	Non-executive Director	A share	0	20,000	20,000
		H share	0	0	0
He Zhaobin	Non-executive Director	A share	0	20,000	20,000
		H share	0	0	0
Chen Qing	Employee Supervisor	A share	40,000	0	40,000
		H share	20,000	0	20,000
Du Yarong	Employee Supervisor	A share	60,000	0	60,000
		H share	20,000	0	20,000
Xu Ming	Employee Supervisor	A share	70,000	0	70,000
		H share	0	0	0
Guan Xingshe	Employee Supervisor	A share	200	(200)	0
		H share	0	0	0
Guo Mang	Executive Vice President	A share	50,000	0	50,000
		H share	0	0	0
Gu Sheng	Secretary of the Board of Directors	A share	46,100	20,000	66,100
		H share	0	0	0

Name	Position	Class of shares	Number of shares held at the beginning of the Reporting Period (Share)	Increase (or decrease) in shareholdings during the Reporting Period (Share)	Number of shares held as at the end of the Reporting Period (Share)
Xu Han	Chief Business Officer (Retail and Private Business Sector)	A share	50,000	0	50,000
		H share	30,000	0	30,000
Tu Hong	Chief Business Officer (Interbank and Market Business Sector)	A share	0	0	0
		H share	50,000	0	50,000
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	A share	0	0	0
		H share	30,000	0	30,000
Directors, Supervisors Senior Management resigned/retired					
Niu Ximing	Former Chairman of the Board of Directors and Executive Director	A share	210,000	0	210,000
		H share	180,000	0	180,000
Yu Yali	Former Executive Director and Executive Vice President	A share	80,000	0	80,000
		H share	20,000	0	20,000
Shen Rujun	Former Executive Director and Executive Vice President	A share	0	0	0
		H share	20,000	20,000	40,000
Song Shuguang	Former Chairman of the Board of Supervisors	A share	130,000	0	130,000
		H share	50,000	0	50,000
Fan Jun	Former Employee Supervisor	A share	40,000	0	40,000
		H share	20,000	0	20,000
Shou Meisheng	Former Secretary of Discipline Inspection Committee	A share	79,100	0	79,100
		H share	20,000	0	20,000
Du Jianglong	Former Secretary of the Board of Directors	A share	80,000	0	80,000
		H share	0	0	0
Fu Wanjun	Former Chief Business Officer (Corporate and Institutional Business Sector)	A share	71,300	0	71,300
		H share	0	0	0

Note: The changes in shareholdings mentioned above were generated from buying and selling in the secondary market.

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

(VI) Profit Distribution

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

VII. FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(In millions of RMB unless otherwise stated)

	Year ended 31 December	
	2018	2017
Interest income	348,864	314,200
Interest expense	<u>(217,956)</u>	<u>(189,327)</u>
Net interest income	130,908	124,873
Fee and commission income	44,673	44,060
Fee and commission expense	<u>(3,436)</u>	<u>(3,509)</u>
Net fee and commission income	41,237	40,551
Net gains arising from trading activities	17,099	2,096
Net gains arising from financial investments	290	3,084
<i>Net gains/(losses) on derecognition of financial assets measured at amortised cost</i>	(132)	N.A.
Share of profits of associates and joint venture	227	132
Insurance business income	7,481	12,968
Other operating income	15,813	12,816
Assets impairment losses	N.A.	(31,469)
Credit impairment losses	(43,454)	N.A.
Other assets impairment losses	(60)	N.A.
Insurance business expense	(6,722)	(12,211)
Other operating expenses	<u>(76,752)</u>	<u>(69,575)</u>
Profit before tax	86,067	83,265
Income tax	<u>(11,902)</u>	<u>(12,574)</u>
Net profit for the year	<u>74,165</u>	<u>70,691</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

(In millions of RMB unless otherwise stated)

Year ended 31 December

2018

2017

Other comprehensive income

Items that may be reclassified

subsequently to profit or loss:

Loans and advances to customers – carried
at FVOCI

<i>Net gains recorded in equity</i>	102	N.A.
<i>Net gains reclassified from equity to profit or loss</i>	–	N.A.

Debt instruments at fair value through other
comprehensive income

<i>Net gains recorded in equity</i>	2,086	N.A.
<i>Net gains reclassified from equity to profit or loss</i>	(171)	N.A.

Available-for-sale financial assets

<i>Changes in fair value recorded in equity</i>	N.A.	(2,317)
<i>Changes in fair value reclassified from equity to profit or loss</i>	N.A.	(2,111)

Net gains/(losses) arising from cash flow
hedge

<i>Changes in fair value recorded in equity</i>	110	18
<i>Changes in fair value reclassified from equity to profit or loss</i>	(93)	103

Others

18 (9)

Translation difference on foreign operations

1,998 (1,592)

4,050 (5,908)

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

(In millions of RMB unless otherwise stated)

Year ended 31 December

2018

2017

Items that will not be reclassified

subsequently to profit or loss:

Net gains on equity investments designated
at fair value through other comprehensive
income

61

N.A.

Actuarial gains/(losses) on pension benefits

(25)

31

Change in fair value attributable to change
in the credit risk of financial liability
designated at FVPL

(14)

N.A.

Other comprehensive income for the year

4,072

(5,877)

Comprehensive income for the year

78,237

64,814

Net profit attributable to:

Shareholders of the Bank

73,630

70,223

Non-controlling interests

535

468

74,165

70,691

Total comprehensive income attributable to:

Shareholders of the Bank

77,461

64,585

Non-controlling interests

776

229

78,237

64,814

Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)

0.96

0.91

Consolidated Statement of Financial Position

(In millions of RMB unless otherwise stated)

	As at 31 December 2018	As at 31 December 2017
ASSETS		
Cash and balances with central banks	840,171	938,571
Due from banks and other financial institutions	848,067	782,468
Derivative financial assets	30,730	34,007
Loans and advances to customers	4,742,372	4,473,255
Financial investments – financial assets at fair value through profit or loss	376,386	227,030
Financial investments – debt instruments at amortised cost	2,000,505	N.A
Financial investments – debt instruments at fair value through other comprehensive income	437,630	N.A
Financial investments – equity investments at fair value through other comprehensive income	7,388	N.A
Financial investments – available-for-sale	N.A	402,138
Financial investments – loans and receivables	N.A	387,733
Financial investments – held-to-maturity	N.A	1,511,375
Investments in associates and joint venture	3,653	3,357
Property and equipment	153,286	132,492
Deferred income tax assets	21,975	16,456
Other assets	69,008	129,372
Total assets	9,531,171	9,038,254

Consolidated Statement of Financial Position (Continued)

(In millions of RMB unless otherwise stated)

	As at 31 December 2018	As at 31 December 2017
LIABILITIES		
Due to banks and other financial institutions	2,162,293	2,106,192
Financial liabilities at fair value through profit or loss	23,109	26,964
Derivative financial liabilities	28,105	33,344
Due to customers	5,793,324	5,545,366
Certificates of deposits issued	366,753	150,482
Current tax liabilities	2,279	7,943
Deferred income tax liabilities	598	520
Debt securities issued	317,688	287,662
Other liabilities	131,714	203,510
Total liabilities	8,825,863	8,361,983
EQUITY		
Share capital	74,263	74,263
Preference shares	59,876	59,876
Capital surplus	113,663	113,663
Other reserves	321,442	298,827
Retained earnings	129,161	124,514
Equity attributable to shareholders of the bank	698,405	671,143
Non-controlling interests	6,903	5,128
Total equity	705,308	676,271
Total equity and liabilities	9,531,171	9,038,254

Consolidated Statement of Changes in Equity

(In millions of RMB unless otherwise stated)

	Other reserves															
	Share capital	Preference shares	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation		Cash flow hedge reserve	Translation reserve on foreign operations	Actuarial changes reserve	Others	Retained earnings	Attributable to the shareholders of the Bank	Non-controlling interests	Total
							Available-for-sale financial assets	Revaluation reserve for the changes in credit risk of the financial assets at the financial FVOCI/ measured designated at FVPL								
Balance at 31 December 2017	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	N.A.	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271
Impact on adoption of IFRS 9	-	-	-	-	-	-	1,891	(6)	-	-	-	-	(28,257)	(26,372)	(54)	(26,426)
Balance at 1 January 2018 (restated)	74,263	59,876	113,663	57,461	139,767	104,470	(474)	(6)	7	(1,875)	35	1,327	96,257	644,771	5,074	649,845
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	73,630	73,630	535	74,165
Other comprehensive income	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	-	3,831	241	4,072
Total comprehensive income	-	-	-	-	-	-	1,867	(14)	17	1,968	(25)	18	73,630	77,461	776	78,237
Capital contribution by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
Dividends paid to ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	(21,209)	(21,209)	(72)	(21,281)
Dividends paid to preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(2,618)	(2,618)	-	(2,618)
Transfer to reserves	-	-	-	7,055	29	9,811	-	-	-	-	-	-	(16,895)	-	-	-
Transferred from other comprehensive income	-	-	-	-	-	-	4	-	-	-	-	-	(4)	-	-	-
Balance at 31 December 2018	74,263	59,876	113,663	64,516	139,796	114,281	1,397	(20)	24	93	10	1,345	129,161	698,405	6,903	705,308
Balance at 1 January 2017	74,263	59,876	113,392	50,650	139,764	87,732	1,832	N.A.	(114)	(291)	4	1,336	100,698	629,142	3,265	632,407
Net profit for the year	-	-	-	-	-	-	-	N.A.	-	-	-	-	70,223	70,223	468	70,691
Other comprehensive income	-	-	-	-	-	-	(4,197)	N.A.	121	(1,584)	31	(9)	-	(5,638)	(239)	(5,877)
Total comprehensive income	-	-	-	-	-	-	(4,197)	N.A.	121	(1,584)	31	(9)	70,223	64,585	229	64,814
Capital contribution by non-controlling shareholders	-	-	277	-	-	-	-	N.A.	-	-	-	-	-	277	1,667	1,944
Dividends paid to ordinary shares	-	-	-	-	-	-	-	N.A.	-	-	-	-	(20,162)	(20,162)	(33)	(20,195)
Dividends paid to preference shares	-	-	-	-	-	-	-	N.A.	-	-	-	-	(2,693)	(2,693)	-	(2,693)
Transfer to reserves	-	-	-	6,811	3	16,738	-	N.A.	-	-	-	-	(23,552)	-	-	-
Others	-	-	(6)	-	-	-	-	N.A.	-	-	-	-	-	(6)	-	(6)
Balance at 31 December 2017	74,263	59,876	113,663	57,461	139,767	104,470	(2,365)	N.A.	7	(1,875)	35	1,327	124,514	671,143	5,128	676,271

Consolidated Statement of Cash Flows

(In millions of RMB unless otherwise stated)

Year ended 31 December

2018 2017

Cash flows from operating activities:

Net profit before tax:	86,067	83,265
Adjustments for:		
Provision for/(reversal of) ECL allowance of loans and advances to customers	43,623	30,161
Provision for/(reversal of) ECL allowance of due from banks and other financial institutions	(43)	–
Provision for/(reversal of) ECL allowance of financial investments	(97)	221
Provision for/(reversal of) ECL allowance of other receivables	1,075	991
Provision for/(reversal of) ECL allowance of others	(1,104)	11
Provision for/(reversal of) impairment allowance of property and equipment	33	80
Provision for/(reversal of) impairment allowance of foreclosed assets	27	6
Provision for/(reversal of) impairment allowance on repossessed assets	–	(1)
Provision for/(reversal of) insurance contracts reserve	1,393	8,916
Depreciation and amortisation	10,250	9,315
Provision for/(reversal of) outstanding litigation and unsettled obligation	549	110
Net profit on the disposal of fixed and foreclosed assets	(15)	(123)
Interest income from financial investments	(85,449)	(79,895)
Unwind of discount on allowances during the year	(1,618)	(1,812)
Fair value losses/(gains)	(6,527)	5,756
Share of profit of associates and joint venture	(227)	(132)
Net gains arising from financial investments	(290)	(3,084)
Interest expense on debt securities issued	11,992	10,068
Operating cash flows before movements in operating assets and liabilities	59,639	63,853

Consolidated Statement of Cash Flows (Continued)

(In millions of RMB unless otherwise stated)

	Year ended 31 December	
	2018	2017
Net decrease/(increase) in mandatory reserve deposits	106,039	(29,838)
Net increase in due from banks and other financial institutions	(52,257)	(71,456)
Net increase in financial assets at fair value through profit or loss	(88,330)	(56,908)
Net increase in loans and advances to customers	(326,960)	(379,286)
Net decrease/(increase) in other assets	4,266	(34,951)
Net increase in due to banks and other financial institutions	238,717	151,684
Net decrease in financial liabilities at fair value through profit or loss	(5,013)	(17,823)
Net increase in due to customers	393,174	369,296
Net increase/(decrease) in other liabilities	(191,806)	28,803
Net increase/(decrease) in value-added tax and surcharge payable	576	(590)
Income tax paid	(14,153)	(12,057)
Net cash flows from operating activities	<u>123,892</u>	<u>10,727</u>
Cash flows from investing activities:		
Purchase of financial investments	(694,169)	(530,249)
Disposal or redemption of financial investments	542,954	355,053
Dividends received	379	420
Interest received from financial investments	81,294	79,977
Acquisition of intangible assets and other assets	(694)	(1,535)
Disposal of intangible assets and other assets	124	34
Purchase and construction of property and equipment	(30,649)	(27,736)
Disposal of property and equipment	621	1,077
Net cash flows from investing activities	<u>(100,140)</u>	<u>(122,959)</u>

Consolidated Statement of Cash Flows (Continued)

(In millions of RMB unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from financing activities:		
Cash received on debt securities issued	41,846	90,028
Cash payments for distribution of dividends, profits or interest expenses	(36,043)	(32,062)
Capital contribution by non-controlling interests	1,125	1,944
Repayment of principals of debt securities issued	(20,332)	(29,395)
Dividends paid to non-controlling interests	(72)	(33)
Net cash flows from financing activities	(13,476)	30,482
Effect of exchange rate changes on cash and cash equivalents	4,297	(5,727)
Net increase/(decrease) in cash and cash equivalents	14,573	(87,477)
Cash and cash equivalents at the beginning of the year	228,919	316,396
Cash and cash equivalents at the end of the year	243,492	228,919
Net cash flows from operating activities include:		
Interest received	281,793	243,096
Interest paid	(193,279)	(167,796)

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 2018 and the relevant impact is set out below:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendments to IAS 40	Transfer of investment property
Amendments to IAS 28	Annual Improvements to IFRSs 2014 – 2016 cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Share-based payment transactions
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts

IFRS 9

The Group has adopted International Financial Report Standard 9 “Financial Instruments” (“IFRS 9”) as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which composed changes in accounting policies and resulted in adjustments to the amounts previously recognised in the financial statements. No early adoption of IFRS 9 is applied in prior period by the Group.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 “Financial Instruments: Disclosures”*.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

IFRS 15

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

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

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

Amendments to IAS 40

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

Amendments to IAS 28

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

International Financial Reporting Interpretations Committee (“IFRIC”) 22

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

Amendments to IFRS 2

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

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

Amendments to IFRS 4

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

Except the above mentioned impact of IFRS 9, the adoption of the above new IFRSs and amendments to IFRSs issued has no material effects on the Group's operating results, financial position or other comprehensive income.

(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 IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
IFRIC 23	Uncertainty over Income Tax	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 - 2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
Amendments to IAS 19	Plan Amendment Curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019

Amendments to IFRS 10 and IAS 28

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

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

IFRIC 23

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

IFRS 16

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standards improve the identification, breakdown and merger of leases and require lessees to recognize leases in balance sheets. For lessees, the new leasing standards will recognize all the leases in balance sheets as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognize the right-of-use assets and leasing liabilities, and exemptions applied only to short-term and low-value leases. Meanwhile, the new standards improve the also improve the accounting treatment of the lessee on subsequent measurement and leasing changes. The new standards have not undergone substantial changes in the accounting of lessors.

The Group will adopt the standards for annual periods beginning on or after 1 January 2019 and intends to use the simple transition methods stated in the standards to restate the comparative amount for the previous year impacted by the first adoption. On the first day of implementation, the group will measure the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets for the leases of inventory using the new standards as from the beginning of the lease period. For short-term and low-value leases, the group is subject to the recognition exemptions.

The group expects that the first adoption of the new standards will reduce retained earnings for the beginning balance of 2019, but will not have a significant impact on the financial statements.

IFRS 17

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

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

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

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

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

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

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

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

Amendments to IFRS 9

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

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19, 'Employee Benefits', in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

Except the above mentioned impact of IFRS 16 and IFRS 17, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 Net Interest Income

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2018	2017
Interest income		
Loans and advances to customers	225,422	200,207
Financial investments	85,449	79,895
Due from banks and other financial institutions	24,945	20,528
Balances with central banks	<u>13,048</u>	<u>13,570</u>
	<u>348,864</u>	<u>314,200</u>
Interest expense		
Due to customers	(128,589)	(111,366)
Due to banks and other financial institutions	(66,788)	(64,751)
Certificates of deposits issued	(11,344)	(3,572)
Debt securities issued	<u>(11,235)</u>	<u>(9,638)</u>
	<u>(217,956)</u>	<u>(189,327)</u>
Net interest income	<u><u>130,908</u></u>	<u><u>124,873</u></u>
Including:		
Interest income on impaired financial assets	<u>1,618</u>	<u>1,812</u>

3 Fee and Commission Income

(In millions of RMB)

Year ended 31 December

	2018	2017
Bank cards	20,114	16,267
Management services	12,524	14,948
Investment banking	4,424	4,518
Agency services	2,777	3,216
Guarantee and commitment	2,461	2,554
Settlement services	2,167	1,884
Others	206	673
	<u>44,673</u>	<u>44,060</u>

Year ended 31 December

	2018	2017
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	701	907
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<u>3,406</u>	<u>3,124</u>

4 Credit Impairment Losses/Other Assets Impairment Losses/Assets Impairment Losses

(In millions of RMB)

Credit impairment losses:	Year ended 31 December 2018
Credit impairment losses on due from banks and other financial institutions	(43)
Credit impairment losses on loans and advances to customers at amortised cost	42,813
Credit impairment losses on loans and advances carried at FVOCI	(317)
Credit impairment losses on guarantee and commitment	(1,142)
Credit impairment losses on financial investments – debt instruments at amortised cost	(362)
Credit impairment losses on financial investments – debt instruments at FVOCI	265
Credit impairment losses on other receivables	1,075
Credit impairment losses on interest receivable of loans and advances to customers at amortised cost	1,127
Others	38
	<u>43,454</u>
Other assets impairment losses:	Year ended 31 December 2018
Impairment losses on property and equipment	33
Impairment losses on foreclosed assets	27
	<u>60</u>
Assets impairment losses:	Year ended 31 December 2017
Impairment losses on loans and advances to customers	30,161
Impairment losses on financial investments – available-for-sale	412
Impairment losses on financial investments – held-to-maturity	4
Impairment losses on financial investments – loans and receivables	(195)
Impairment losses on property and equipment	80
Impairment losses on other receivables	991
Impairment losses on foreclosed assets	6
Impairment losses on unsettled assets	(1)
Others	11
	<u>31,469</u>

5 Income Tax

(In millions of RMB)

	Year ended 31 December	
	2018	2017
Current tax		
– PRC enterprise income tax	6,838	13,602
– Hong Kong profits tax	1,058	826
– Overseas taxations	<u>593</u>	<u>408</u>
	8,489	14,836
Deferred income tax	<u>3,413</u>	<u>(2,262)</u>
	<u><u>11,902</u></u>	<u><u>12,574</u></u>

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2017: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions, the shortfall arising from the differential in tax rates of overseas branches as compared with the PRC tax rate shall be reported and paid by the PRC head office.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2017: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2018	2017
Profit before tax	<u>86,067</u>	<u>83,265</u>
Tax calculated at a tax rate of 25%	21,517	20,816
Effect of different tax rates in other countries (or regions)	(33)	(31)
Tax effect of expense not deductible for tax purposes	3,589	1,966
Tax effect arising from income not subject to tax ⁽¹⁾	(12,395)	(10,282)
Income tax adjustment for prior years	<u>(776)</u>	<u>105</u>
Income tax expense	<u><u>11,902</u></u>	<u><u>12,574</u></u>

⁽¹⁾ 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 period.

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2018	2017
Net profit attributable to shareholders of the Bank	73,630	70,223
Less: Net profit attributable to preference shareholders of the Bank	<u>(2,618)</u>	<u>(2,693)</u>
Net profit attributable to ordinary shareholders of the Bank	<u>71,012</u>	<u>67,530</u>
Weighted average number of ordinary shares in issue (expressed in millions) at the end of the period	<u>74,263</u>	<u>74,263</u>
Basic and diluted earnings per share (expressed in RMB per share)	<u><u>0.96</u></u>	<u><u>0.91</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 RMB2,618 million on non-cumulative preference shares declared for the period was deducted from the amounts attributable to ordinary shareholders of the Bank. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2018, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation..

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 2018			
Foreign exchange and commodity contracts	2,541,252	26,441	(25,640)
Interest rate contracts and others	831,692	4,289	(2,465)
Total amount of derivative instruments recognised	3,372,944	30,730	(28,105)

(In millions of RMB)

	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	<u>721,892</u>	<u>2,352</u>	<u>(1,525)</u>
Total amount of derivative instruments recognised	<u>3,194,395</u>	<u>34,007</u>	<u>(33,344)</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 period/year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

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

Notional amounts of derivative financial instruments by original currency:

	As at 31 December 2018	As at 31 December 2017
RMB	1,785,452	1,518,866
USD	1,384,347	1,343,072
HKD	129,328	200,543
Others	<u>73,817</u>	<u>131,914</u>
Total	<u>3,372,944</u>	<u>3,194,395</u>

Hedge accounting

The Group applies hedge accounting mainly in two separate hedging strategies, as follows:

Interest rate risk on fixed rate financial assets and financial liabilities and foreign exchange risk on foreign currency debt (fair value hedge)

The Group holds a portfolio of long-term fixed rate financial assets and financial liabilities and therefore is exposed to changes in fair value due to movements in market rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term fixed rate financial assets and financial liabilities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value.

This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the financial assets or financial liabilities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group obtain effective sources of funding from international markets. As part of this process, the overseas branches assume significant foreign currency exposure, principally USD. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange placements from banks issued in the foreign currency for financial liabilities in functional currency.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in fair values of the instrument.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts or interest rate contracts with changes in fair value of the hedged liabilities attributable to the hedged risk.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

- 1) Differences between the expected and actual holding amount, as the Group hedges to the expected maturity date but may sell the bond investments according to trading strategies;

- 2) The credit risk of the counterparty impacts the fair value of interest rate swaps and hedged items.

Foreign exchange risk on foreign currency debt and interest rate risk on floating rate debt (cash flow hedge)

The Group obtains effective sources of funding from international markets. As part of this process, the Group assumes significant foreign currency exposure, principally USD, HKD, CNY and GBP. The foreign currency risk component is then managed and mitigated by the use of foreign exchange contracts, which exchange financial liabilities such as placements from banks and certificates of deposits issued in the foreign currency for financial liabilities in AUD, USD and GBP. These instruments are entered into to match the maturity profile of estimated repayments of the Group's debt instruments. This hedging strategy is applied to the portion of the exposure that is not naturally offset against matching asset positions held by the Group in financial investments also denominated in foreign currencies.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument.

The Group bears financial liabilities on floating interest rate and therefore is exposed to changes in fair value due to movements in market rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps. Only the interest rate risk element is hedged and therefore other risks are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of future cash flows due to changes in market interest rates.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the foreign exchange contracts or interest rate contracts with changes in fair value of the hedged liabilities attributable to the hedged risk or changes in net present value of future cash flows using the hypothetical derivative method.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Following reasons could cause ineffectiveness:

- 1) Differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- 2) The credit risk of the counterparty impacts the fair value of interest rate swaps and hedged items.

- a) *The following table sets out the maturity profile and average exchange rate/ interest rate of the hedging instruments used in the Group's non-dynamic hedging strategies:*

(In millions of RMB)

	Maturity					Total
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	
As at 31 December 2018						
Fair value hedge						
Foreign exchange						
Foreign exchange contract in USD						
Notional	2	2	–	–	–	4
Average exchange rate of USD/BRL	3.71	3.76	–	–	–	
Interest rate contract						
Notional (i)	2	4	236	183	–	425
Average fixed interest rate of BRL	3.70%	2.63%	3.75%	4.18%	–	
Interest rate						
Interest rate contract						
Notional	70	–	6,266	44,609	19,760	70,705
Average fixed interest rate of USD and others	3.21%	–	2.65%	3.31%	3.66%	
Cash flow hedge						
Foreign exchange						
Foreign exchange contract in CNY						
Notional	3,022	931	6,353	–	–	10,306
Average exchange rate of USD/CNY	6.84	6.85	6.82	–	–	
Average exchange rate of AUD/CNY	4.93	5.04	4.94	–	–	
Foreign exchange contract in HKD (ii)						
Notional	594	2,809	2,474	1,365	–	7,242
Average fixed interest rate	–	–	–	2.68%	–	
Average exchange rate of USD/HKD	7.80	7.79	7.81	–	–	

(In millions of RMB)

	Maturity					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
As at 31 December 2018						
Average exchange rate of AUD/HKD	–	5.95	5.87	–	–	
Average exchange rate of GBP/HKD	–	–	–	10.40	–	
Foreign exchange contract in USD (ii)						
Notional	961	2,862	3,137	–	–	6,960
Average fixed interest rate	3.36%	3.50%	3.46%	–	–	
Average exchange rate of USD/AUD	1.35	–	1.38	–	–	
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of USD/NZD	–	1.47	–	–	–	
Average exchange rate of USD/BRL	–	3.92	–	–	–	
Average exchange rate of USD/CNY	6.49	6.33	6.57	–	–	
Foreign exchange contract in GBP						
Notional	–	–	608	–	–	608
Average exchange rate of GBP/USD	–	–	1.43	–	–	
Average exchange rate of GBP/AUD	–	–	1.86	–	–	
Interest rate						
Interest rate contract						
Notional	–	–	–	471	1,348	1,819
Average fixed interest rate of USD	–	–	–	4.74%	4.67%	

- (i) Interest rate contract refers to a compound tool with interest rate as the underlying asset
- (ii) Foreign exchange contracts include currency swap contracts and cross-currency swap contracts

b) The following table contains details of the hedging instruments used in the Group's hedging strategies:

(In millions of RMB)

	Notional	Carrying amount		Line item on balance sheet	Fair value changes of the hedging instruments
		Assets	Liabilities		
As at 31 December 2018					
Fair value hedge					
Foreign exchange					
Foreign exchange contract	4	–	–	Derivative financial assets/liabilities	1
Interest rate contract	425	14	(1)	Derivative financial assets/liabilities	65
Interest rate					
Interest rate contract	70,705	1,108	(352)	Derivative financial assets/liabilities	(94)
Cash flow hedge					
Foreign exchange					
Foreign exchange contract	25,116	451	(201)	Derivative financial assets/liabilities	122
Interest rate					
Interest rate contract	1,819	28	–	Derivative financial assets/liabilities	25

c) The following table contains details of the hedged exposures covered by the Group's hedging strategies:

(In millions of RMB)

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Line item on balance sheet	Fair value changes of the hedged items	Cash flow hedge reserves
	Assets	Liabilities	Assets	Liabilities			
As at 31 December 2018							
Fair value hedge							
Foreign exchange							
Placement from banks	-	(705)	-	(124)	Due to banks and other financial institutions	(116)	N.A.
Interest rate							
Bond Investments	67,742	-	(722)	-	Financial investments – debt instruments at fair value through other comprehensive income	51	N.A.
Deposits from banks and other financial institutions	-	(663)	-	23	Due to banks and other financial institutions	8	N.A.
Loans and advances to customers	2,134	-	(19)	-	Loans and advances to customers	15	N.A.
Certificates of deposits issued	-	(541)	-	5	Certificates of deposits issued	(39)	N.A.
Cash flow hedge							
Foreign exchange	N.A.	N.A.	N.A.	N.A.	N.A	(122)	3
Interest rate	N.A.	N.A.	N.A.	N.A.	N.A	(25)	21

d) The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

(In millions of RMB)						
	Gains/(losses) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit and loss	Profit and loss line item that includes hedge ineffectiveness	Amounts reclassified from reserves to profit and loss due to following reasons		
				Hedged cash flows no longer occurred	Hedged item affected profit and loss	Profit and loss line item that includes reclassified amount
Year ended 31 December 2018						
Fair value hedge						
Foreign exchange	N.A.	(50)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Interest rate	N.A.	(59)	Net gains arising from trading activities	N.A.	N.A.	N.A.
Cash flow hedge						
Foreign exchange	122	–	Net gains arising from trading activities	(11)	(113)	Net gains arising from trading activities
Interest rate	25	–	Net gains arising from trading activities	–	–	Net gains arising from trading activities
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The derivative financial instruments include those designated as hedging instruments by the Group in 2017 as follows:

		<i>(In millions of RMB)</i>	
	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	<u>24,414</u>	<u>401</u>	<u>(228)</u>
Total	<u>97,649</u>	<u>1,328</u>	<u>(357)</u>

(a) Fair value hedge

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

	As at 31 December 2017
Net gains on hedging instruments	256
Net losses on hedged items attributable to the hedge risk	<u>(348)</u>
Net losses from fair value hedges	<u>(92)</u>

(b) Cash flow hedge

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

8 Dividends

	<i>(In millions of RMB)</i>	
	Year ended 31 December	
	2018	2017
Dividends to ordinary shareholders of the Bank	21,209	20,162
Dividends to preference shareholders of the Bank	<u>2,618</u>	<u>2,693</u>

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

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at Annual General Meeting.

Pursuant to the proposal raised at the Board meeting on 29 March 2018 and the approval by the Annual General Meeting of Shareholders on 29 June 2018, the Bank appropriated RMB8,705 million to the statutory general reserve. It was also resolved that a cash dividend of RMB0.2856 (before tax) for each ordinary share, with total amount of RMB21,209 million, calculated based on 74,263 million shares outstanding (the par value per share is RMB1) as at 31 December 2017, will be distributed to ordinary shareholders.

Pursuant to the approval by the Board meeting on 27 April 2018, the Bank appropriated overseas preference dividends on 29 July 2018 with a dividend yield of 5% (the actual dividend yield obtained by the preference shareholders) with total amount of USD136 million. Since 29 July is not a working day, the dividend payment day defers to 30 July 2018. The Bank will appropriate domestic preference dividends on 7 September 2018 with a dividend yield of 3.9% (the actual dividend yield obtained by the preference shareholders), with total amount of RMB1,755 million.

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

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 2018	As at 31 December 2017
Letters of guarantee	268,097	272,981
Letters of credit commitments	141,137	131,280
Acceptances bills	228,550	196,125
Credit card commitments	759,994	742,011
Loan commitments		
– Under 1 year	12,709	16,147
– 1 year and over	45,731	54,159
	<u>1,456,218</u>	<u>1,412,703</u>

Capital expenditure commitments

	As at 31 December 2018	As at 31 December 2017
Contracted but not provided for	<u>66,968</u>	<u>70,236</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
	2018	2017
Within 1 year (inclusive)	3,918	4,185
Beyond 1 year but no more than 2 years (inclusive)	2,772	3,124
Beyond 2 years but no more than 3 years (inclusive)	1,908	2,186
Beyond 3 years but no more than 5 years (inclusive)	2,215	2,492
More than 5 years	1,532	1,819
	12,345	13,806

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
	2018	2017
Within 1 year (inclusive)	11,204	8,411
Beyond 1 year but no more than 2 years (inclusive)	11,045	8,388
Beyond 2 years but no more than 3 years (inclusive)	10,768	8,139
Beyond 3 years but no more than 5 years (inclusive)	20,983	14,892
More than 5 years	59,827	37,053
	113,827	76,883

Commitments on security underwriting and bond acceptance

The Group is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Group has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2018, the principal value of the Treasury Bonds that the Group had the obligation to buy back amounted to RMB74,423 million (31 December 2017: RMB73,271 million). The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity. The Group expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

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

As at 31 December 2018, there was no unfulfilled insurance of irrevocable commitment on security underwriting of the Group announced to the public (31 December 2017: Nil).

Legal proceedings

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

	<i>(In millions of RMB)</i>	
	As at 31 December 2018	As at 31 December 2017
Outstanding claims	3,242	3,694
Provision for outstanding litigation	982	449

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, Brazil and Melbourne.

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)

	Year ended 31 December 2018								Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	
External interest income	28,500	9,630	78,890	43,787	21,811	29,276	136,970	-	348,864
External interest expense	(30,461)	(8,934)	(58,022)	(32,062)	(14,467)	(21,499)	(52,511)	-	(217,956)
Inter-segment net Interest income/ (expense)	18,453	4,572	23,413	18,201	6,372	(426)	(70,585)	-	-
Net Interest income	16,492	5,268	44,281	29,926	13,716	7,351	13,874	-	130,908
Fee and commission income	4,342	1,623	13,606	8,160	3,221	3,350	10,371	-	44,673
Fee and commission expense	(226)	(53)	(1,508)	(285)	(153)	(351)	(860)	-	(3,436)
Net fee and commission income	4,116	1,570	12,098	7,875	3,068	2,999	9,511	-	41,237
Net gains/(losses) arising from trading activities	326	74	1,310	455	154	1,094	13,686	-	17,099
Net gains/(losses) arising from financial investments	-	-	149	-	-	282	(141)	-	290
Insurance business income	-	-	7,446	-	-	35	-	-	7,481
Share of profit of associates and joint venture	-	-	-	-	-	13	214	-	227
Other operating income	<u>1,166</u>	<u>218</u>	<u>10,412</u>	<u>804</u>	<u>591</u>	<u>1,511</u>	<u>1,111</u>	<u>-</u>	<u>15,813</u>
Total operating income – net	<u>22,100</u>	<u>7,130</u>	<u>75,696</u>	<u>39,060</u>	<u>17,529</u>	<u>13,285</u>	<u>38,255</u>	<u>-</u>	<u>213,055</u>
Credit impairment losses	(2,395)	(7,716)	(10,425)	(5,516)	(4,855)	(399)	(12,148)	-	(43,454)
Other assets impairment losses	-	-	(27)	(24)	-	(9)	-	-	(60)
Insurance business expense	-	-	(6,712)	-	-	(10)	-	-	(6,722)
Other operating expense	<u>(7,234)</u>	<u>(3,321)</u>	<u>(25,618)</u>	<u>(11,252)</u>	<u>(5,980)</u>	<u>(4,968)</u>	<u>(18,379)</u>	<u>-</u>	<u>(76,752)</u>
Profit before tax	<u>12,471</u>	<u>(3,907)</u>	<u>32,914</u>	<u>22,268</u>	<u>6,694</u>	<u>7,899</u>	<u>7,728</u>	<u>-</u>	<u>86,067</u>
Income tax									(11,902)
Net profit for the year									<u>74,165</u>
Depreciation and amortisation	(734)	(335)	(1,683)	(1,052)	(611)	(235)	(1,027)	-	(5,677)
Capital expenditure	<u>(361)</u>	<u>(170)</u>	<u>(27,597)</u>	<u>(974)</u>	<u>(665)</u>	<u>(780)</u>	<u>(798)</u>	<u>-</u>	<u>(31,345)</u>

(In millions of RMB)

	Year ended 31 December 2017								Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	
External interest income	26,790	9,374	71,906	38,861	20,626	20,414	126,229	–	314,200
External interest expense	(32,819)	(8,792)	(58,026)	(33,832)	(14,144)	(13,250)	(28,464)	–	(189,327)
Inter-segment net Interest income/ (expense)	23,116	4,984	25,232	21,602	6,651	(400)	(81,185)	–	–
Net Interest income	17,087	5,566	39,112	26,631	13,133	6,764	16,580	–	124,873
Fee and commission income	4,831	1,715	14,556	8,849	3,414	2,926	7,769	–	44,060
Fee and commission expense	(373)	(83)	(1,975)	(429)	(245)	(298)	(106)	–	(3,509)
Net fee and commission income	4,458	1,632	12,581	8,420	3,169	2,628	7,663	–	40,551
Net gains/(losses) arising from trading activities	279	59	942	432	90	189	105	–	2,096
Net gains/(losses) arising from financial investments	–	–	556	70	–	425	2,033	–	3,084
Insurance business income	–	–	12,932	–	–	36	–	–	12,968
Share of profit of associates and joint venture	–	–	–	–	–	(5)	137	–	132
Other operating income	1,285	204	8,192	819	453	1,489	374	–	12,816
Total operating income – net	23,109	7,461	74,315	36,372	16,845	11,526	26,892	–	196,520
Assets impairment losses	(2,398)	(1,690)	(14,612)	(3,875)	(3,762)	(281)	(4,851)	–	(31,469)
Insurance business expense	–	–	(12,198)	–	–	(13)	–	–	(12,211)
Other operating expense	(7,243)	(3,314)	(21,414)	(11,089)	(5,311)	(4,323)	(16,881)	–	(69,575)
Profit before tax	13,468	2,457	26,091	21,408	7,772	6,909	5,160	–	83,265
Income tax									(12,574)
Net profit for the year									70,691
Depreciation and amortisation	(787)	(383)	(1,762)	(1,120)	(658)	(195)	(973)	–	(5,878)
Capital expenditure	(411)	(179)	(24,075)	(1,049)	(590)	(394)	(2,107)	–	(28,805)

(In millions of RMB)

As at 31 December 2018									
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	<u>1,157,867</u>	<u>339,827</u>	<u>2,669,816</u>	<u>1,434,255</u>	<u>688,096</u>	<u>1,006,195</u>	<u>4,224,506</u>	<u>(2,011,366)</u>	<u>9,509,196</u>
Including:									
<i>Investments in associates and joint venture</i>	-	-	4	7	-	67	3,575	-	3,653
Unallocated assets									<u>21,975</u>
Total assets									<u>9,531,171</u>
Segment liabilities	<u>(1,140,638)</u>	<u>(342,636)</u>	<u>(2,534,865)</u>	<u>(1,399,199)</u>	<u>(681,169)</u>	<u>(991,077)</u>	<u>(3,747,047)</u>	<u>2,011,366</u>	<u>(8,825,265)</u>
Unallocated liabilities									<u>(598)</u>
Total liabilities									<u>(8,825,863)</u>

As at 31 December 2017									
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Head Office	Eliminations	Total
Segment assets	<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:									
<i>Investments in associates and joint venture</i>	-	-	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>

Business Information

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

The business information of the Group is summarised as follows:

	<i>(In millions of RMB)</i>				
	As at 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	49,626	41,747	37,302	2,233	130,908
Inter-segment net interest income/(expense)	19,847	8,946	(28,793)	–	–
Net interest income	69,473	50,693	8,509	2,233	130,908
Net fee and commission income	14,322	24,131	603	2,181	41,237
Net gains/(losses) arising from trading activities	2,585	(53)	13,876	691	17,099
Net gains/(losses) arising from financial investments	–	–	290	–	290
Share of profit of associates and joint venture	–	–	–	227	227
Insurance business income	–	–	–	7,481	7,481
Other operating income	11,508	3,130	2	1,173	15,813
Total operating income – net	97,888	77,901	23,280	13,986	213,055

	As at 31 December 2018				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Credit impairment losses	(29,726)	(13,607)	141	(262)	(43,454)
Other assets impairment losses	(34)	–	–	(26)	(60)
Insurance business expense	–	–	–	(6,722)	(6,722)
Other operating expense					
– Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
– Others	(28,641)	(36,093)	(2,467)	(3,874)	(71,075)
Profit before tax	<u>37,779</u>	<u>24,620</u>	<u>20,829</u>	<u>2,839</u>	<u>86,067</u>
Income tax					<u>(11,902)</u>
Net profit for the year					<u><u>74,165</u></u>
Depreciation and amortisation	(1,708)	(3,581)	(125)	(263)	(5,677)
Capital expenditure	(9,430)	(19,775)	(688)	(1,452)	(31,345)

(In millions of RMB)

	Year ended 31 December 2017				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	50,787	32,986	39,151	1,949	124,873
Inter-segment net interest income/(expense)	<u>17,685</u>	<u>12,273</u>	<u>(29,958)</u>	<u>–</u>	<u>–</u>
Net interest income	68,472	45,259	9,193	1,949	124,873
Net fee and commission income	16,034	20,229	2,483	1,805	40,551
Net gains/(losses) arising from trading activities	1,959	99	(511)	549	2,096
Net gains arising from financial investments	–	–	3,084	–	3,084
Share of profit of associates and joint venture	–	–	–	132	132
Insurance business income	–	–	–	12,968	12,968
Other operating income	<u>9,064</u>	<u>2,308</u>	<u>10</u>	<u>1,434</u>	<u>12,816</u>
Total operating income – net	<u>95,529</u>	<u>67,895</u>	<u>14,259</u>	<u>18,837</u>	<u>196,520</u>
Assets impairment losses	(27,687)	(3,447)	(221)	(114)	(31,469)
Insurance business expense	–	–	–	(12,211)	(12,211)
Other operating expense					
– Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
– Others	<u>(24,590)</u>	<u>(33,420)</u>	<u>(2,461)</u>	<u>(3,226)</u>	<u>(63,697)</u>
Profit before tax	<u>41,483</u>	<u>27,320</u>	<u>11,448</u>	<u>3,014</u>	<u>83,265</u>
Income tax					<u>(12,574)</u>
Net profit for the year					<u>70,691</u>
Depreciation and amortisation	(1,769)	(3,708)	(129)	(272)	(5,878)
Capital expenditure	<u>(8,667)</u>	<u>(18,172)</u>	<u>(632)</u>	<u>(1,334)</u>	<u>(28,805)</u>

(In millions of RMB)

As at 31 December 2018					
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
Segment assets	<u>3,181,294</u>	<u>1,721,526</u>	<u>4,529,647</u>	<u>76,729</u>	<u>9,509,196</u>
Including:					
<i>Investments in associates and joint venture</i>	-	-	-	3,653	3,653
Unallocated assets					<u>21,975</u>
Total assets					<u>9,531,171</u>
Segment liabilities	<u>(4,247,625)</u>	<u>(1,806,316)</u>	<u>(2,742,362)</u>	<u>(28,962)</u>	<u>(8,825,265)</u>
Unallocated assets					<u>(598)</u>
Total liabilities					<u>(8,825,863)</u>

As at 31 December 2017					
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
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:					
<i>Investments in associates and joint venture</i>	-	-	-	3,357	3,357
Unallocated assets					<u>16,456</u>
Total assets					<u>9,038,254</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>(8,361,983)</u>

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

11 Liquidity Risk

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

	<i>(In millions of RMB)</i>								
	On demand	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2018									
Assets									
Cash and balances with central banks	126,424	-	371	-	-	-	-	713,376	840,171
Due from banks and other financial institutions	93,420	330,936	67,073	207,595	143,572	5,471	-	-	848,067
Derivative financial assets	-	5,601	6,887	13,831	2,859	1,552	-	-	30,730
Financial investments – financial assets at fair value through profit or loss	8,232	7,253	9,786	47,586	58,183	50,050	458	194,838	376,386
Loans and advances to customers	-	664,962	257,043	1,191,035	1,088,301	1,514,178	26,853	-	4,742,372
Financial investments – debt instruments at fair value through other comprehensive income	-	13,348	27,707	106,691	232,364	57,520	-	-	437,630
Financial investments – equity investments at fair value through other comprehensive income	-	-	-	-	-	-	-	7,388	7,388
Financial investments – debt instruments at amortised cost	-	38,084	52,330	227,158	1,187,867	494,466	600	-	2,000,505
Other assets	55,165	-	165	499	21,311	1,309	781	168,692	247,922
Total assets	283,241	1,060,184	421,362	1,794,395	2,734,457	2,124,546	28,692	1,084,294	9,531,171
Liabilities									
Due to banks and other financial institutions	(438,924)	(354,689)	(329,637)	(966,127)	(46,308)	(26,608)	-	-	(2,162,293)
Financial liabilities at fair value through profit or loss	(865)	(2,968)	(5,801)	(5,978)	(7,497)	-	-	-	(23,109)
Derivative financial liabilities	-	(5,036)	(6,199)	(14,435)	(2,199)	(236)	-	-	(28,105)
Due to customers	(2,442,774)	(554,332)	(397,452)	(1,649,194)	(674,006)	(75,566)	-	-	(5,793,324)
Other liabilities	(50,161)	(53,191)	(118,200)	(238,444)	(214,200)	(144,836)	-	-	(819,032)
Total liabilities	(2,932,724)	(970,216)	(857,289)	(2,874,178)	(944,210)	(247,246)	-	-	(8,825,863)
Net amount on liquidity gap	(2,649,483)	89,968	(435,927)	(1,079,783)	1,790,247	1,877,300	28,692	1,084,294	705,308

(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 2017									
Assets									
Cash and balances with central banks	129,158	–	–	152	–	–	–	809,261	938,571
Due from banks and other financial institutions	76,427	357,109	81,883	234,917	32,132	–	–	–	782,468
Derivative financial assets	–	6,237	8,381	15,942	3,143	304	–	–	34,007
Financial assets at fair value through profit or loss	4,968	8,938	17,312	54,804	47,154	9,413	270	84,171	227,030
Loans and advances to customers	–	544,512	292,796	1,115,050	1,105,688	1,371,355	43,854	–	4,473,255
Financial investments – loans and receivables	–	5,144	6,701	57,857	205,004	112,947	80	–	387,733
Financial investments – available-for-sale	–	17,690	22,554	55,866	234,404	63,234	–	8,390	402,138
Financial investments – held-to-maturity	–	26,455	36,150	134,704	895,522	418,544	–	–	1,511,375
Other assets	<u>50,526</u>	<u>9,672</u>	<u>13,471</u>	<u>7,465</u>	<u>33,354</u>	<u>8,377</u>	<u>121</u>	<u>158,691</u>	<u>281,677</u>
Total assets	<u>261,079</u>	<u>975,757</u>	<u>479,248</u>	<u>1,676,757</u>	<u>2,556,401</u>	<u>1,984,174</u>	<u>44,325</u>	<u>1,060,513</u>	<u>9,038,254</u>
Liabilities									
Due to banks and other financial institutions	(381,472)	(448,523)	(543,334)	(706,377)	(10,870)	(15,616)	–	–	(2,106,192)
Financial liabilities at fair value through profit or loss	(585)	(7,174)	(7,883)	(6,867)	(4,455)	–	–	–	(26,964)
Derivative financial liabilities	–	(6,384)	(7,669)	(16,868)	(2,222)	(201)	–	–	(33,344)
Due to customers	(2,512,066)	(686,030)	(569,933)	(929,244)	(838,196)	(9,897)	–	–	(5,545,366)
Other liabilities	<u>(47,566)</u>	<u>(53,545)</u>	<u>(65,062)</u>	<u>(117,156)</u>	<u>(217,476)</u>	<u>(149,312)</u>	<u>–</u>	<u>–</u>	<u>(650,117)</u>
Total liabilities	<u>(2,941,689)</u>	<u>(1,201,656)</u>	<u>(1,193,881)</u>	<u>(1,776,512)</u>	<u>(1,073,219)</u>	<u>(175,026)</u>	<u>–</u>	<u>–</u>	<u>(8,361,983)</u>
Net amount on liquidity gap	<u>(2,680,610)</u>	<u>(225,899)</u>	<u>(714,633)</u>	<u>(99,755)</u>	<u>1,483,182</u>	<u>1,809,148</u>	<u>44,325</u>	<u>1,060,513</u>	<u>676,271</u>

12 Non-Adjusting Event After Reporting Period

In accordance with the resolution and authorization of the 16th meeting of the 8th Session of Board of Directors of the Bank, the Bank was approved to set up the wholly-owned subsidiary, BoCom Asset Management Co., Ltd. On 7 January 2019, the Bank received the *Approval from the China Banking and Insurance Regulatory Commission Concerning the Establishment of BoCom Asset Management Co., Ltd.* The subsidiary will apply for opening according to the related regulations and procedures after the preparation.

In March 2019, the Bank's Hong Kong Branch issued three medium term notes with the face value of RMB2.5 billion due 2021, USD0.8 billion due 2022 and HKD3.5 billion due 2024 respectively.

In March 2019, the Board of Directors of the Bank approved the issuance of write-down non-fixed-term capital bonds with a total amount of no more than RMB40.0 billion or equivalent foreign currencies. The matter still requires to be submitted to the Shareholders' General Meeting for approval.

In March 2019, the Board of Directors of the Bank approved the issuance of ordinary financial bonds with a total amount of no more than RMB90.0 billion.

In March 2019, the Board of Directors of the Bank approved to increase the capital of not exceeding RMB5.5 billion to BoCom Leasing, a wholly-owned subsidiary of the Bank and approved BoCom Leasing to increase the capital of not exceeding RMB5.5 billion to its wholly-owned subsidiary, BoCom Aviation and Shipping. The matter is still waiting for the approval of related regulatory authorities.

VIII. PUBLICATION OF THE ANNOUNCEMENT OF ANNUAL RESULTS

This results announcement is extracted from the 2018 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 2018 Annual Report, which is prepared in accordance with China Accounting Standards, will be available on the website of the SSE at www.sse.com.cn and the website of the Bank at www.bankcomm.com. Investors should read the full text of the Annual Report for details of the Annual Result. The Annual Report prepared in accordance with the IFRSs is anticipated to be despatched to the shareholders of H shares in April 2019.

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

By order of the Board of Directors
Bank of Communications Co., Ltd.
Peng Chun
Chairman of the Board of Directors

Shanghai, the PRC
29 March 2019

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

* *Non-executive Directors*

Independent Non-executive Directors