

BUILD A WORLD-CLASS BANK IN THE NEW ERA



2017 Annual Report

Bank of China Limited

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

Ordinary H-Share Stock Code: 3988

Offshore Preference Share Stock Code: 4601



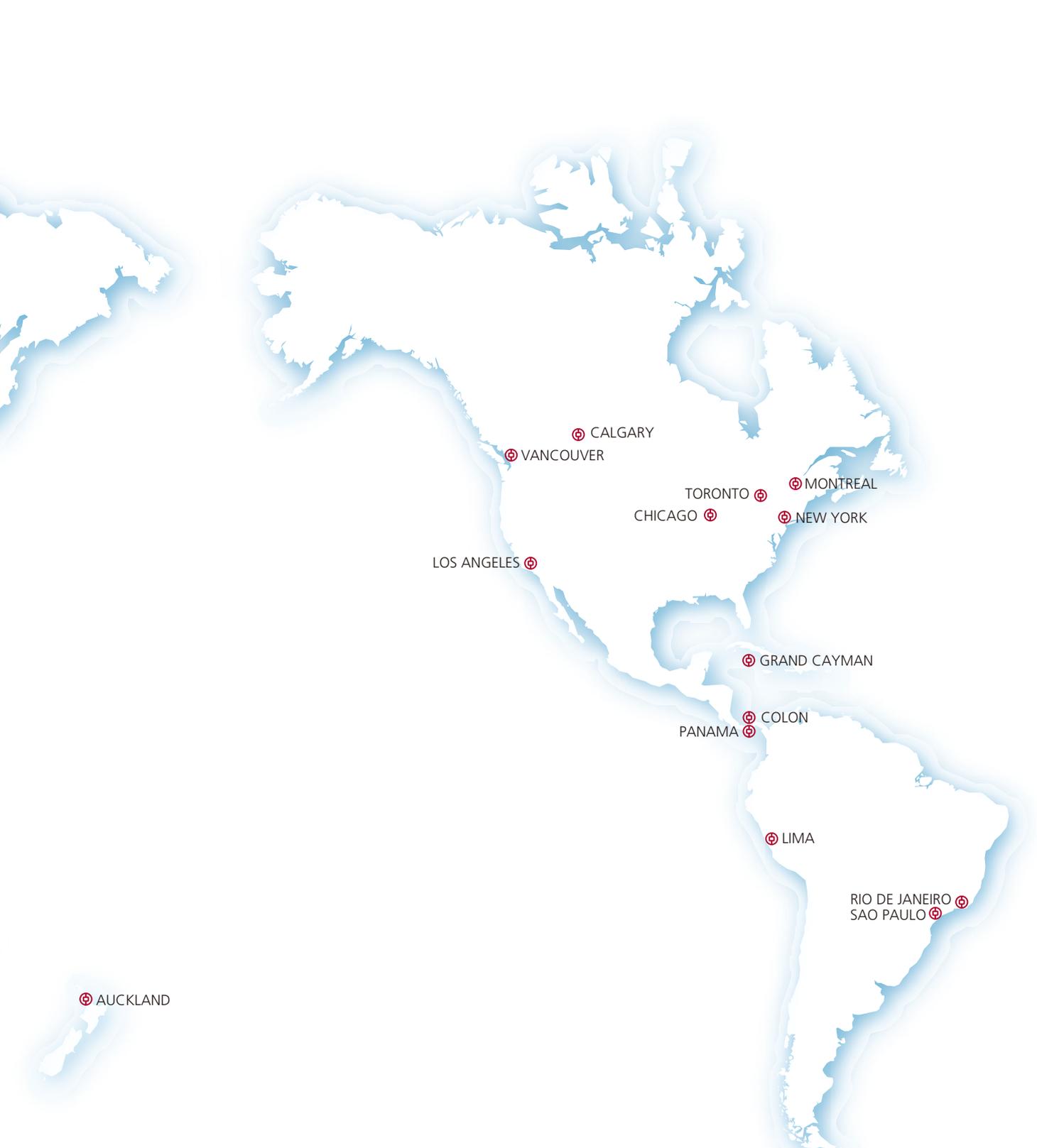
BOC Head Office



BOCHK



Singapore Branch



⊕ AUCKLAND

⊕ CALGARY
⊕ VANCOUVER

TORONTO ⊕ MONTREAL
CHICAGO ⊕ NEW YORK

LOS ANGELES ⊕

⊕ GRAND CAYMAN

⊕ COLON
PANAMA ⊕

⊕ LIMA

RIO DE JANEIRO ⊕
SAO PAULO ⊕



London Branch



New York Branch



Shanghai Branch

Introduction

Bank of China is the Bank with the longest continuous operation among Chinese banks. The Bank was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, drawing on its long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure by its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2017, Bank of China was again designated as a Global Systemically Important Bank, thus becoming the sole financial institution from an emerging economy to be designated as a Global Systemically Important Bank for seven consecutive years. Having served the Beijing 2008 Olympic Games, the Bank became the official banking partner of the Beijing 2022 Olympic and Paralympic Winter Games in 2017, thus making it the only bank in China serving two Olympic Games.

As China's most globalised and integrated bank, Bank of China has a well-established global service network with institutions set up in the Chinese mainland as well as 54 countries and regions. It has established an integrated service platform based on the pillars of its corporate banking, personal banking, financial markets and other commercial banking business, which covers investment banking, direct investment, securities, insurance, funds, aircraft leasing and other areas, thus providing its customers with a comprehensive range of financial services. BOCHK and the Macau Branch serve as local note-issuing banks in their respective markets.

Bank of China has upheld the spirit of "pursuing excellence" throughout its history of over one century. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. In face of the period of historic opportunities for great achievements, as a large state-owned commercial bank, the Bank will follow Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implement the spirit of the 19th National Congress of the Communist Party of China, persistently enable advancement through technology, drive development through innovation, deliver performance through transformation and enhance strength through reform, in an effort to build BOC into a world-class bank in the new era. It will make a greater contribution in developing a modernised economy and to the efforts to realise the Chinese Dream of national rejuvenation and the aspirations of the people to live a better life.

Development Strategy

Strategic goal

Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, our strategic goal is to build BOC into a world-class bank in the new era by persistently enabling advancement through technology, driving development through innovation, delivering performance through transformation and enhancing strength through reform.

The realisation of our strategic goal requires a three-step approach. **By 2020**, when China completes the building of a moderately prosperous society in all respects, the Bank will have further consolidated its development foundation, cemented its unique advantages, improved its systems and mechanisms, and enhanced its overall strength. **By 2035**, when China basically realises modernisation, the Bank will have transformed from a large, high-ranking bank to a strong, top-tier bank, thus becoming a world-class bank in the new era on all fronts. **By 2050**, the Bank will have become a “financial treasure” of a great modern socialist country, and will serve as a paragon of the global financial industry.

Strategic implications

- **Enable advancement through technology.** We will quicken steps to build a digitalised bank that offers an excellent user experience, rich scenarios, smooth online-offline coordination and innovative and flexible products, backed by efficient operations and management and intelligent risk control. Leveraging our mobile banking channel, we will create an integrated mobile financial portal through which customers can access whatever they need, wherever they go, with a simple tap on their phone.
- **Drive development through innovation.** Keeping a close eye on the market trends and customer needs, we will accelerate innovation in technology, products and business. By adopting innovative and groundbreaking initiatives, we will strive to become a provider of high-quality financial services, a builder of connected platforms, a creator of data-driven value and a pioneer of intelligent services across the globe.
- **Deliver performance through transformation.** Centred on the demands of the real economy and the requirement for high-quality development, we will rapidly advance digital technologies, globalised businesses, integrated services, asset-light operations, and streamlined organisation. We will optimise the supply of financial resources, actively serve the “three critical battles”, serve the development of the real economy, and foster a high-quality development model with great capacity for value creation and market competitiveness.
- **Enhance strength through reform.** We will raise awareness of current and potential challenges we face, maintain our strategic focus, and be more courageous in implementing the reform. We will promote the reform of mind-set, of the mechanism and of the organisation across the Bank, and thus gather the invincible force for our reform and development.
- **Strengthen Party leadership and Party building at the Bank,** and ensure full and strict governance over the Party organisations at the Bank so as to drive full and strict governance over the Bank. We will continuously improve our governance system and enhance our governance capabilities, thus providing strong impetus and strategic support to our objective of building a world-class bank in the new era.

Core values

Responsibility, Integrity, Professionalism, Innovation, Prudence, Performance

- **Responsibility:** We are always responsible to the state, the society, our customers, our employees, our shareholders, and the Bank. We will step forward to perform our responsibilities, boldly take on challenges, and carry our missions through.
- **Integrity:** We abide by every commitment we have made, keep our words consistent with our actions, have an open mind, and adhere to the principles of honesty and trustworthiness.
- **Professionalism:** We always aim to endow ourselves with greater capability and competence, carry on our work in the spirit of craftsmanship and constantly pursue perfection.
- **Innovation:** We always move ahead, and never stand still. We will make daring explorations, learn from others, and proactively develop innovative ideas.
- **Prudence:** We firmly hold the bottom line for risk management, ensure compliance in our operations, and abide by the laws governing the development, in a bid to achieve sound growth over the long term.
- **Performance:** We evaluate performance by results and profitability, thus promoting sustainable growth.

Honours and Awards

<i>The Banker</i>	Ranked 4th in Top 1,000 World Banks Ranked 5th in Top 500 Global Banking Brands
<i>FORTUNE</i>	Ranked 42nd in Global 500 (2017)
<i>Forbes</i>	Ranked 8th in Global 2000
<i>Global Finance</i>	Best International Bank Best M&A Bank
<i>Euromoney</i>	Best Regional Cash Manager in Asia
<i>Asia Money</i>	Best Overall Chinese Bank for BRI Best Transaction Bank for International Cash Management Best Bank for SMEs Best Transaction Bank for Trade Finance
<i>The Asian Banker</i>	Best RMB Clearing Bank in Asia Pacific
Asia Pacific Loan Market Association (APLMA)	Asia Pacific Syndicated Loan House of the Year Asia Pacific Syndicated Leveraged & Acquisition Finance Loan House of the Year Asia Pacific Syndicated Project Finance Loan House of the Year Syndicated Loan House of the Year — China
People's Bank of China	First Prize for Banking Technology Development
<i>21st Century Business Herald</i>	2017 Excellent Commercial Bank in Asia 2017 Best Financial Transaction APP (Mobile Banking)
<i>China Report</i>	Financial Enterprise with Best Overseas Image
<i>Financial Times</i>	Best Listed Bank
<i>Shanghai Securities News</i>	2017 TOP Wealth Management Brand Award 2017 Excellent Private Banking Award
<i>Securities Times</i>	2017 Excellent Bond Underwriting Banks in China 2017 Excellent Banking Investment Banks in China
WPP Group	Ranked 13th in BrandZ Top 100 Most Valuable Chinese Brands
World Brand Lab	Ranked 12th in China's 500 Most Valuable Brands
Hurun Research Institute	Ranked 12th in 2017 Hurun Brand List
China Banking Association	Most Socially Responsible Financial Institution Excellent Charity Project Award of the Year
Finance.sina.com	Poverty Alleviation Innovation Award for Financial Institutions
ChinaHR	Best Employer in Financial Industry in the Opinion of Chinese University Students

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Definitions

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

The Bank/the Group	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of the Bank
A Share	Domestic investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on SSE (Stock Code: 601988)
Basis Point (Bp, Bps)	Measurement unit of changes in interest rate or exchange rate. 1 basis point is equivalent to 0.01 percentage point
BOC Asset Investment	BOC Financial Asset Investment Co., Ltd.
BOC Aviation	BOC Aviation Limited, a public company limited by shares incorporated in Singapore under the Singapore Companies Act, the shares of which are listed on the Hong Kong Stock Exchange
BOC Insurance	Bank of China Insurance Company Limited
BOC Life	BOC Group Life Assurance Co., Ltd.
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Co., Ltd.
BOC-Samsung Life	BOC-Samsung Life Ins. Co., Ltd.
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of PRC
CSRC	China Securities Regulatory Commission
Domestic Preference Share	Domestic preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are traded on SSE (Stock Code: 360002, 360010)
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi, Shandong and Qingdao
HKEX	Hong Kong Exchanges and Clearing Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
H Share	Overseas-listed foreign investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars (Stock Code: 3988)
Huijin	Central Huijin Investment Ltd.
Independent Director	Independent director under the listing rules of SSE and the Articles of Association, and independent non-executive director under the Hong Kong Listing Rules
MOF	Ministry of Finance, PRC
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin, Liaoning and Dalian
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office
Offshore Preference Share	Offshore preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are listed on the Hong Kong Stock Exchange and traded in US dollars (Stock Code: 4601)
PBOC	The People's Bank of China, PRC
PRC	The People's Republic of China
RMB	Renminbi, the lawful currency of PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SSE	The Shanghai Stock Exchange
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank warrant that the information in this report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and jointly and severally accept full responsibility for the information in this report.

The 2017 Annual Report and Annual Results Announcement of the Bank have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 29 March 2018. The number of directors who should attend the meeting is 12, with 12 directors attending the meeting in person. All of the 12 directors of the Bank exercised their voting rights at the meeting. Some supervisors and senior management members of the Bank attended the meeting as non-voting attendees.

The 2017 financial statements prepared by the Bank in accordance with Chinese Accounting Standards (“CAS”) and International Financial Reporting Standards (“IFRS”) have been audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international auditing standards, respectively. Both auditors issued an unqualified opinion.

Chairman of the Board of Directors CHEN Siqing, Executive Vice President responsible for the Bank’s finance and accounting ZHANG Qingsong and General Manager of the Accounting and Information Department ZHANG Jianyou warrant the authenticity, accuracy and completeness of the financial statements in this report.

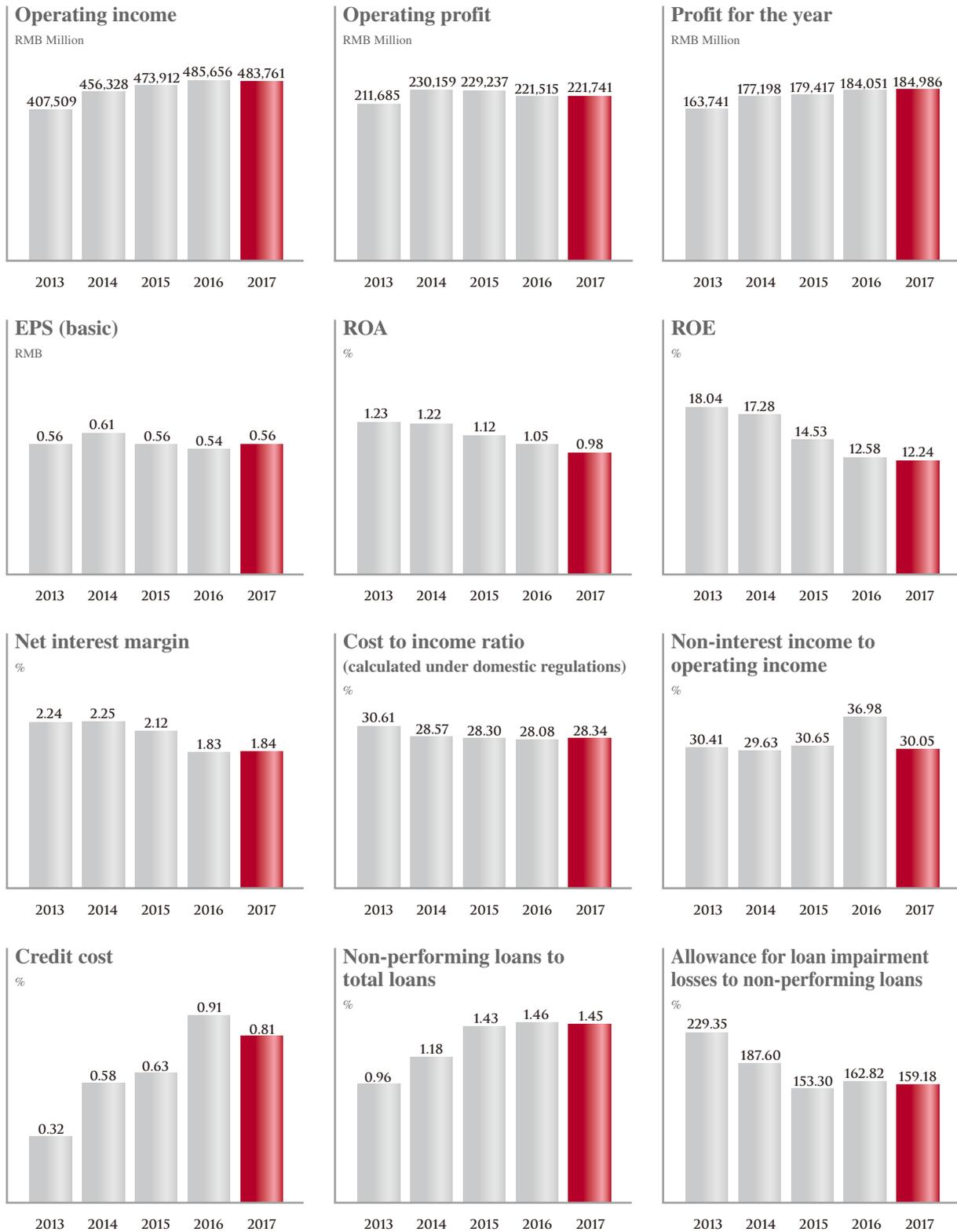
The Board of Directors has recommended a final dividend on ordinary shares for 2017 of RMB0.176 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 28 June 2018. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

During the reporting period, there was no misappropriation of the Bank’s funds by its controlling shareholder or other related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and procedures.

This report may contain forward-looking statements that involve risks and future plans. These forward-looking statements are based on the Bank’s own information and information from other sources that the Bank believes to be reliable. They relate to future events or the Bank’s future financial, business or other performance and are subject to a number of factors and uncertainties that may cause the actual results to differ materially. Any future plans mentioned do not constitute a substantive commitment by the Bank to its investors. Investors and people concerned should be fully aware of the risks and understand the differences between plans, forecast and commitment.

The Bank is faced with risks arising from changes in the macroeconomic environment and from political and economic conditions in different countries and regions as well as risks arising from its day-to-day operations, including the risk arising from changes in the credit status of borrowers, adverse changes in market prices and operational risk. It shall at the same time meet regulatory and compliance requirements. The Bank actively adopts adequate measures to effectively manage all types of risks. Please refer to the section “Management Discussion and Analysis — Risk Management” for details.

Financial Highlights



Financial Highlights

Note: The financial information in this report has been prepared in accordance with IFRS. The data are presented in RMB and reflect amounts related to the Group, unless otherwise noted.

Unit: RMB million

	Note	2017	2016	2015	2014	2013
Results of operations						
Net interest income		338,389	306,048	328,650	321,102	283,585
Non-interest income	1	145,372	179,608	145,262	135,226	123,924
Operating income		483,761	485,656	473,912	456,328	407,509
Operating expenses		(173,859)	(175,069)	(185,401)	(177,788)	(172,314)
Impairment losses on assets		(88,161)	(89,072)	(59,274)	(48,381)	(23,510)
Operating profit		221,741	221,515	229,237	230,159	211,685
Profit before income tax		222,903	222,412	231,571	231,478	212,777
Profit for the year		184,986	184,051	179,417	177,198	163,741
Profit attributable to equity holders of the Bank		172,407	164,578	170,845	169,595	156,911
Total dividend of ordinary shares		N.A.	49,457	51,518	55,934	54,755
Financial position						
Total assets		19,467,424	18,148,889	16,815,597	15,251,382	13,874,299
Loans, gross		10,896,558	9,973,362	9,135,860	8,483,275	7,607,791
Allowance for loan impairment losses		(252,254)	(237,716)	(200,665)	(188,531)	(168,049)
Investments	2	4,554,722	3,972,884	3,595,095	2,710,375	2,403,631
Total liabilities		17,890,745	16,661,797	15,457,992	14,067,954	12,912,822
Due to customers		13,657,924	12,939,748	11,729,171	10,885,223	10,097,786
Capital and reserves attributable to equity holders of the Bank		1,496,016	1,411,682	1,304,946	1,140,859	923,916
Share capital		294,388	294,388	294,388	288,731	279,365
Per share						
Basic earnings per share (RMB)		0.56	0.54	0.56	0.61	0.56
Dividend per share (before tax, RMB)	3	0.176	0.168	0.175	0.19	0.196
Net assets per share (RMB)	4	4.74	4.46	4.09	3.70	3.31
Key financial ratios						
Return on average total assets (%)	5	0.98	1.05	1.12	1.22	1.23
Return on average equity (%)	6	12.24	12.58	14.53	17.28	18.04
Net interest margin (%)	7	1.84	1.83	2.12	2.25	2.24
Non-interest income to operating income (%)	8	30.05	36.98	30.65	29.63	30.41
Cost to income ratio (calculated under domestic regulations, %)	9	28.34	28.08	28.30	28.57	30.61
Capital ratios						
Common equity tier 1 capital	10	1,377,408	1,297,421	1,197,868	1,068,706	925,037
Additional tier 1 capital		105,002	103,523	103,159	72,923	698
Tier 2 capital		264,652	225,173	212,937	250,714	262,768
Common equity tier 1 capital adequacy ratio (%)		11.15	11.37	11.10	10.61	9.69
Tier 1 capital adequacy ratio (%)		12.02	12.28	12.07	11.35	9.70
Capital adequacy ratio (%)		14.19	14.28	14.06	13.87	12.46
Asset quality						
Identified impaired loans to total loans (%)	11	1.45	1.46	1.43	1.18	0.96
Non-performing loans to total loans (%)	12	1.45	1.46	1.43	1.18	0.96
Allowance for loan impairment losses to non-performing loans (%)	13	159.18	162.82	153.30	187.60	229.35
Credit cost (%)	14	0.81	0.91	0.63	0.58	0.32
Allowance for loan impairment losses to total loans (%)	15	2.77	2.87	2.62	2.68	2.62
Exchange rate						
USD/RMB year-end middle rate		6.5342	6.9370	6.4936	6.1190	6.0969
EUR/RMB year-end middle rate		7.8023	7.3068	7.0952	7.4556	8.4189
HKD/RMB year-end middle rate		0.8359	0.8945	0.8378	0.7889	0.7862

Financial Highlights

Notes:

- 1 Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on financial investments + other operating income.
- 2 Investments include financial investments available for sale, debt securities held to maturity, financial investments classified as loans and receivables, and financial assets at fair value through profit or loss.
- 3 Dividend per share is the dividend per ordinary share distributed to ordinary shareholders.
- 4 Net assets per share = (capital and reserves attributable to equity holders of the Bank at year-end – other equity instruments) ÷ number of ordinary shares in issue at year-end.
- 5 Return on average total assets = profit for the year ÷ average total assets × 100%. Average total assets = (total assets at the beginning of the year + total assets at year-end) ÷ 2.
- 6 Return on average equity = profit attributable to ordinary shareholders of the Bank ÷ weighted average capital and reserves attributable to ordinary shareholders of the Bank × 100%. Calculation is based on *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by the CSRC.
- 7 Net interest margin = net interest income ÷ average balance of interest-earning assets × 100%. Average balance is average daily balance derived from the Bank's management accounts (unaudited).
- 8 Non-interest income to operating income = non-interest income ÷ operating income × 100%.
- 9 Cost to income ratio is calculated in accordance with the *Measures of the Performance Evaluation of Financial Enterprises* (Cai Jin [2016] No. 35) formulated by the MOF.
- 10 In accordance with *Capital Rules for Commercial Banks (Provisional)* (Y.J.H.L. [2012] No. 1) and related regulations, the capital ratios of 2017, 2016, 2015 and 2014 are calculated under the advanced approaches, and the capital ratios of 2013 are calculated under the non-advanced approaches. The capital ratios of 2017, 2016, 2015 and 2014 should not be compared directly with those of 2013.
- 11 Identified impaired loans to total loans = identified impaired loans at year-end ÷ total loans at year-end × 100%.
- 12 Non-performing loans to total loans = non-performing loans at year-end ÷ total loans at year-end × 100%.
- 13 Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at year-end ÷ non-performing loans at year-end × 100%.
- 14 Credit cost = impairment losses on loans ÷ average balance of loans × 100%. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at year-end) ÷ 2.
- 15 Allowance for loan impairment losses to total loans = allowance for loan impairment losses at year-end ÷ total loans at year-end × 100%. Calculation is based on the data of the Bank's domestic institutions.

Corporate Information

Registered Name in Chinese

中國銀行股份有限公司 (“中國銀行”)

Registered Name in English

BANK OF CHINA LIMITED (“Bank of China”)

Legal Representative and Chairman

CHEN Siqing

Proposed Secretary to the Board of Directors and Company Secretary

MEI Feiqi

Office Address:

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Telephone: (86) 10-6659 2638

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E-mail: ir@bankofchina.com

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YU Ke

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E-mail: ir@bankofchina.com

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Office Address

No. 1 Fuxingmen Nei Dajie, Beijing, China, 100818

Telephone: (86) 10-6659 6688

Facsimile: (86) 10-6601 6871

Website: <http://www.boc.cn>

E-mail: ir@bankofchina.com

Customer Service and Complaint Hotline:

(86) Area Code-95566

Place of Business in Hong Kong

Bank of China Tower, 1 Garden Road,
Central, Hong Kong

Selected Newspapers for Information Disclosure (A Share)

China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Website Designated by CSRC for Publication of the Annual Report

<http://www.sse.com.cn>

Website of HKEX for Publication of the Annual Report

<http://www.hkexnews.hk>

Place where Annual Report can be Obtained

Head Office of Bank of China Limited
Shanghai Stock Exchange

Legal Advisor

King & Wood Mallesons
Allen & Overy

Auditors

Ernst & Young Hua Ming LLP

Office Address:

Level 16, Ernst & Young Tower, Oriental Plaza,

No. 1 East Chang An Avenue, Dongcheng District,
Beijing, China

Certified Public Accountants who signed the
auditor's report: ZHANG Xiaodong, YANG Bo

Ernst & Young

Office Address:

22/F, CITIC Tower, 1 Tim Mei Avenue

Central, Hong Kong

Unified Social Credit Code

911000001000013428

Financial Institution Licence Serial Number

B0003H111000001

Registered Capital

RMB294,387,791,241

Securities Information

A Share

Shanghai Stock Exchange

Stock Name: 中國銀行

Stock Code: 601988

H Share

The Stock Exchange of Hong Kong Limited

Stock Name: Bank of China

Stock Code: 3988

Domestic Preference Share

Shanghai Stock Exchange

First Tranche

Stock Name: 中行優1

Stock Code: 360002

Second Tranche

Stock Name: 中行優2

Stock Code: 360010

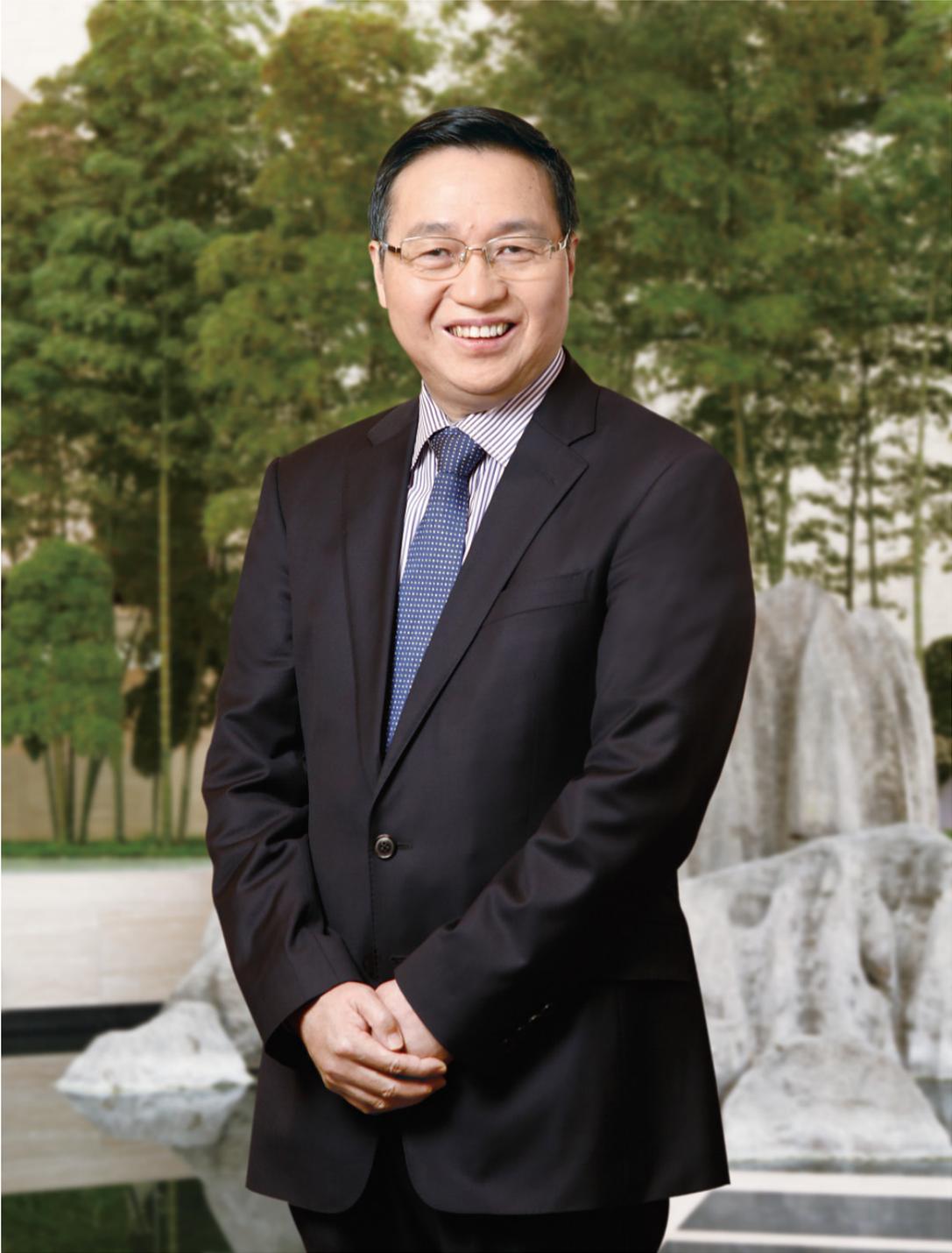
Offshore Preference Share

The Stock Exchange of Hong Kong Limited

Stock Name: BOC 2014 PREF

Stock Code: 4601

Message from the Chairman



Message from the Chairman

In this beautiful and vigorous spring season, I am pleased to present our 2017 annual results to the shareholders of the Bank and the public. According to International Financial Reporting Standards, the Group achieved a profit for the year of RMB185.0 billion, a year-on-year increase of 0.51%, and a profit attributable to equity holders of the Bank of RMB172.4 billion, a year-on-year increase of 4.76%. At the end of 2017, the Group's total assets, total liabilities and equity attributable to shareholders reached RMB19.47 trillion, RMB17.89 trillion and RMB1.58 trillion respectively, representing an increase of 7.27%, 7.38% and 6.02% from the prior year-end. The ratio of non-performing loans was 1.45%, down 0.01 percentage point from the prior year-end. The Board of Directors has proposed a dividend of RMB0.176 per ordinary share for 2017, pending approval by the Annual General Meeting to be held in June 2018.

2017 was a truly extraordinary year. In this year, the 19th CPC National Congress made the significant political conclusion that socialism with Chinese characteristics has entered a new era. It set out a new blueprint for China's development, and embarked on a new journey of our way forward. Closely united around the CPC Central Committee with Comrade Xi Jinping as the core, the Bank earnestly implemented the important decisions and plans made by the CPC Central Committee and pushed ahead with key works related to the tasks of serving the real economy, preventing and controlling financial risks, and deepening reform and innovation. By adhering to the general principle of pursuing progress while ensuring stability, it maintained sound development momentum.

We persisted in serving the real economy by providing high-quality and efficient financial services for society, so as to achieve common prosperity with the real economy. **First, we actively addressed the difficulties in accessing financing and reduced financing costs.** The Bank earnestly acted on the requirements of "deleveraging and risk prevention". In 2017, our domestic RMB loans increased by RMB762.7 billion, with a focus on supporting key areas and major fields in the national economy and promoting a shift in economic growth drivers. We

diligently implemented the Made in China 2025 Strategy and proactively boosted the industrial transformation and upgrading. Loans to the manufacturing industry increased by RMB20.0 billion and loans to strategic emerging industries increased by RMB48.7 billion. We also leveraged our advantages in globalisation to provide financing to enterprises with foreign currencies and through low-cost overseas funding sources. At the end of 2017, the balance of our domestic foreign currency loans and overseas loans stood at USD406.0 billion. **Second, we actively built the Belt and Road financial artery.** The Bank has set up institutions in 23 countries along the Belt and Road, the largest coverage among Chinese banks. As at the end of 2017, we followed up on over 500 major projects along the Belt and Road, and from 2015 to 2017, we established credit lines totalling approximately USD100 billion for countries along the Belt and Road. **Third, we resolutely served the implementation of key national strategies.** We strongly supported the coordinated development of the Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt, the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and the infrastructure construction for the 2022 Winter Olympics. To date, the loans in RMB and foreign currencies extended by the Bank's institutions in Beijing, Tianjin, Hebei, the Yangtze Economic Belt and the Pearl River Delta totalled RMB6.20 trillion, accounting for 72.19% of the Bank's domestic loans in RMB and foreign currencies, up 0.31 percentage point from the prior year-end. **Fourth, we gave strong support to micro and small-sized enterprises.** As at the end of 2017, outstanding loans granted to domestic micro and small-sized enterprises stood at RMB1.5 trillion, an increase of 13.5%, 4 percentage points higher than the overall loan growth across the Bank. We provided the cross-border matchmaking service for SMEs, hosting a total of 41 matchmaking conferences and attracting more than 20,000 domestic and overseas SMEs customers as of the end of 2017. **Fifth, we firmly pushed forward inclusive finance.** We set up an Inclusive Finance Department and formed the largest group of village banks in the country. **Sixth, we played an active role in poverty alleviation.** In implementing

Message from the Chairman

the central government's requirements regarding poverty alleviation, we made overall arrangements for targeted poverty alleviation as well as financial solutions to poverty alleviation. We also developed our own platform for targeted poverty alleviation, "BOC for Public Welfare", which has benefited more than 100,000 impoverished people.

Taking account of the overall economic and social development situation, we attached great importance to the prevention and mitigation of financial risks. We continued to improve our comprehensive risk management system in order to safeguard our business development and contribute to financial stability. **First, we took solid steps towards economic deleveraging.** Focusing on the deleveraging of state-owned enterprises, we steadily expedited the disposal of "zombie enterprises", and helped high-potential enterprises facing temporary financial challenges to survive their difficulties through debt restructuring and market-based debt-for-equity swaps. **Second, we effectively guarded against credit risks.** We stepped up the risk control and prevention in key areas such as local government debt, industries with overcapacity, real estate bubbles, shadow banking, and cross-border merger and acquisition. We made further moves to mitigate the potential risks and deal with existing non-performing assets, so as to maintain the stable asset quality of the Group. **Third, we made consistent efforts in compliance and internal control.** We strictly followed the regulations and carried out all our businesses, especially innovative businesses, in accordance with the law, taking care to forestall compliance risks. We also conducted special campaigns for internal control and case prevention so as to detect and mitigate potential risks, intensify internal control, and resolutely curb the recurrence of non-compliance cases.

In 2017, Mr. TIAN Guoli ceased to serve as Chairman and Executive Director of the Bank, as well as Chairman and member of the Strategic Development Committee of the Board of Directors of the Bank, due to a change of job. During his tenure as Chairman of the Board of Directors of the Bank, Mr. TIAN Guoli endeavoured to perform his duties effectively

and fulfill his responsibilities diligently. Under his leadership, the Bank strictly implemented the decisions and plans made by the CPC Central Committee, strongly supported the implementation of the nation's important strategic initiatives and well served the demands of the real economy. Committed to "Serving Society, Delivering Excellence", the Bank persistently improved its corporate governance, scientifically composed its strategic development plans, ceaselessly deepened its reform and innovation and strengthened its comprehensive risk management, thus writing a brand new chapter in the history of the Bank's reform and development. On behalf of the Board of Directors, I would like to express our sincere gratitude to Mr. TIAN Guoli for his outstanding contribution. Also, I would like to extend our warm welcome to new directors Ms. XIAO Lihong, Ms. WANG Xiaoya, Mr. ZHAO Jie and Ms. Angela CHAO, and our sincere thanks to former directors Mr. GAO Yingxin, Mr. WANG Wei, Mr. ZHANG Qi and Mr. LIU Xianghui for their contributions to the Bank's reform and development.

Socialism with Chinese characteristics has now entered a new era. Standing at this new historic point, we will follow Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and persistently enable advancement through technology, drive development through innovation, deliver performance through transformation and enhance strength through reform, in an effort to build BOC into a world-class bank in the new era.

The 19th CPC National Congress set the goals for different stages by the middle of this century. In response, the Bank put forth a three-step approach to realise the strategic goal of "Build a World-class Bank in the New Era". By 2020, when China completes the building of a moderately prosperous society in all respects, the Bank will have further consolidated its development foundation, cemented its unique advantages, improved its systems and mechanisms, and enhanced its overall strength. By 2035, when China basically realises modernisation, the Bank will have transformed from a large high-ranking bank to a strong top-tier bank, thus becoming a world-class bank in the new era on all fronts. From that

Message from the Chairman

foundation, with a further 15 years of hard work and by 2050, the Bank will have become a “financial treasure” of a great modern socialist country, and will serve as a paragon of the global financial industry.

To build a world-class bank in the new era, we shall persistently enable advancement through technology. We will quicken steps to build a digitalised bank that offers an excellent user experience, rich scenarios, smooth online-offline coordination and innovative and flexible products, backed by efficient operations and management and intelligent risk control. Leveraging our mobile banking channel, we will create an integrated mobile financial portal through which customers can access whatever they need, wherever they go, with a simple tap on their phone.

To build a world-class bank in the new era, we shall persistently drive development through innovation. Keeping a close eye on the market trends and customer needs, we will accelerate innovation in technology, products and business. By adopting innovative and groundbreaking initiatives, we will strive to become a provider of high-quality financial services, a builder of connected platforms, a creator of data-driven value and a pioneer of intelligent services across the globe.

To build a world-class bank in the new era, we shall persistently deliver performance through transformation. Centred on the demands of the real economy and the requirement for high-quality development, we will rapidly advance digital technologies, globalised businesses, integrated services, asset-light operations, and streamlined organisation. We will optimise the supply of financial resources, actively serve the “three critical battles”, serve the development of the real economy, and foster a high-quality development model with great capacity for value creation and market competitiveness.

To build a world-class bank in the new era, we shall persistently enhance strength through reform. We will raise awareness of the current and potential challenges we face, maintain our strategic focus, and be more courageous in implementing the reform. We will

promote the reform of mind-set, of the mechanism and of the organisations across the Bank, and thus gather the invincible force for our reform and development.

To build a world-class bank in the new era, we shall strengthen Party leadership and Party building at the Bank, and ensure full and strict governance over the Bank, and ensure full and strict governance over the Party organisations at the Bank so as to drive full and strict governance over the Bank. We will continuously improve our governance system and enhance our governance capabilities, thus providing strong impetus and strategic support to our objective of building a world-class bank in the new era.

Culture, as the soul of an enterprise, is the most profound force pushing forward development. On our journey of building a world-class bank in the new era, we shall advocate the values of “Responsibility, Integrity, Professionalism, Innovation, Prudence, Performance”, carry forward our centenary culture, and forge the values and code of conduct for our employees in the new era.

The tides of the times are vast and mighty, only those with brave courage can ride the waves. The wheels of history roll on, only those with fighting spirit can harness their momentum. Looking towards the unprecedentedly bright new era and guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will strive to write a new chapter in our endeavour to build a world-class bank in the new era, to create a better life for the people, and to serve the great rejuvenation of the Chinese nation!



CHEN Siqing
Chairman

29 March 2018

Message from the Chairman of the Board of Supervisors



Message from the Chairman of the Board of Supervisors

In 2017, the Board of Supervisors studied the approaches to play its role in response to new conditions, in compliance with relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank. It made plans and pressed ahead with efforts to serve the Bank's overall target of deepening reform and pursuing sound development, while fulfilling its supervisory responsibilities with special focus on prominent issues. Based on self-improvement and through special surveys, it focused its supervision efforts on duty performance, financial management, internal control and risk management. It broadened its supervisory scope and enhanced its supervisory achievements, thus playing a constructive role in supervision and contributing to the fulfillment of the Bank's development objectives.

During the past year, the Board of Supervisors strengthened the supervision and assessment of the duty performance of directors and senior management members in strict accordance with regulatory requirements and urged them to enhance the sense of responsibility and improve duty performance. It supported further improvement to the Bank's corporate governance mechanism, so that each organ performs its respective duties and operates in a coordinated fashion with effective checks and balances. In addition, the Board of Supervisors conscientiously implemented the new supervisory duties granted to it by the Articles of Association of the Bank, and exercised solid supervision over strategies and finance. It strengthened the tracking and supervision of the establishment, execution and evaluation of the Bank's development strategy, and intensified the review and supervision of the preparation, audit and disclosure of regular reports, so as to present its supervisory comments and suggestions in a timely manner to the Board of Directors, the Senior Management and functional departments on the issues requiring close attention. Moreover, the Board of Supervisors diligently performed its supervisory duties of risk prevention and internal control. It followed up and studied the regional risks, industry-specific risks and policy risks confronting the Bank, and deepened the supervision and assessment of internal control. By addressing emerging and tendentious problems as well as weak links in management, the Board of Supervisors intensified supervision and guidance and promoted early identification, warning and detection of risks in key fields as well as early action to address such risks.

In 2017, the Board of Supervisors actively played its role as supervisor and advisor. Concentrating on the overarching issues and weak links affecting bank-wide operations and management, business development, risk management and internal control, the Board of Supervisors arranged special surveys of key topics and put forward supervisory opinions. It thus played a positive role in preventing and mitigating potential risks, ensuring the Bank's sound operation and promoting healthy business development.

Over the past year, the Board of Supervisors diligently fulfilled the requirement of strict Party governance, pushed forward with self-construction and brought in new members to its two special committees so as to optimise their fundamental functions. Through seminars, workshops and increased communication with its peers, the supervisors enhanced their duty performance capability and professional competence. Moreover, members of the Board of Supervisors were faithful and diligent in their work, giving full play to their own expertise. They actively attended meetings, reviewed proposals, carried out surveys and presented supervisory opinions independently and objectively, thus fulfilling their supervisory duties. The Board of Directors and the Senior Management fully understood, supported and valued the work of the Board of Supervisors, paying great attention to its supervisory reminders and continually improving related work, operations and management matters.

In 2018, guided by the Bank's strategic goal of "Build a World-class Bank in the New Era", the Board of Supervisors will concentrate on the reform and development and the strategy implementation. It will spare no efforts to fully perform its supervisory duties and strengthen communication and interaction with the Board of Directors and the Senior Management, so as to play a constructive role in the efforts of building a world-class bank in the new era.

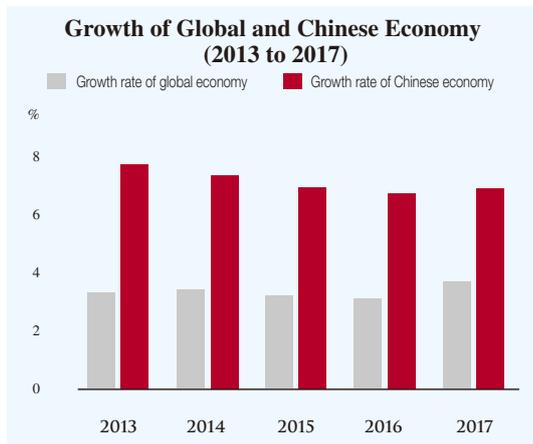


WANG Xiquan

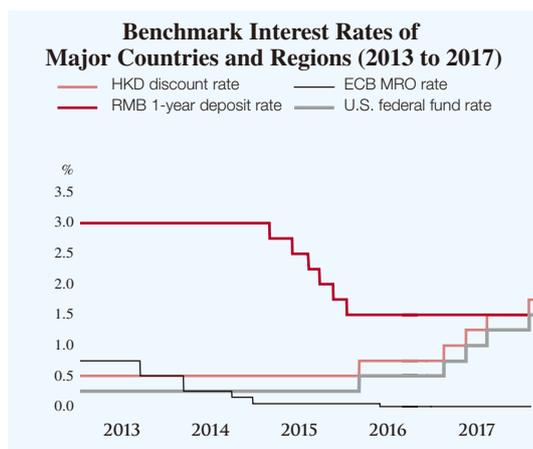
Chairman of the Board of Supervisors

29 March 2018

Management Discussion and Analysis — Financial Review



Source: International Monetary Fund (IMF), National Bureau of Statistics of China



Source: Thomson Reuters EcoWin

Economic and Financial Environment

In 2017, the global economy experienced a mild recovery and price levels remained stable. The US economy experienced an accelerated growth, the European Union economy broadly recovered and the Japanese economy performed well. Emerging economies in the Asia-Pacific region maintained a high growth rate. The real economies of Eastern Europe and Latin America rose out of recession, driven by increased external demand and a rebound in commodity prices. International trade in goods grew faster than the global economy for the first time in six years.

The international financial development was generally stable and market volatility remained low. The US Federal Reserve raised its benchmark interest rates three times and kicked off its balance sheet reduction programme, while the central banks of Canada and the United Kingdom also raised benchmark interest rates. As a result, the global liquidity tightened and bond market rates started to rise. As the US President Donald Trump's new policies failed to meet expectations and political and economic conditions in Europe showed positive momentum, the US Dollar Index retreated and cross-border capital flows and exchange rate movements in emerging economies improved. Encouraged by a stronger economic recovery and promising prospects, global stock indexes broadly rallied and the profitability of the international banking sector improved.

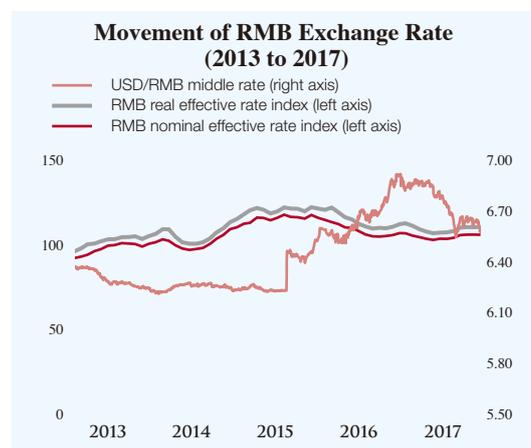
The Chinese economy exhibited positive signs amidst stabilisation. Overall production and demand remained stable, the price inflation also remained stable, and China's economic structure was continuously improved. High-tech industries grew rapidly, the proportion of tertiary industries within the economy grew further, online consumption continuously and rapidly increased. Regional development became more balanced and corporate efficiency improved remarkably. As such, China's economy has been transitioning to a stage of high-quality development. In 2017, China's gross domestic product (GDP) increased by 6.9%, with the consumer price index (CPI) rising by 1.6%. Total retail sales of consumer goods (TRSCG) increased by 10.2%. Total fixed asset investments (TFAI) grew by 7.2%. Energy consumption per RMB10,000 of GDP decreased by 3.7%.

The Chinese government continued to implement a sound and neutral monetary policy, endeavouring to create a favourable environment for promoting reform, reducing the leverage ratio and preventing risks. The State of Council of the PRC set up the Financial Stability and Development Committee under the State Council. The People's Bank of China (PBOC) continued to

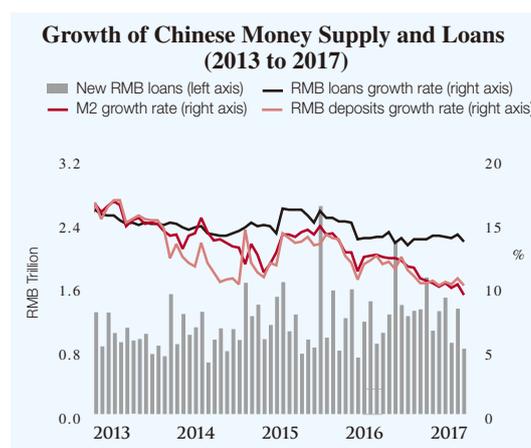
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improve its macro-prudential assessment system (MPA), integrating off-balance-sheet wealth management into its broad credit indicators. China's financial markets opened up at an accelerated pace, as demonstrated by the inclusion of A Shares in the MSCI Emerging Markets Index and the successful launch of "Bond Connect". Money and credit grew steadily and financial markets operated smoothly. The broad money supply (M2) grew by 8.2%, 3.1 percentage points lower than the growth rate of the prior year. The outstanding of RMB loans increased by RMB13.5 trillion, RMB878.2 billion more than that of the prior year. The outstanding of all-system financing aggregates was RMB174.64 trillion, an increase of 12.0% compared with the prior year. Bond issuance expanded to a total of RMB39.8 trillion, an increase of 12.0% compared with the prior year. The SSE composite index rose by 6.6%, and the combined market capitalisation of the Shanghai and Shenzhen Exchanges increased by 14.2% compared with the prior year.

China's banking sector experienced sound operations. Banking institutions earnestly implemented the spirit of the 19th National Congress of the Communist Party of China and the requirements of the Central Economic Working Conference and the National Financial Work Conference, and made strides in serving the real economy, preventing and controlling financial risks and furthering financial reform. The banking sector strongly supported supply-side structural reform, continued to improve credit structure and allocated more credit resources to key areas and weak links of social and economic development. The banking sector promoted financial inclusion to improve financial services to support micro and small-sized enterprises, agriculture, rural areas, farmers and remote areas, and actively explored the proper development of green financing. Banking institutions reduced leverage in the financial industry in an orderly manner, strictly prevented risks arising from shadow banking and real estate bubbles, rigorously investigated and corrected financial disorders to hold the bottom line of no systematic financial risks. Efforts were also made to promote the increasing two-way opening-up of the financial industry, to steadily advance financial technology innovation and to enhance the service quality and efficiency of commercial banks. As at the end of 2017, the total assets of China's banking industry grew by 8.7% from the prior year-end to RMB252.4 trillion, while total liabilities increased by 8.4% to RMB232.9 trillion. Commercial banks recorded a profit after tax of RMB1.75 trillion, an increase of 5.99% compared with the prior year. Outstanding non-performing loans (NPLs) stood at RMB1.71 trillion, with an NPL ratio of 1.74%.



Source: Thomson Reuters EcoWin



Source: Thomson Reuters EcoWin

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Income Statement Analysis

In 2017, the Group achieved a profit for the year of RMB184.986 billion, an increase of RMB0.935 billion or 0.51% compared with the prior year. It realised a profit attributable to equity holders of the Bank of RMB172.407 billion, an increase of RMB7.829 billion or 4.76% compared with the prior year. Return on average total assets (ROA) was 0.98%, return on average equity (ROE) was 12.24%.

The principal components and changes of the Group's consolidated income statement are set out below:

Unit: RMB million, except percentages

Items	2017	2016	Change	Change (%)
Net interest income	338,389	306,048	32,341	10.57%
Non-interest income	145,372	179,608	(34,236)	(19.06%)
Including: net fee and commission income	88,691	88,664	27	0.03%
Operating income	483,761	485,656	(1,895)	(0.39%)
Operating expenses	(173,859)	(175,069)	1,210	(0.69%)
Impairment losses on assets	(88,161)	(89,072)	911	(1.02%)
Operating profit	221,741	221,515	226	0.10%
Profit before income tax	222,903	222,412	491	0.22%
Income tax expense	(37,917)	(38,361)	444	(1.16%)
Profit for the year	184,986	184,051	935	0.51%
Profit attributable to equity holders of the Bank	172,407	164,578	7,829	4.76%

A detailed review of the Group's principal items in each quarter of 2017 is summarised in the following table:

Unit: RMB million

Items	For the three-month period ended			
	31 December 2017	30 September 2017	30 June 2017	31 March 2017
Operating income	119,629	115,764	118,845	129,523
Profit attributable to equity holders of the Bank	26,901	41,816	57,041	46,649
Net cash flow from operating activities	27,475	(243,037)	237,007	384,691

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Net Interest Income and Net Interest Margin

In 2017, the Group achieved a net interest income of RMB338.389 billion, an increase of RMB32.341 billion or 10.57% compared with the prior year. The average balances¹ and average interest rates of the major interest-earning assets and interest-bearing liabilities of the Group, as well as the impact on interest income/expense of variances in the volume factor and the interest factor², are summarised in the following table:

Unit: RMB million, except percentages

Items	2017			2016			Analysis of changes in interest income/expense		
	Average balance	Interest income/expense	Average interest rate	Average balance	Interest income/expense	Average interest rate	Volume factor	Interest rate factor	Total
Interest-earning assets									
Loans	10,601,544	414,695	3.91%	9,705,782	391,956	4.04%	36,189	(13,450)	22,739
Investments	4,290,094	132,167	3.08%	3,723,928	114,399	3.07%	17,381	387	17,768
Balances with central banks and due from and placements with banks and other financial institutions	3,468,502	75,754	2.18%	3,337,638	59,784	1.79%	2,342	13,628	15,970
Total	18,360,140	622,616	3.39%	16,767,348	566,139	3.38%	55,912	565	56,477
Interest-bearing liabilities									
Due to customers	13,488,149	204,794	1.52%	12,501,297	199,915	1.60%	15,790	(10,911)	4,879
Due to and placements from banks and other financial institutions	2,934,718	63,634	2.17%	2,606,838	47,993	1.84%	6,033	9,608	15,641
Bonds issued	432,587	15,799	3.65%	322,431	12,183	3.78%	4,164	(548)	3,616
Total	16,855,454	284,227	1.69%	15,430,566	260,091	1.69%	25,987	(1,851)	24,136
Net interest income		338,389			306,048		29,925	2,416	32,341
Net interest margin			1.84%			1.83%			1 Bp

Notes:

- Investments include available for sale debt securities, held to maturity debt securities, debt securities classified as loans and receivables, trading debt securities, debt securities designated at fair value through profit or loss, and investment trusts and asset management plans.
- Balances with central banks and due from and placements with banks and other financial institutions include mandatory reserves, surplus reserves, other placements with central banks and due from and placements with banks and other financial institutions.
- Due to and placements from banks and other financial institutions include due to and placements from banks and other financial institutions, due to central banks and other funds.

¹ Average balances are average daily balances derived from the Group's management accounts (unaudited).

² The impact on interest income/expense of variances in the volume factor is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact on interest income/expense of variances in interest rate factor is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both the volume factor and the interest rate factor has been classified as changes in interest rate factor.

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The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

Items	2017		2016		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
Unit: RMB million, except percentages						
Domestic RMB businesses						
Loans						
Corporate loans	4,500,691	4.40%	4,265,998	4.73%	234,693	(33) Bps
Personal loans	3,250,322	4.25%	2,701,868	4.42%	548,454	(17) Bps
Trade bills	181,448	4.09%	248,002	3.34%	(66,554)	75 Bps
Total	7,932,461	4.33%	7,215,868	4.57%	716,593	(24) Bps
Including:						
Medium and long term loans	5,446,487	4.53%	4,810,011	4.78%	636,476	(25) Bps
Short term loans within 1 year and others	2,485,974	3.90%	2,405,857	4.14%	80,117	(24) Bps
Due to customers						
Corporate demand deposits	2,914,497	0.62%	2,555,909	0.60%	358,588	2 Bps
Corporate time deposits	2,206,175	2.73%	2,229,930	2.99%	(23,755)	(26) Bps
Personal demand deposits	1,798,631	0.62%	1,632,989	0.59%	165,642	3 Bps
Personal time deposits	2,629,645	2.71%	2,554,838	2.88%	74,807	(17) Bps
Other	374,257	3.77%	336,713	3.22%	37,544	55 Bps
Total	9,923,205	1.76%	9,310,379	1.89%	612,826	(13) Bps
Domestic foreign currency businesses						
Unit: USD million, except percentages						
Loans	51,280	2.47%	54,490	2.22%	(3,210)	25 Bps
Due to customers						
Corporate demand deposits	43,947	0.22%	36,762	0.13%	7,185	9 Bps
Corporate time deposits	22,550	1.33%	16,602	1.14%	5,948	19 Bps
Personal demand deposits	27,714	0.05%	24,916	0.07%	2,798	(2) Bps
Personal time deposits	20,445	0.59%	18,711	0.58%	1,734	1 Bp
Other	2,308	2.17%	2,120	2.41%	188	(24) Bps
Total	116,964	0.49%	99,111	0.42%	17,853	7 Bps

Note: "Due to customers – Other" includes structured deposits.

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In 2017, the Group's net interest margin was 1.84%, an increase of 1 basis point compared with the prior year. Specifically, the net interest margin of its domestic RMB and domestic foreign currency businesses were 2.04% and 0.41% respectively. Major factors that affected the Group's net interest margin include:

First, the Bank implemented the nationwide replacement of business tax with value-added tax (BT-to-VAT). According to the requirements of the *Notice concerning the Nationwide Adoption of Value-added Tax in lieu of Business Tax Pilot Tax Collection Policy* (Caishui [2016] No. 36), all of the Bank's institutions in the Chinese mainland started to implement the BT-to-VAT as of 1 May 2016. Accordingly, interest income under VAT was reported on a net basis in 2017.

Second, the Bank continuously optimised its assets and liabilities structure. In response to changes in the external environment, the Bank effectively optimised existing assets and liabilities and efficiently allocated their increments, resulting in continuous improvement to its assets and liabilities structure. In 2017, the proportion of the average balance of loans to total interest-earning assets remained relatively stable, and the proportion of the average balance of investments to total interest-earning assets rose by 1.16 percentage points. In the Group's domestic RMB loan business, the proportion of the average balance of personal loans increased by 3.53 percentage points and the proportion of the balance of mid- to long-term loans increased by 2.00 percentage points. In the Group's domestic RMB deposit business, the proportion of the average balance of demand deposits rose by 2.51 percentage points.

Non-interest Income

In 2017, the Group reported a non-interest income of RMB145.372 billion, a decrease of RMB34.236 billion or 19.06% compared with the prior year. Non-interest income represented 30.05% of operating income.

Net fee and Commission Income

The Group earned a net fee and commission income of RMB88.691 billion, an increase of RMB27 million or 0.03% compared with the prior year. Net fee and commission income represented 18.33% of operating income. This was primarily attributable to the Bank seizing market opportunities, enhancing the promotion of financial services to clients and improving its pricing abilities, and the fee and commission income from the business of bank card, settlement and clearing and foreign exchange increased rapidly compared to the prior year. At the same time, the Bank made great efforts to support the real economy and reduce enterprises' costs. As a result, the Bank's fee and commission income from its credit commitment business and consultancy and advisory business decreased compared with the prior year. Strictly implementing the regulatory requirements of insurance products, the Bank recorded a decrease of agency commissions fee compared with the prior year.

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Unit: RMB million, except percentages

Items	2017	2016	Change	Change (%)
Group				
Agency commissions	23,310	24,178	(868)	(3.59%)
Bank card fees	25,798	24,054	1,744	7.25%
Settlement and clearing fees	12,323	11,113	1,210	10.89%
Credit commitment fees	15,090	15,426	(336)	(2.18%)
Consultancy and advisory fees	5,615	5,701	(86)	(1.51%)
Spread income from foreign exchange business	8,083	7,149	934	13.06%
Custodian and other fiduciary service fees	3,527	3,397	130	3.83%
Other	7,054	7,301	(247)	(3.38%)
Fee and commission income	100,800	98,319	2,481	2.52%
Fee and commission expense	(12,109)	(9,655)	(2,454)	25.42%
Net fee and commission income	88,691	88,664	27	0.03%
Domestic				
Agency commissions	17,074	18,278	(1,204)	(6.59%)
Bank card fees	22,442	20,366	2,076	10.19%
Settlement and clearing fees	10,773	9,613	1,160	12.07%
Credit commitment fees	7,513	7,685	(172)	(2.24%)
Consultancy and advisory fees	5,415	5,561	(146)	(2.63%)
Spread income from foreign exchange business	7,096	6,335	761	12.01%
Custodian and other fiduciary service fees	3,421	3,282	139	4.24%
Other	4,194	4,133	61	1.48%
Fee and commission income	77,928	75,253	2,675	3.55%
Fee and commission expense	(7,200)	(4,550)	(2,650)	58.24%
Net fee and commission income	70,728	70,703	25	0.04%

Other Non-interest Income

The Group realised other non-interest income of RMB56.681 billion, a decrease of RMB34.263 billion or 37.67% compared with the prior year. This was primarily due to the Bank completed the sale of Nanyang Commercial Bank, Limited (NCB) and recognised the related gain from the investment disposal in 2016. In addition, net gains on financial investments recognised in 2017 reduced compared with the prior year. Please refer to Notes V.3, 4, 5 to the Consolidated Financial Statements for detailed information.

Management Discussion and Analysis — Financial Review

Operating Expenses

The Bank continued to operate its business in a prudent manner. It continuously optimised its cost structure, tightened control over administrative expenses, allocated greater resources to key areas, business frontlines and overseas business and made greater efforts to support technology, thus improving its efficiency of cost management. In 2017, the Group recorded operating expenses of RMB173.859 billion, a decrease of RMB1.210 billion or 0.69% compared with the prior year. The Group's cost to income ratio (calculated in accordance with domestic regulations) was 28.34%, an increase of 0.26 percentage point compared with the prior year. Please refer to Notes V.6, 7 to the Consolidated Financial Statements for detailed information.

Unit: RMB million, except percentages

Items	2017	2016	Change	Change (%)
Staff costs	82,061	81,080	981	1.21%
General operating and administrative expenses	41,235	41,565	(330)	(0.79%)
Depreciation and amortisation	13,667	13,175	492	3.73%
Taxes and surcharges	4,676	9,810	(5,134)	(52.33%)
Insurance benefits and claims	22,607	16,804	5,803	34.53%
Other	9,613	12,635	(3,022)	(23.92%)
Total	173,859	175,069	(1,210)	(0.69%)

Impairment Losses on Assets

The Bank continued to improve its comprehensive risk management system and adopted a proactive and forward-looking approach to risk management, thus ensuring relatively stable credit asset quality. It stringently implemented a prudent risk provisioning policy and maintained adequate capacity for risk mitigation. In 2017, the Group's impairment losses on loans and advances totalled RMB84.025 billion, a decrease of RMB2.770 billion or 3.19% compared with the prior year. In particular, collectively-assessed impairment losses stood at RMB43.941 billion, a decrease of RMB12.346 billion compared with the prior year, while individually-assessed impairment losses stood at RMB40.084 billion, an increase of RMB9.576 billion compared with the prior year. Please refer to the section "Risk Management —

Credit Risk Management" and Notes V.9, VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

Income Tax Expense

In 2017, the Group incurred income tax of RMB37.917 billion, a decrease of RMB0.444 billion or 1.16% compared with the prior year. The Group's effective tax rate was 17.01%, representing a decrease of 0.24 percentage point compared with the prior year. This was primarily attributable to an increase in bond investment, for which the Bank enjoyed a preferential rate of corporate income tax. Please refer to Note V.10 to the Consolidated Financial Statements for the reconciliation of the statutory income tax expense to the effective income tax expense.

Management Discussion and Analysis — Financial Review

Financial Position Analysis

As at the end of 2017, the Group's total assets amounted to RMB19,467.424 billion, an increase of RMB1,318.535 billion or 7.27% compared with the prior year-end. The Group's total liabilities amounted to RMB17,890.745 billion, an increase of RMB1,228.948 billion or 7.38% compared with the prior year-end.

The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million, except percentages

Items	As at 31 December 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Assets				
Loans and advances to customers, net	10,644,304	54.68%	9,735,646	53.64%
Investments	4,554,722	23.40%	3,972,884	21.89%
Balances with central banks	2,227,614	11.44%	2,271,640	12.52%
Due from and placements with banks and other financial institutions	1,060,456	5.45%	1,176,482	6.48%
Other assets	980,328	5.03%	992,237	5.47%
Total assets	19,467,424	100.00%	18,148,889	100.00%
Liabilities				
Due to customers	13,657,924	76.34%	12,939,748	77.66%
Due to and placements from banks and other financial institutions and due to central banks	2,961,151	16.55%	2,590,413	15.55%
Other borrowed funds	529,756	2.96%	389,470	2.34%
Other liabilities	741,914	4.15%	742,166	4.45%
Total liabilities	17,890,745	100.00%	16,661,797	100.00%

Notes:

- Investments include financial investments available for sale, debt securities held to maturity, financial investments classified as loans and receivables, and financial assets at fair value through profit or loss.
- Other borrowed funds include bonds issued and other borrowings.

Loans and Advances to Customers

In line with China's macroeconomic policies and the financial demands of the real economy, the Bank rationally allocated credit extension and expanded its lending scale at a stable and moderate pace. The Bank continually improved its credit structure, supported key national investment fields, promoted the balanced development of China's regional economies, served the supply-side structural reform, supported the construction of financial artery of the Belt and Road Initiative, as well as the development of emerging industry, high-end manufacturing and

Management Discussion and Analysis — Financial Review

productive service industry. The Bank strictly controlled credit facilities granted to industries characterised by high pollution, high energy consumption and overcapacity. It also promoted the development of green finance. As at the end of 2017, the Group's loans and advances to customers amounted to RMB10,896.558 billion, an increase of RMB923.196 billion or 9.26% compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB8,325.013 billion, an increase of RMB717.283 billion or 9.43% compared with the prior year-end, while its foreign currency loans amounted to USD393.552 billion, an increase of USD52.535 billion or 15.41% compared with the prior year-end.

The Bank further improved its risk management, paid close attention to changes in the macroeconomic situation, strengthened risk identification and management in key areas and made more efforts to dispose of nonperforming assets, thus maintaining a relatively stable asset quality. As at the end of 2017, the balance of the Group's allowance for loan impairment losses amounted to RMB252.254 billion, an increase of RMB14.538 billion compared with the prior year-end. The balance of the Group's restructured loans amounted to RMB8.137 billion, a decrease of RMB1.562 billion compared with the prior year-end.

Investments

The Bank tracked financial market dynamics, increased its investment in RMB interest rate bonds, continuously optimised its investment structure, properly managed its investment portfolio duration and struck a balance between risk and return.

As at the end of 2017, the Group held investments of RMB4,554.722 billion, an increase of RMB581.838 billion or 14.65% compared with the prior year-end. Specifically, the Group's RMB investments totalled RMB3,530.673 billion, an increase of RMB529.738 billion or 17.65% compared with the prior year-end, while foreign currency investments totalled USD156.721 billion, an increase of USD16.610 billion or 11.85% compared with the prior year-end.

The classification of the Group's investment portfolio is shown below:

Unit: RMB million, except percentages

Items	As at 31 December 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	193,611	4.25%	124,090	3.12%
Financial investments available for sale	1,857,222	40.78%	1,609,830	40.52%
Debt securities held to maturity	2,089,864	45.88%	1,843,043	46.39%
Financial investments classified as loans and receivables	414,025	9.09%	395,921	9.97%
Total	4,554,722	100.00%	3,972,884	100.00%

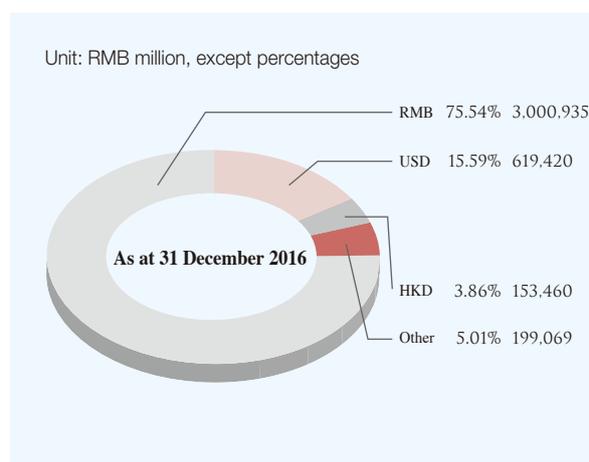
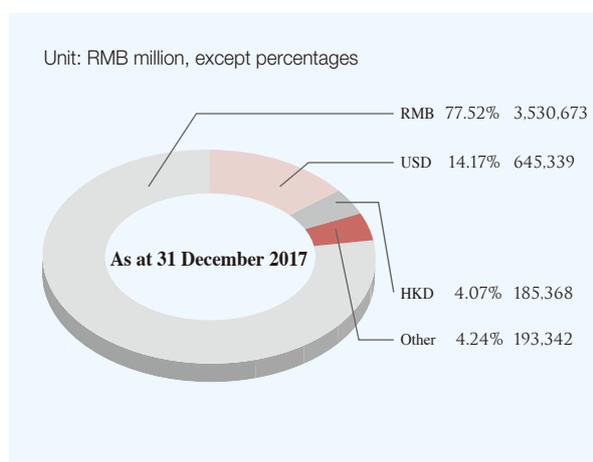
Management Discussion and Analysis — Financial Review

Investments by Issuer Type

Unit: RMB million, except percentages

Items	As at 31 December 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Debt securities				
Issuers in Chinese mainland				
Government	2,403,536	52.77%	2,004,727	50.46%
Public sectors and quasi-governments	64,016	1.40%	52,015	1.31%
Policy banks	519,245	11.40%	389,774	9.81%
Financial institutions	322,827	7.09%	292,861	7.37%
Corporates	188,811	4.15%	190,222	4.79%
China Orient Asset Management Corporation	158,806	3.49%	160,000	4.03%
Subtotal	3,657,241	80.30%	3,089,599	77.77%
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
Governments	377,196	8.28%	342,698	8.62%
Public sectors and quasi-governments	92,211	2.02%	90,101	2.27%
Financial institutions	191,321	4.20%	217,554	5.47%
Corporates	115,164	2.53%	120,620	3.04%
Subtotal	775,892	17.03%	770,973	19.40%
Equity instruments and others	121,589	2.67%	112,312	2.83%
Total	4,554,722	100.00%	3,972,884	100.00%

Investments by Currency



Management Discussion and Analysis — Financial Review

Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity Date	Impairment
Bond issued by policy banks in 2016	13,650	2.65%	2019-10-20	–
Bond issued by policy banks in 2017	8,916	3.88%	2020-04-19	–
Bond issued by non-bank financial institutions in 2017	8,600	6.10%	2018-05-15	–
Bond issued by policy banks in 2014	8,416	5.44%	2019-04-08	–
Bond issued by policy banks in 2017	6,440	3.54%	2020-01-06	–
Bond issued by policy banks in 2017	5,030	4.02%	2022-04-17	–
Bond issued by non-bank financial institutions in 2017	5,000	5.60%	2018-05-29	–
Bond issued by non-bank financial institutions in 2017	5,000	4.60%	2018-03-02	–
Bond issued by non-bank financial institutions in 2017	5,000	5.30%	2018-05-23	–
Bond issued by non-bank financial institutions in 2017	5,000	4.80%	2018-03-08	–

Note: Financial bonds refer to the debt securities issued by financial institutions in the bond market, including the bonds issued by policy banks, other banks and non-bank financial institutions, but excluding restructured bonds and PBOC bills.

Due to Customers

The Bank aligned itself with the trend towards interest rate liberalisation and the rapid development of internet finance, accelerated product and service innovation and thus constantly enhanced its financial services offering. As a result, its liability business grew steadily. It further improved salary payment agency, payment collection and other basic services, optimised the functions of personal certificates of deposit (CDs), steadily expanded its administrative institution customer base, solidified its relationships with basic settlement and cash management customers and seized such business opportunities as the acceleration of direct financing. As a result, it steadily grew its customer deposits.

As at the end of 2017, the Group's due to customers amounted to RMB13,657.924 billion, an increase of RMB718.176 billion or 5.55% compared with the prior year-end. Specifically, the Group's RMB due to customers totalled RMB10,236.329 billion, an increase of RMB492.122 billion or 5.05% compared with the prior year-end, while its foreign currency due to customers stood at USD523.644 billion, an increase of USD62.992 billion or 13.67%.

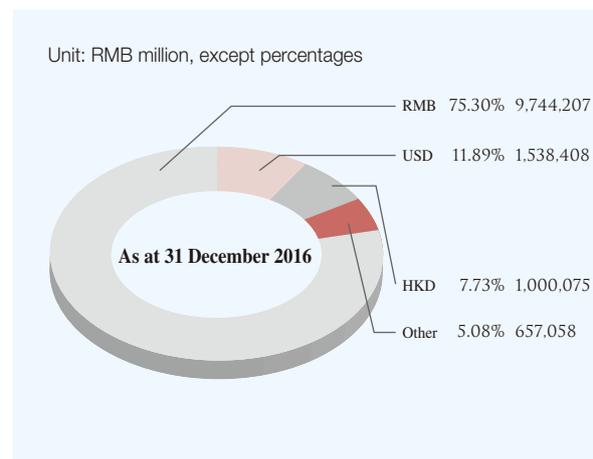
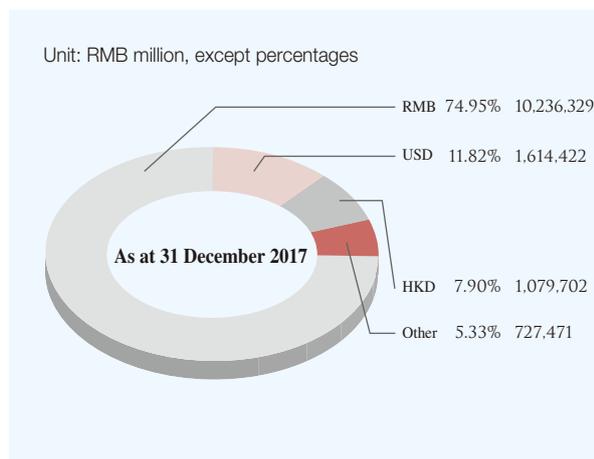
Management Discussion and Analysis — Financial Review

The principal components of due to customers of the Group and its domestic institutions are set out below:

Unit: RMB million, except percentages

Items	As at 31 December 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Group				
Corporate deposits				
Demand deposits	3,955,206	28.96%	3,620,945	27.98%
Time deposits	3,213,375	23.53%	3,100,383	23.96%
Structured deposits	215,193	1.58%	271,885	2.10%
Subtotal	7,383,774	54.07%	6,993,213	54.04%
Personal deposits				
Demand deposits	2,613,409	19.13%	2,490,309	19.25%
Time deposits	3,060,245	22.41%	2,992,051	23.12%
Structured deposits	157,574	1.15%	78,426	0.61%
Subtotal	5,831,228	42.69%	5,560,786	42.98%
Certificates of deposit	377,460	2.76%	327,908	2.53%
Other deposits	65,462	0.48%	57,841	0.45%
Total	13,657,924	100.00%	12,939,748	100.00%
Domestic				
Corporate deposits				
Demand deposits	3,368,630	31.05%	3,046,617	29.48%
Time deposits	2,361,406	21.76%	2,286,107	22.12%
Structured deposits	201,916	1.86%	259,434	2.51%
Subtotal	5,931,952	54.67%	5,592,158	54.11%
Personal deposits				
Demand deposits	1,992,092	18.36%	1,904,292	18.42%
Time deposits	2,714,253	25.01%	2,711,679	26.24%
Structured deposits	155,076	1.43%	75,374	0.73%
Subtotal	4,861,421	44.80%	4,691,345	45.39%
Other deposits	58,045	0.53%	51,398	0.50%
Total	10,851,418	100.00%	10,334,901	100.00%

Due to Customers by Currency



Management Discussion and Analysis — Financial Review

Equity

As at the end of 2017, the Group's total equity stood at RMB1,576.679 billion, an increase of RMB89.587 billion or 6.02% compared with the prior year-end. This was primarily attributable to the following reasons: (1) In 2017, the Group realised a profit for the year of RMB184.986 billion. (2) As per the 2016 profit distribution plan approved at the 2016 Annual General Meeting, the Bank paid a cash dividend of RMB49.457 billion. (3) The Bank paid a dividend on its preference shares of RMB6.754 billion. (4) A decrease of the value of financial investments available for sale of RMB20.641 billion due to the market interest rate hike. Please refer to the "Consolidated Statement of Changes in Equity" in the Consolidated Financial Statements for detailed information.

Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments, etc.

The Group entered into various derivative financial instruments relating to foreign currency exchange rates, interest rates, equity, credit, precious metals and other commodities for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note V.17 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include legal proceedings and arbitrations, assets pledged, collateral accepted, capital commitments, operating leases, Treasury bonds redemption commitments, credit commitments and underwriting obligations, etc. Please refer to Note V.41 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

As at the end of 2017, the balance of the Group's cash and cash equivalents was RMB958.752 billion, a decrease of RMB60.495 billion compared with the prior year-end.

In 2017, net cash flow from operating activities was an inflow of RMB406.136 billion, an increase of RMB224.055 billion compared with the prior year. This was mainly attributable to the decrease of the net changes in balances with central banks and due from banks and other financial institutions and the increase of the net changes in due to and placements from banks and other financial institutions.

Net cash flow from investing activities was an outflow of RMB505.090 billion, an increase of RMB258.704 billion compared with the prior year. This was mainly attributable to the increase in net cash outflow of financial investment.

Net cash flow from financing activities was an inflow of RMB65.584 billion, compared with an outflow of RMB1.713 billion of the prior year. This was mainly attributable to the increase of proceeds from issuance of bonds compared with the prior year.

Management Discussion and Analysis — Financial Review

Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions. A geographical analysis of profit contribution and the related assets and liabilities is set forth in the following table:

Unit: RMB million

Items	Chinese mainland		Hong Kong, Macao and Taiwan		Other countries and regions		Elimination		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income	284,930	263,642	37,745	29,342	15,714	13,064	–	–	338,389	306,048
Non-interest income	85,774	104,432	57,401	72,299	6,856	6,151	(4,659)	(3,274)	145,372	179,608
Including: net fee and commission income	70,728	70,703	15,073	14,486	4,336	4,285	(1,446)	(810)	88,691	88,664
Operating expenses	(126,351)	(138,639)	(43,172)	(31,731)	(6,265)	(5,987)	1,929	1,288	(173,859)	(175,069)
Impairment losses on assets	(85,286)	(86,427)	(1,722)	(1,803)	(1,153)	(842)	–	–	(88,161)	(89,072)
Profit before income tax	159,067	143,008	51,414	69,004	15,152	12,386	(2,730)	(1,986)	222,903	222,412
As at the year-end										
Assets	15,503,536	14,341,792	3,534,044	3,256,526	1,911,087	1,812,521	(1,481,243)	(1,261,950)	19,467,424	18,148,889
Liabilities	14,285,717	13,198,402	3,235,718	2,967,621	1,850,392	1,757,564	(1,481,082)	(1,261,790)	17,890,745	16,661,797

As at the end of 2017, total assets³ of the Bank's Chinese mainland segment amounted to RMB15,503.536 billion, an increase of RMB1,161.744 billion or 8.10% compared with the prior year-end, representing 74.01% of the Group's total assets. In 2017, this segment recorded a profit before income tax of RMB159.067 billion, an increase of RMB16.059 billion or 11.23% compared with the prior year, representing 70.50% of the Group's profit before income tax for the year.

Total assets of the Hong Kong, Macao and Taiwan segment amounted to RMB3,534.044 billion, an increase of RMB277.518 billion or 8.52% compared with the prior year-end, representing 16.87% of the Group's total assets. In 2017, this segment recorded a profit before income tax of RMB51.414 billion, a decrease of RMB17.590 billion or 25.49% compared with the prior year, representing 22.79% of the Group's profit before income tax for the year.

Total assets of the other countries and regions segment amounted to RMB1,911.087 billion, an increase of RMB98.566 billion or 5.44% compared with the prior year-end, representing 9.12% of the Group's total assets. In 2017, this segment recorded a profit before income tax of RMB15.152 billion, an increase of RMB2.766 billion or 22.33% compared with the prior year, representing 6.71% of the Group's profit before income tax for the year.

Please refer to the section "Business Review" for more detailed information on the Group's business segments.

Critical Accounting Estimates and Judgements

The Bank makes accounting estimates and judgements that affect the reported amounts of assets and liabilities of the next financial year. These estimates and judgements are continually evaluated and are based on historical experience, expectations of future events that are believed to be reasonable under the circumstances and other factors. The management believes that the accounting estimates and judgements have properly reflected the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

³ The figures for segment assets, segment profit before income tax and their respective proportions are prior to intragroup elimination.

Management Discussion and Analysis — Financial Review

Fair Value Measurement

Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	Opening balance	Closing balance	Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	106,172	168,399	62,227	
Loans	6,022	5,493	(529)	1,564
Equity securities	7,547	8,029	482	
Fund investments and other	4,349	11,690	7,341	
Investment securities available for sale				
Debt securities	1,535,963	1,769,758	233,795	
Equity securities	33,936	38,694	4,758	(326)
Fund investments and other	39,931	48,770	8,839	
Derivative financial assets	130,549	94,912	(35,637)	431
Derivative financial liabilities	(107,109)	(111,095)	(3,986)	
Due to and placements from banks and other financial institutions at fair value	(1,968)	(1,246)	722	2
Due to customers at fair value	(350,311)	(372,767)	(22,456)	(518)
Bonds issued at fair value	–	(1,907)	(1,907)	10
Short position in debt securities	(9,990)	(17,219)	(7,229)	29

The Bank has put in place a sound internal control mechanism for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks*, the *Regulatory Guidelines on Valuation of Financial Instruments in Commercial Banks*, CAS and IFRS, with reference to the New Basel Capital Accord, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Valuation Policy of Financial Instrument Fair Values of Bank of China Limited* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure. Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the fair value measurement.

Other Financial Information

There are no differences in the equity and profit for the year of the Group prepared in accordance with IFRS to those prepared in accordance with CAS. Please refer to Supplementary Information I to the Consolidated Financial Statements for detailed information.

Management Discussion and Analysis — Business Review

Operating income for each line of business of the Group is set forth in the following table:

Unit: RMB million, except percentages

Items	2017		2016	
	Amount	% of total	Amount	% of total
Commercial banking business	436,251	90.18%	420,498	86.59%
Including: Corporate banking business	204,509	42.27%	211,245	43.50%
Personal banking business	159,197	32.91%	150,609	31.01%
Treasury operations	72,545	15.00%	58,644	12.08%
Investment banking and insurance	31,622	6.54%	24,634	5.07%
Others and elimination	15,888	3.28%	40,524	8.34%
Total	483,761	100.00%	485,656	100.00%

A detailed review of the Group's principal deposits and loans is summarised in the following table:

Unit: RMB million

Items	As at	As at	As at
	31 December 2017	31 December 2016	31 December 2015
Corporate deposits			
Domestic: RMB	5,495,494	5,213,790	4,818,850
Foreign currency	436,458	378,368	314,162
Hong Kong, Macao, Taiwan and overseas operations	1,451,822	1,401,055	1,310,194
Subtotal	7,383,774	6,993,213	6,443,206
Personal deposits			
Domestic: RMB	4,551,168	4,349,300	3,982,160
Foreign currency	310,253	342,045	257,439
Hong Kong, Macao, Taiwan and overseas operations	969,807	869,441	759,726
Subtotal	5,831,228	5,560,786	4,999,325
Corporate loans			
Domestic: RMB	4,761,874	4,496,888	4,402,258
Foreign currency	338,379	336,294	398,103
Hong Kong, Macao, Taiwan and overseas operations	1,872,448	1,735,787	1,569,551
Subtotal	6,972,701	6,568,969	6,369,912
Personal loans			
Domestic: RMB	3,481,682	2,983,945	2,397,327
Foreign currency	1,250	1,381	1,406
Hong Kong, Macao, Taiwan and overseas operations	440,925	419,067	367,215
Subtotal	3,923,857	3,404,393	2,765,948

Management Discussion and Analysis — Business Review

Commercial Banking

Domestic Commercial Banking

In 2017, the Bank's domestic commercial banking business recorded an operating income of RMB365.470 billion, an increase of RMB6.230 billion or 1.73% compared with the prior year. Details are set forth below:

Unit: RMB million, except percentages

Items	2017		2016	
	Amount	% of total	Amount	% of total
Corporate banking business	177,868	48.67%	185,014	51.50%
Personal banking business	141,296	38.66%	133,220	37.08%
Treasury operations	42,379	11.60%	37,902	10.55%
Other	3,927	1.07%	3,104	0.87%
Total	365,470	100.00%	359,240	100.00%

Corporate Banking

The Bank made great efforts to expedite the transformation of its corporate banking business. It promoted product innovation, continuously optimised customer structure, further expanded its customer base, enhanced its diversified operations as well as the integration of its domestic and overseas operations and improved its global service capabilities for corporate banking customers, thus achieving steady development in its corporate banking business. In 2017, the Bank's domestic corporate banking business realised an operating income of RMB177.868 billion, a decrease of RMB7.146 billion or 3.86% compared with the prior year.

Corporate Deposits

The Bank accelerated the development of its corporate liability business and continuously improved financial service standards, thus realising sustainable growth in corporate deposits. Seizing business opportunities arising from key industries, the Bank strengthened marketing efforts across its full line of products. It managed to attract more administrative institution customers by improving product and service systems aimed at industrial customers engaged in supporting the people's livelihood, public finance and social security, education and public health, etc., thus achieving rapid growth in deposits from

such institutions. The Bank also actively sought out customers along the upstream and downstream of supply chains and industrial chains in order to identify and attract more potential customer deposits. In response to the trend of interest rate liberalisation, the Bank insisted on maintaining the balance between scale and benefit, reinforced the improvement of product functions and stepped up its marketing efforts for cash management and other products. In addition, the Bank enhanced the service functions of its outlets so as to improve their corporate customer service quality and deposit contribution.

As at the end of 2017, RMB corporate deposits in the Bank's domestic operations totalled RMB5,495.494 billion, an increase of RMB281.704 billion or 5.40% compared with the prior year-end. Foreign currency corporate deposits amounted to USD66.796 billion, an increase of USD12.253 billion or 22.46% compared with the prior year-end.

Corporate Loans

The Bank continued to strengthen its support for the real economy and implemented the concept of green finance, providing stronger credit support to key industries and segments including advanced manufacturing, modern services, infrastructure, energy conservation and environmental protection and expanding its business in strategic emerging industries.

Management Discussion and Analysis — Business Review

The Bank continuously improved its credit structure by making better use of new assets and revitalising existing assets, thus supporting the transformation and upgrading of the domestic economy and fostering international collaboration on production capacity. In line with national strategies, the Bank stepped up support for key regions such as the Beijing-Tianjin-Hebei region, the Yangtze Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area, so as to advance the coordinated development of China's regional economies. The Bank stepped up the transformation of its corporate banking services and guided customers to broaden their financing channels, in order to meet their diversified financing needs.

As at the end of 2017, RMB corporate loans of the Bank's domestic operations totalled RMB4,761.874 billion, an increase of RMB264.986 billion or 5.89%

compared with the prior year-end. Foreign currency corporate loans totalled USD51.786 billion, an increase of USD3.308 billion or 6.82% compared with the prior year-end.

Trade Finance and Services

The Bank fully leveraged its traditional advantages in trade finance, seized opportunities arising from national strategies, accelerated business model innovation and effectively managed risks, thus driving forward high-quality growth in its business and continuously consolidating its market dominance. In 2017, the Group's international trade transaction volumes reached USD3.95 trillion. The Bank's domestic institutions retained the largest market share in international trade services and held the leading position among peers in cross-border guarantee business and domestic factoring business.



北京 2022

Official Banking Partner of the Beijing 2022 Olympic and Paralympic Winter Games

④ Building the Financial Artery of the Belt and Road Initiative and promoting international financial exchange and cooperation

Implementing national strategies and following the Belt and Road Initiative, the Bank accelerated the building of the financial artery of the Belt and Road Initiative. It strived to become the preferred bank for China's "Going Global" enterprises, foreign "Bringing In" enterprises and local enterprises along the Belt and Road, and to serve as the main channel for Belt and Road related RMB internationalisation business. It increased its institutions in countries along the Belt and Road in a bid to channel global financial resources into Belt and Road countries and regions.

The Bank further expanded its network in the countries along the Belt and Road. As at the end of 2017, the Bank's overseas institutions cover 53 countries and regions, including 22 countries along the Belt and Road, representing the broadest presence both globally and along the Belt and Road among Chinese banks. The Bank improved its overseas network along the Belt and Road by continuously pushing forward the integration of its institutions in Southeast Asia and enhancing their ability to provide comprehensive financial services, thus supporting the Belt and Road Initiative in Southeast Asia.

The Bank steadily pushed forward financing and project expansion. The Bank followed up on over 500 major Belt and Road-related projects as at the end of 2017. From 2015 to 2017, the Bank granted approximately USD100.0 billion of credit support to countries along the Belt and Road.

The Bank continuously promoted RMB internationalisation. The Bank continuously improved its cross-border RMB clearing system in an effort to enhance the quality and efficiency of clearing services and to promote RMB development in local markets. In 2017, the volume of RMB clearing transactions carried out by the Bank's institutions along the Belt and Road approached RMB5 trillion, leading its global peers by market share. The Bank also promoted the use of RMB in Belt and Road-related trade and investment. The Bank's RMB clearing transactions volumes between China and countries along the Belt and Road totalled nearly RMB190.0 billion.

The Bank actively expanded foreign exchange products. The Bank promoted foreign exchange products for countries along the Belt and Road, including multi-currency spot and forward foreign exchange trading, swaps and options, so as to help enterprises hedge exchange rate risk. The Bank is capable of providing quotations for over ten emerging market currencies and has launched new quotation products for customers. The Bank also cooperated with the PBOC in direct minor-currency trading in the interbank foreign exchange market.

The Bank launched its Belt and Road financial cooperation model on all fronts. The Bank became the sole paid-in capital account-opening bank and sole USD clearing bank designated by the AIIB. It fully leveraged the guarantee and credit enhancement tools of China Export & Credit Insurance Corporation, Multilateral Investment Guarantee Agency (MIGA) and other international organisations to enhance its risk mitigation measures. As head of the Financial Services Working Group of BRICS Business Council, the Bank actively pushed for cooperation between the BRICS Business Council and the New Development Bank. The Bank built cooperation platforms with the world's mainstream commodity exchanges, entering into cooperation with approximately 20 exchanges at home and abroad.



The Bank welcomed the British Prime Minister's visit to BOC to strengthen China-UK financial cooperation



The Bank held the Belt and Road international financial communication and cooperation seminar



The Bank held the Belt and Road international financial communication and cooperation seminar for Pacific island countries



The Bank held China-Italy SME Cross-Border Trade and Investment Conference

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Serving as a leader in cross-border RMB-related product and service innovation and as the main channel for RMB cross-border flows, the Bank steadily pushed forward RMB internationalisation and reinforced the RMB's stable position in the global monetary system. In 2017, the Group's transaction volume of cross-border RMB payment reached RMB3.83 trillion, among which RMB2.48 trillion was undertaken by the Bank's domestic institutions, maintaining the largest market share. The Bank also promoted the use of RMB in emerging sectors. For example, it helped the government of Hungary to issue sovereign Panda Bonds, the first issuance of its kind to be raised exclusively to support cooperation through the Belt and Road Initiative. The Bank became one of the first pioneer banks designated by the Shanghai International Energy Exchange to act as a margin depository bank for overseas crude oil futures customers, thus helping the RMB to enter the commodity trading and pricing system. The Bank also continued to release the "BOC Cross-border RMB Index (CRI)", "BOC Offshore RMB Index (ORI)" and the *White Paper on RMB Internationalisation*, providing comprehensive and professional support for global customers to understand and use the RMB. The Bank actively played its role as Chair of the China Foreign Exchange Committee, and as lead bank of the Retail Foreign Exchange and Cross-border RMB Business Working Group under the Committee, with the aim of improving self-discipline in the foreign exchange markets.

The Bank made steady progress in expanding its free trade zone (FTZ) business, providing a full range of comprehensive financial services for key projects and customers in FTZs. By closely tracking the progress of preparations for setting up a third round of FTZs in Liaoning, Zhejiang and other provinces, the Bank was able to successfully pioneer business in all FTZs from the first day that they were officially established. The Bank vigorously promoted its commodity financing business and improved the structure of its four commodity business centres in Shanghai, Singapore,

London and New York. Due to constant efforts in business model innovation, the Bank also achieved breakthroughs in aircraft leasing factoring and re-factoring services. In addition, it provided its online "1+N" model for supply chain financing via bank-enterprise direct linkage and its online banking channel, and offered trade finance solutions to enterprises along the upstream and downstream chains of the core enterprises. It participated in the Phase-I commercial paper trading platform of the Shanghai Commercial Paper Exchange Corporation Ltd., and made great efforts to promote its electronic commercial draft business. It constantly stepped up innovation in payment products, promoting new products such as BOC Global Payment Innovation (GPI), digital documents for international payment and centralised collection and payment products for multinational corporations.

The Bank was elected as Chair of the Banking Commission of the China Chamber of International Commerce (ICC China) and as a member of the Marketing & Communication Committee of Factors Chain International (FCI). It was also recognised as "Best Trade Finance Bank" and "Best Bank in Cross-border RMB Business" by prestigious media and professional institutions.

Cash Management

Drawing on the strength of its international operations, the Bank actively implemented the Belt and Road Initiative and won a number of competitive bids for the cash management service contracts of multinational corporations, thus maintaining a leading market share in centralised operation services for cross-border local and foreign currency funds and FTZ business. Its global cash management group customer base increased rapidly, with overseas coverage now extending to 50 countries and regions. Seizing the opportunities afforded by China's drive to deepen reforms on all fronts, the Bank provided customers with standardised, tailor-made, flexible and efficient cash management services in a bid to facilitate

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the transformation of their management. Through stronger cash management product innovation, the Bank established a connectivity-based product system including the Global Cash Management Platform, Bank Host-to-Host Direct Connection, Swift Direct Connection and Multi-Bank Cash Management System. The Bank was again recognised as the “Best Regional Cash Manager in Asia” by *Euromoney* and was recognised the “Best Cross-border Cash Management Bank” by *Asiamoney*, amongst other awards issued by the world’s major financial media organisations. As a result, BOC Global Cash Management has become an increasingly influential brand.

Financial Institutions Business

The Bank continued to deepen comprehensive cooperation with various global financial institutions, including domestic banks, overseas correspondent banks, non-bank financial institutions, overseas central banks, sovereign wealth funds and international financial organisations. It built an integrated financial services platform and maintained a leading position in terms of financial institution customer coverage. Having established correspondent relationships with almost 1,600 financial institutions in 178 countries and regions, the Bank provided financial services for multinational institutions and enterprises in fields such as international settlement, bond financing, foreign exchange trading, investment custody and global cash management. Closely following the implementation of the Belt and Road Initiative, the Bank consolidated cooperation with key correspondent banks in countries and regions along the Belt and Road. It continued to deepen its wide-reaching cooperation with emerging international organisations and development institutions such as Asian Infrastructure Investment Bank (AIIB), New Development Bank and the Silk Road Fund, participated in the investment and financing projects of domestic policy financial institutions in countries and regions along the Belt and Road and provided extensive financial services. By making increased efforts to expand its cross-border RMB business, the Bank became the major RMB clearing channel for overseas central banks and other sovereign institutions, commercial banks and exchange houses

and the preferred bank of Chinese enterprises for RMB business. To date, it has opened 1,482 cross-border RMB clearing accounts for correspondent banks from 121 countries and regions, thus holding a leading position among domestic banks. It also promoted the RMB Cross-Border Interbank Payment System (CIPS) and signed cooperation agreements for indirect participants with 199 domestic and overseas financial institutions, seizing the largest market share in the banking industry. The Bank’s custodian service for Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign Institutional Investors (RQFII) and its agency service for overseas central banks and other sovereign institutions ranked among the top in the industry in terms of both customer base and business scale. The Bank successfully held the “International Seminar on Global Sovereign Institutional Investors and China’s Financial Markets”. In addition, the Bank jointly organised the 2017 “Interconnectivity and Common Market” Financial Forum with HKEX to discuss new trends, new policies and new opportunities in the financial markets of the Chinese mainland and Hong Kong. Actively responding to the Belt and Road Initiative, the Bank served as partner bank for the 12th ASEAN Finance Ministers’ Investor Seminar (AFMIS), helped to organise a working meeting on the establishment of the Asian Financial Cooperation Association and invited senior executives of financial institutions of Belt and Road countries to attend the Belt and Road Forum for International Cooperation. The Bank also exclusively signed a framework agreement with the AIIB on global USD clearing services and signed the *Overall Strategic Cooperation Agreement* with the Shenzhen Stock Exchange and Dalian Commodity Exchange.

As at the end of 2017, the Bank ranked first in terms of market share in foreign currency deposits from financial institutions. It led its peers in B-Share clearing business volume and in the international settlement volume from overseas correspondent banks. The Bank’s third-party custody business continued to grow rapidly, and its market share in annual fee income from bancassurance business was further increased.

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SME Finance

The Bank comprehensively implemented national policies and measures to support the development of small and medium-sized enterprises (SMEs) and developed inclusive finance in a comprehensive manner. It actively promoted the building of the “five specialised operating mechanisms” of inclusive finance, continuously refined product and service systems for SMEs, upgraded its “BOC Credit Factory” service model and continued to promote the “investment and loan linkage mechanism” pilot programme. In 2017, loans of the Bank’s domestic institutions to micro and small-sized enterprises continued to grow stably, with the Bank satisfying the regulatory requirement of the “Three No-Less-Thans” — that is, a micro and small-sized enterprises loan growth rate of no less than the average growth rate of domestic loans, a number of micro and small-sized enterprises borrowers no less than that of the prior year and a loan approval ratio for micro and small-sized enterprises borrowers of no less than that of the regulatory requirements. The Bank enhanced risk control and compliance management, improved its early-warning mechanism on asset quality control and continuously enhanced its capabilities in identifying and mitigating credit risk, thus maintaining SME loan quality at a stable and controllable level.

The Bank earnestly promoted cross-border investment matchmaking services for SMEs and achieved notable results in serving the real economy, national strategies, state diplomacy and multilateral cooperation, thus gradually realising the transformation and upgrading

of its service concept, content and model. In 2017, the Bank held 18 cross-border matchmaking events focused on the theme of the Belt and Road Initiative and “16+1” cooperation. As at the end of 2017, the Bank had held 41 cross-border matchmaking events worldwide, attracting participation from over 20,000 Chinese and foreign enterprises from 80 countries and regions.

As at the end of 2017, the Bank’s outstanding loans to micro and small-sized enterprises⁴ amounted to RMB1,457.8 billion, an increase of RMB172.9 billion compared with the prior year-end.

Pension Business

In an effort to support the development of China’s social security system, the Bank continuously enhanced its pension-related product offerings, promoted product innovation, optimised service system functions and developed a comprehensive service system. It provided a range of pension-related financial services including enterprise annuities, occupational annuities, employee benefit plans, employee stock ownership plans and pension security management products, thus enhancing customer satisfaction. As at the end of 2017, the total number of individual pension accounts held by the Bank reached 4.5160 million, an increase of 0.3470 million or 8.32% compared with the prior year-end. Assets under custody amounted to RMB192.240 billion, an increase of RMB34.920 billion or 22.20% compared with the prior year-end, with the Bank serving more than 10,000 clients.

⁴ Micro and small-sized enterprise loans statistical standards are executed in accordance with the *Guiding Opinions on Financial Services for Micro and Small-sized Enterprises in 2014* (Yinjianfa [2014] No. 7).

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Personal Banking

Seizing opportunities arising from the positive development momentum of China's macro-economy, the Bank promoted innovation, focused on its characteristic strengths, continuously enhanced market competitiveness of personal banking businesses and further improved customer experience, thus delivering sound business performance. In 2017, the Bank's domestic personal banking business realised an operating income of RMB141.296 billion, an increase of RMB8.076 billion or 6.06% compared with the prior year.

Personal Deposits

Leveraging its advantages in internationalised and diversified operations, the Bank actively addressed external challenges such as interest rate liberalisation. In addition to vigorously expanding core businesses such as salary payment agency, collection and payment agency, sweep agency and escrow agency, it continued to ramp up innovation in personal deposit products and provided customers with deposit products of different terms and types aimed at meeting their diverse needs. Leveraging its specialised advantages in cross-border business, the Bank strived to meet diverse customer demands for foreign exchange savings and settlement, including offering high-quality account opening witness agency service for cross-border customers. It diversified its personal foreign currency deposit products, increasing the number of foreign currencies offered by its personal deposit and withdrawal businesses to 25 and further sharpening its competitive edge in foreign exchange services. In addition, the number of convertible foreign currencies available to customers increased to 33, allowing the Bank to secure a leading position among its peers.

As at the end of 2017, the Bank's domestic RMB personal deposits totalled RMB4,551.168 billion, an increase of RMB201.868 billion or 4.64% compared with the prior year-end. Personal foreign currency deposits amounted to USD47.481 billion, maintaining a leading market share.

Personal Loans

The Bank deepened the transformation and innovation of its personal loan business in order to meet increasingly diversified consumer demands. The Bank carried out the state's real estate regulation policies and maintained the sound development of its personal housing loan business, with particular focus on serving the needs of households seeking to buy owner-occupied homes for the first time. It accelerated its consumer finance business, applied internet and big data technologies, improved risk management and control models and launched "BOC E-Credit", a whole-process online consumer loan service. The Bank adjusted the industrial structure of its personal business loans, and provided distinct service models for different customer segments, such as customers targeted according to shopping districts or industry chains, those commonly engaged in agriculture-related businesses or poverty alleviation efforts. It continued to improve its government-sponsored student loan service and assumed its share of responsibility for poverty alleviation.

As at the end of 2017, the total amount of RMB personal loans of the Bank's domestic operations stood at RMB3,481.682 billion, an increase of RMB497.737 billion or 16.68% compared with the prior year-end. The Bank also maintained a leading market position in personal auto loans and government-sponsored student loans.

Practicing Inclusive Finance on All Fronts

As part of its commitment to serving the real economy, the Bank earnestly implemented the requirements of inclusive finance. Focusing on small and micro businesses, agriculture, rural areas, farmers, groups that advance entrepreneurship and innovation, poverty alleviation and campus finance, it continuously enhanced the coverage, availability and customer satisfaction of its financial services.

Establishing a “1+2” inclusive finance architecture with BOC characteristics. Leveraging the Group’s operational advantages, the Bank made efforts to establish an inclusive finance services system with BOC characteristics. A “1+2” inclusive finance architecture, comprising of “Bank of China together with BOC Fullerton Community Bank and Bank of China Consumer Finance Company Limited”, came into being. The Bank also strengthened interactions among its comprehensive service platforms, enhanced coordination and support for relevant aspects of its products, channels and personnel, and built a “broad inclusive finance” financial institution service system characterised by multiple tiers, wide coverage and effective cooperation.

Building a vertical management system for the Inclusive Finance Division. The Inclusive Finance Division was officially set up on 20 June 2017, and a newly-established Inclusive Finance Management Committee was put in charge of promoting the Group’s inclusive finance business on all fronts. All 36 tier-1 branches set up inclusive finance sub-divisions, while all tier-2 branches and sub-branches established inclusive financial service centres. In addition, the Bank took the lead in designating the outlets located in the 31 “Made in China 2025 Pilot Demonstration Cities” as key outlets for initiating inclusive finance credit.

Making efforts to put in place specialised inclusive finance mechanisms. In terms of its comprehensive service mechanism, the Bank strived to improve and expand a range of its products and services to meet inclusive finance imperatives, e.g. “BOC Credit Factory”, “Zhongguancun Model”, personal business loan, “Campus Loan”, “agriculture, rural areas and farmers”, anti-poverty finance efforts and targeted poverty alleviation. In terms of its statistical accounting mechanism, the Bank improved its inclusive finance accounting and business analysis framework, completed the launch of regulatory statements and conducted proper statistical analyses. In terms of its risk management mechanism, the Bank improved its policies on risk measurement and control approaches, NPL tolerance and due diligence and liability exemption, in light of the risk measurement and risk policies that already apply to existing customers. In terms of its resource allocation mechanism, the Bank earmarked such operating resources as credit, economic capital, fees, fixed assets and labour to its inclusive finance services efforts, in order to ensure strong resource support. In terms of its evaluation mechanism, the Bank established a special performance evaluation mechanism that suits the characteristics of inclusive finance business.

Providing a full package of service solutions to inclusive finance customers. Focusing on the diversified customer needs, the Bank continued to offer new inclusive finance products and effectively enhanced the quality and efficiency of its inclusive finance services. With respect to SMEs, the Bank continued to improve the “BOC Credit Factory” model in view of their funding needs, which are typically “short-term, small-amount, frequent, and urgent”. It debuted the “BOC Global SME Cross-border Matchmaking Services” aimed at helping domestic SMEs integrate into the global funding chain, value chain and industrial chain. With respect to “agriculture, farmers and rural areas”, the Bank launched “BOC New Farmer Tong Bao” and “BOC Forest Ownership Tong Bao” serial products, which innovatively accept forest ownership, cotton, apples and other products as collateral, in order to address the difficulties agricultural companies face in obtaining mortgage guarantees. To serve groups that advance entrepreneurship and innovation, the Bank promoted “Zhongguancun Model” and “investment and loan linkage mechanism”, which took into consideration the characteristic needs of start-ups, innovative firms, and small and medium-sized technological enterprises, to support the continuous development, expansion and strengthening of technological and innovation-driven enterprises. With respect to poverty alleviation, the Bank rolled out the designated poverty alleviation services model of “technology+wisdom+carrier+capital”, set up the finance-bolstered anti-poverty model based on the industrial chain of “bank+government+core enterprises+farmer households”, and encouraged and supported promising industries such as modern agriculture and tourism with differentiated credit policies. With respect to campus finance, in addition to campus-exclusive loan products such as government-sponsored student loans, commercial student loans, loans for overseas study, entrepreneurial loans, and loans for starting first jobs, the Bank was the first to launch a small-amount credit revolving loan to meet the reasonable consumer finance needs of university students.

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Wealth Management and Private Banking

The Bank accelerated the development of its wealth management and private banking business. Centring on customers, it promoted the transformation of its product sales and service modes, better allocated the assets of customers and refined their asset mix. It introduced a multi-layered integrated product selection platform and improved its product R&D mechanism so as to increase the competitiveness of its products. Armed with technologies including big data and artificial intelligence (AI), the Bank developed customer profiles and carried out targeted marketing campaigns. As a result, the number of personal customers and the scale of their financial assets under management both grew continuously. At the same time, the Bank intensified efforts to cultivate the teams of relationship managers and private bankers, established the BOC Wealth and Investment Academy and took enhanced steps to develop team members' specialist professional skills. Many of the Bank's wealth managers won gold and silver medals at the 2017 Forbes China • Fullgoal Financial Planner Competition. In addition, the Bank capitalised on its advantages in cross-border operations by building the cross-border financial service centres with vigorous efforts and integrating the resources of its domestic and overseas institutions, and enhanced its cross-border financial services capabilities. It introduced a model that enabled it to offer integrated services to personal customers based in the Guangdong-Hong Kong-Macao Greater Bay Area, thus remarkably enhancing its capacity to serve its personal customers in a more coordinated way. The Bank continuously pushed forward its private banking business and optimised its global private banking network. The establishment of a Private Banking Service Centre affiliated to Bank of China (UK) Limited further enhanced the Bank's ability to serve Europe-based high-net-worth customers. To better meet the needs of private banking customers, the Bank consolidated its innovations in customised discretionary asset management and family trust services by launching discretionary account-embedded family trust, life insurance trusts, charitable trusts and many other businesses. In addition, it reinforced its efforts to enhance the BOC privileged services

platform, which offered themed activities in the four categories of charity, elite education abroad, business activities and travel, and culture and art appreciation. High-net-worth customers were entitled to a mix of upgraded and exclusive services.

As at the end of 2017, the Bank had set up 7,746 wealth management centres, 1,022 prestigious wealth management centres and 40 private banking centres in the Chinese mainland. Its private banking business grew at a sustained and rapid rate, with the Group managing RMB1.2 trillion of financial assets on behalf of private banking customers. In 2017, the Bank was granted the "Best Private Banking Award", "Best Family Wealth Management Award", "Best Innovative Business Award" and "Best Cross-border Financial Service Board" by China Banking Association; recognised as the "Best Private Bank International Network" by *AsiaMoney*; rated as "Trustworthy Private Bank" by *Economic Observer* and named as "2017 Top Wealth Management Brand" and "2017 Excellent Private Bank" by *Shanghai Securities News*.

Bank Card

The Bank closely followed changes in markets and customer demand patterns, focused efforts on its target customers so as to improve their experience, and developed a distinctive product system with rich benefits and functions. Pursuing cooperation and crossover business model, the Bank focused on young and cross-border customers, launching diversified cross-border products such as PyeongChang Winter Olympic Credit Card, American Express Multi-Currency Credit Card, BOC Great Wall World Credit Card, Mastercard HKD/EUR Multi-Currency Titanium Credit Card, Visa HKD Multi-Currency Gold Credit Card, Visa EUR Zhuojun Platinum Credit Card, Mastercard GBP Zhuojun Platinum Credit Card, Australia Travel Credit Card and South Africa Travel Credit Card; themed products including BOC Despicable Me Franchise Credit Card and Jimi-themed Credit Card, and new products such as BOC China Mobile Co-branded Credit Card and BOC Vipshop Co-branded Credit Card. The Bank improved the instalments product system of its "EasyPay instalments +

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Scenario-oriented instalments + Customer-oriented instalments” products, introduced the first tailor-made “Easy Instalments Platinum Credit Cards” featuring automatic instalments payment, and expanded its scenario-based instalments business through various models, receiving credit for its efforts in the form of the “2017 Best Auto Consumer Financial Service Bank” award. Meanwhile, it introduced the operation model of “Consumer Finance Centre + Consumer Finance Specialised Agency”, and made efforts to build a more professionally skilled team for its consumer instalments business. The Bank created an internet-based and resource-light customer acquisition model in order to realise channel mobility, scenario-based application and automatic examination and approval. It promoted the “BOC Smart Payment” aggregate payment and acquiring business in order to meet online and offline merchants’ diversified needs for accepting payments via various methods and value-added services, thus supporting the building of a closed-loop payment system. In addition, the Bank rebuilt its brand system and actively carried out a brand marketing campaign to increase its market influence. It carried out the 360-degree management of the customer card usage life cycle, improved customer retention strategies and promoted dynamic limit management, so as to forge an integrated service system.

The Bank continuously improved its debit card product and service system and secured the rapid development of its debit card business through product innovation.

It rolled out the EMV Great Wall Global Debit Card with the aim of ensuring that customers can use their cards overseas more securely and conveniently. It sped up the development of its online debit card business and put in place mobile payment functions such as UnionPay small-amount password-free quick payment. With the aim of using finance for the convenience and benefit of the people, it expanded its inclusive finance efforts to a wider range of sectors such as social security, medical treatment and campus services. As at the end of 2017, the Bank had issued social security cards with financial functions in nearly 30 provinces (including municipalities directly under the Central Government) in cooperation with local Human Resources and Social Security Bureaux. These cards delivered diverse financial services, including collection and payment agency in social insurance (namely, pension insurance funds, medical insurance funds, unemployment insurance funds, work-related injury insurance funds and maternity insurance funds), exclusive wealth management products and fee discounts for customers, as well as a host of non-financial value-added services such as doctor appointment booking, specialised tour routes, discount coupons and doctor lectures. It also issued the resident health card with financial function in provinces such as Guangdong, Liaoning, Hebei, Guizhou and Sichuan, offering cardholders medical treatment payment and health management services across the country. In addition, the Bank cooperated with over 300 universities and colleges, realising the application of its rich-functionality debit cards on campuses.

As at the end of 2017, the Bank’s bank card issuance and transaction volumes are set forth below:

Unit: million cards/RMB billion, except percentages

Items	As at	As at	Change (%)
	31 December 2017	31 December 2016	
Cumulative number of debit cards	482.9971	441.4327	9.42%
Cumulative number of effective credit cards	68.2173	59.3356	14.97%
Cumulative number of social security cards with financial functions	92.8136	83.7278	10.85%
	2017	2016	Change (%)
Transaction amount of debit cards	4,220.180	3,397.818	24.20%
Instalments volume of credit cards	258.990	212.196	22.05%

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Financial Markets Business

The Bank actively aligned itself with trends towards interest rate and exchange rate liberalisation and RMB internationalisation, closely tracked developments in financial markets, leveraged its specialised advantages, continued to deepen the adjustment of its business structure, enhanced its efforts in financial market innovation and made steady progress in compliance with international regulatory requirements, thus further enhancing its influence in financial markets.

Securities Investment

The Bank strengthened its research and judgement regarding interest rate trends, actively seized market opportunities arising from interest rate fluctuations and conducted securities investment business. It increased the weighting of RMB interest rate bonds, narrowed its credit risk exposure, rationally adjusted its investment portfolio duration and optimised its investment structure. Consistent with national macroeconomic policies, the Bank properly participated in local government bond investment. Following global bond market trends, it actively optimised its foreign currency bond investment structure so as to prevent interest rate risk and credit risk. The Bank also promoted the unified operations and decision-making of its overseas institutions regarding bond investments, thus strengthening the centralised management of group-wide bond investment.

Trading

The Bank continued to sharpen its four core capacities of professional trading, professional services, risk management and control and IT application, thereby achieving steady and sound development in its trading business. It pushed ahead with the building of its overseas bond trading product line, set up a commodities trading desk in Singapore and improved its integrated global trading framework. Closely following the Belt and Road Initiative, the Bank conducted Mongolian Tugrik trading against RMB,

launched trading of RMB against Mongolian Tugrik and Cambodian Riel in the regional interbank market, and completed the first interbank transaction as one of the first group of quotation banks and participating banks. It also launched foreign exchange trading in 14 emerging market currencies including the Ghana Cedi, Sri Lankan Rupee and Bangladeshi Taka, bringing the total number of tradable foreign currencies up to 61. The Bank enriched its hedging and trading product systems and unveiled new products such as quanto, silver forward trading denominated in RMB and personal crude oil trading, and added 14 forward hedging products for commodities trading. It maintained the leading market share in foreign currency exchange against RMB.

The Bank strengthened business support from the Head Office and its overseas trading centres to its regional branches, enhancing its capacity to serve customers all over the world. Leveraging its advantages in professional quotation and its priority focus on compliance, the Bank steadily tapped into interbank customers' demands. It enhanced cooperation between its trading business and traditional banking business and provided a full range of services to satisfy customers' needs in hedging against risks relating to exchange rates, interest rates and commodity prices. It held special events such as "BOC Personal Foreign Exchange and Option Trading Competition", "2017 BOC Gold Exchange Agency Trading Competition" and "2017 BOC E Rong Hui Trading Competition", involving customers in prize assessment so as to increase its personal customer coverage. Following trends in internet finance and the application of big data, it further optimised its online trading services by promoting the "E Rong Hui" comprehensive trading brand, in an effort to improve service efficiency and customer experience. It actively engaged in the opening up process of domestic financial markets, continuously promoted its agency business in the interbank bond and foreign exchange markets, expanded the "Bond Connect" business by harnessing the advantages arising from cooperation among the Group's institutions, and further consolidated its trading relationships with overseas

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institutional investors. Making steady progress towards compliance with key international regulatory acts, it took the lead in reaching regulatory standards related to mandatory margin, central clearing and transaction reporting, etc., thus effectively mitigating risks and sharpening its competitiveness in quotation.

Investment Banking and Asset Management

The Bank leveraged the competitive advantages of its international and diversified operations and provided customers with comprehensive, professional and customised investment banking and asset management solutions, including professional financial products and services for bond underwriting and distribution, asset management, asset securitisation and M&A and restructuring. To facilitate the construction of China's multi-layered capital markets system and to support customers' direct financing needs, it underwrote debt financing instruments for non-financial institutions in China interbank market with a total amount of RMB240.9 billion. The Bank's underwriting business for financial institutions was greatly boosted, with financial bond underwriting amount and market share continuing to improve. It maintained the leading market share among all commercial banks in the interbank market in terms of asset securitisation underwriting. The Bank also made efforts to develop green finance by participating as lead underwriter in a number of important green bond programmes, including the issuance of the first asset-backed notes (ABN) to feature both "green" underlying assets and "green" use of proceeds. Proactively exploring financial solutions for poverty alleviation, the Bank acted as sole underwriter for the special poverty alleviation notes issued by Shanxi Road and Bridge Construction Co., Ltd., with all proceeds used for road construction projects in poverty-stricken areas. Moreover, the Bank enhanced its cross-border competitiveness. It held the leading market share in Panda Bonds business, assisting offshore issuers such as the governments of Hungary and the Canadian Province of British Columbia in issuing Panda Bonds. The Bank also supported the MOF's issuance of USD2.0 billion of

sovereign bonds by acting as joint lead manager and joint bookrunner, thus facilitating the establishment of the pricing benchmark for China's foreign currency-denominated bonds and completing the yield curve of foreign currency-denominated sovereign bonds. It captured the leading market share as an underwriter of Chinese enterprises' offshore G3 currency (i.e. USD, EUR and JPY) bonds, and ranked first in terms of "Bond Connect" primary market underwriting volumes. As a result, the Bank was awarded "Outstanding Underwriting Institution of the Year" by the CCDC, "Outstanding Underwriter of the Year" by the Shanghai Clearing House, "Best China Onshore DCM Bank", "Best Panda Bond Underwriter" and "Best China International G3 Currency DCM Underwriter" by *Caixin*, "Excellent Bond Underwriting Banks in China" and "Excellent Banking Investment Banks in China" by *Securities Times* and "Best Global Bond Advisor" by *The Asset*. As such, the brand influence of BOC Debt Capital Markets was continuously enhanced.

In response to trends in the asset management industry, the Bank improved its asset management system, promoted the transformation of its asset management product offerings and expanded products without predetermined yields, to refocus on the core substance of asset management business. It enhanced investment capability building and established professional asset management teams in order to raise its core competitiveness. It optimised its asset allocation structure, enriched its investment targets and channels, and strengthened investment portfolio risk management, so as to achieve the optimal equilibrium between risk and yield. In addition, the Bank launched the Global Asset Management System, integrating front, middle and back office operations. It leveraged advantages of its internationalised operations to accelerate the growth of its overseas asset management business. In 2017, the Bank issued 8,414 wealth management products with a total year-end value of RMB1,515.9 billion, including RMB1,157.7 billion of non-principal-guaranteed financial products and RMB358.2 billion of principal-guaranteed financial products.

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The Bank enhanced its financial advisory service system and provided professional advisory services including financing plans, cross-border finance advisory, M&A and restructuring advisory and asset securitisation, so as to satisfy customers' diverse financial needs. The Bank steadily promoted its credit asset-backed securitisation business and stepped up the structural optimisation of its existing assets. It successfully issued three residential mortgage-backed securities with a total amount of RMB25.659 billion and two non-performing credit asset-backed securities with a total amount of RMB0.724 billion. It also issued the first local government bond-backed securitisation products in overseas markets with a total amount of USD0.632 billion, winning the "2017 Best Cross-border Securitisation" award from *The Asset*.

Custody Business

In response to a changing environment, the Bank focused on product innovation, strengthened its customer segmentation management, optimised its business processes and practiced all-round risk control so as to achieve continued growth of its custody assets. The Bank seized market opportunities, accelerated the R&D and promotion of custody products including pension fund, securitisation, industry fund and fund administration, and built on the sales performance of its basic pension fund business. It continuously improved the competitiveness of its global custody services by strengthening its global custody service capacity, setting up a cross-border product system, creating a linked sales network, promoting the functional integration of its global custody system, enhancing both the scale and service level of its overseas custody centres and building a cross-border custody service network that allows overseas institutions and foreign custodian banks to complement each other. The Bank also sped up the construction of its online custody service so as to improve the "smart" element of the client experience. As at the end of 2017, the Group's assets under custody exceeded RMB9.53 trillion.

Village Bank

BOC Fullerton Community Bank actively implemented national strategies regarding agriculture, farmers and rural areas, with the aim of "focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities". It is committed to providing modern financial services to farmers, micro and small-sized enterprises, individual merchants and the wage-earning class, thus promoting the construction of China's "New Countryside".

BOC Fullerton Community Bank accelerated the construction of its institutional distribution network, thus supporting financial development in county areas. It successfully acquired shares in 15 village banks held by China Development Bank, further expanding its business scale and providing stronger support for the development of China's central and western regions and county economies. As at the end of 2017, BOC Fullerton Community Bank controlled 95 village banks and had 118 sub-branches in 19 provinces (including municipalities directly under the Central Government) via self-establishment and acquisition, thus becoming the largest domestic village bank in term of total institutions and business scope. Its product system improved continuously and the number of customers grew further. The registered capital of BOC Fullerton Community Bank amounted to RMB4.751 billion, with its total assets and net assets standing at RMB43.463 billion and RMB6.127 billion respectively. The balances of total deposits and loans of these banks were RMB28.135 billion and RMB27.448 billion respectively, an increase of 39.15% and 48.28% compared with the prior year-end. The NPL ratio was 3.23% and the ratio of allowance for loan impairment losses to NPLs stood at 196.93%. In 2017, BOC Fullerton Community Bank achieved a profit for the year of RMB457 million. In particular, the 82 village banks established by BOC Fullerton Community Bank recorded an aggregate balance of deposits of RMB21.515 billion and a balance of loans of RMB23.146 billion, with their NPL ratio and ratio of allowance for loan impairment losses to NPLs standing at 1.66% and 245.61% respectively, and their profit for the year reaching RMB414 million.

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Overseas Commercial Banking

In 2017, the Bank steadily promoted the establishment of overseas institutions and continuously pushed forward the integrated development of its domestic and overseas operations, thus further enhancing its global service and support capabilities and sharpening its market competitiveness. As at the end of 2017, the balance of due to customers and loans of the Bank's overseas commercial banking operations amounted to USD426.760 billion and USD351.289 billion respectively. In 2017, the Bank's overseas commercial banking business achieved a profit before income tax of USD8.468 billion, accounting for 25.61% of the Group's total profit before income tax. The Bank continued to lead its domestic peers in international business in terms of scale, profitability and the overall proportion of its internationalised operations.

Regarding branch distribution, the Bank closely tracked customers' financial service needs around the globe, accelerated improvements in the distribution of branches in countries along the Belt and Road and further increased outlets in countries with an existing BOC presence, thus further improving its global service network. As at the end of 2017, the overseas institutions of the Bank totalled 545, covering 53 countries and regions, with three new countries added during the year.

For corporate banking business, the Bank tapped into opportunities in cross-border corporate services, continued to expand the overseas base of local customers and further improved its global multi-layered customer service system and cross-border

financing product and service system. Giving full play to its advantages in high-end products, the Bank supported Chinese enterprises' cross-border investment activities as well as their international collaborations in production capacity, mainly through syndicated loans, project financing, M&A financing, leverage financing, private equity financing and other products. It supported the internationalisation of overseas enterprises through large cross-border projects in global infrastructure construction, energy and mineral resources, equipment manufacturing and cooperation in mutually advantageous production capacity. As a result, the Bank continuously enhanced the core customer group of its overseas corporate banking business. By strengthening business cooperation with international mainstream banks and policy financial institutions, the Bank continued to provide more financial support and deliver better services to the major projects of countries along the Belt and Road.

For personal banking business, the Bank provided "one-stop" financial services for personal "Going Global" customers by leveraging its extensive overseas institution network. It continued to expand its overseas account opening witness service, covering 18 countries and regions in North America, Europe, Asia and Australia. The Bank enhanced its services for customers studying abroad by launching such brands as "Brilliant Tomorrow" in the US, "Golden Age" and "UK Manager" in the UK, "Home in Canada", "Golden Years" in Australia and "Sail in Lion City" in Singapore. The Bank pushed forward the characteristic development of its cross-border payment business, and continuously launched various marketing activities including "Global Splendours in One Card"

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and “BOC Overseas E-shopping” to build a cross-border financial ecosystem. It upgraded the “basic cashback + products cashback + additional special offers” marketing system, and built a new column for cross-border banking so as to integrate outbound services, popular regions, BOC Overseas E-shopping and overseas cards and services. In addition, the Bank expanded its card issuance and acquiring business, advanced the R&D of such new products as Sydney UnionPay Rewards Credit Card, Singapore BOC Sheng Siong Co-branded Card and BOC Zaobao Co-branded Credit Card with innovative functions, and rolled out QR code payment and Financial IC Card Quick Pass functionality abroad so as to promote the electronic services of its overseas credit cards. It optimised the framework of its overseas debit card and issued UnionPay dual-currency (RMB and local currency) debit cards and Visa and MasterCard single-currency debit cards. As at the end of 2017, the overseas institutions of the Bank that issue debit card products covered 18 countries and regions.

For financial markets business, the Bank fully leveraged its advantages in cross-border operations, actively extended its primary RMB quotation business in Korea, Russia and Macao, conducted market-making business for exchange-based RMB futures in Singapore, Taiwan and Korea, and made further progress in developing its debt hedging business in Australia and other countries and regions, thereby further enhancing its capacity to serve overseas customers. In response to RMB internationalisation, the Bank accelerated the development of its global custody system and improved its global network. It continually improved its overseas custody service capability and provided integrated services for the cross-border investment of QDII, QFII and other “Going Global” and “Bringing In” customers, thus further improving its market ranking and market share in the cross-border custodian business. In international markets, the

Bank successfully issued a USD3.6 billion equivalent bond to support the Belt and Road Initiative and a USD1.5 billion equivalent “Climate Bond”, raising mid- and long-term financing support for Belt and Road-related projects and green projects.

For clearing services, the Bank continuously improved its cross-border RMB clearing capabilities and consolidated its position at the leading edge of international payments. It accounted for 11 of the world’s 23 authorised RMB clearing banks and continued to lead its peers. It also ranked first in terms of the number of CIPS indirect participants. In 2017, the Bank’s cross-border RMB clearing transactions totalled RMB349.68 trillion, an increase of 12% year-on-year, maintaining first place in the global market. The Bank successfully joined the UK’s Clearing House Automatic Payment System (CHAPS) as the first Asian full direct participant. It joined SWIFT Global Payment Innovation (GPI), and launched the Bank of China Global Payment Intelligence remittance product, significantly enhancing customer experience in the field of cross-border payment and maintaining its position as the global leader in this field. The Bank launched the Global Unified Payment Platform (GUPP) in the Head Office and domestic branches, linking the domestic and overseas payment network and making it a fund expressway for the Bank.

For e-banking, the Bank further expanded the coverage of its overseas channel services, promoting overseas online banking services in Bank of China Srbija A.D., Beograd, Qatar Financial Centre Branch, Dublin Branch, Colombo Branch, etc. In addition, it rolled out online banking in the Thai, Portuguese and Vietnamese languages, bringing the number of countries and regions with BOC online banking services to 46. It further improved corporate online banking services for cross-border groups and documents services for international settlement.

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BOCHK

In 2017, BOCHK implemented the Group's strategies, captured market opportunities and fully leveraged its competitive advantages. Its core businesses realised satisfactory growth and key business areas achieved good results with major financial indicators remaining at solid levels. It proactively pushed forward business restructuring in the ASEAN region and further optimised its regional operations. BOCHK continued to develop the Hong Kong market and remained committed to expanding its cross-border business. It accelerated the development of its key business platforms and saw solid growth in income from its diversified business operations. Moreover, BOCHK strengthened innovation in financial technology (FinTech) so as to upgrade the "smart" levels of its products and services as well as its service capabilities. At the end of the year, BOCHK's issued share capital

was HKD52.864 billion, total assets amounted to HKD2,645.753 billion, and net assets reached HKD247.344 billion. Its profit for the year was HKD31.837 billion.

BOCHK stepped up regional asset integration and further optimised business coverage. In March 2017, BOCHK successfully completed the disposal of Chiyu Banking Corporation Limited. It steadily pushed forward its business restructuring in the ASEAN region with the completion of its share acquisition of Bank of China (Thailand) Public Company Limited in January. It completed the acquisition of the Indonesia Business and Cambodia Business of the Bank in July and November respectively. In November, it entered into agreements with the Bank in relation to the transfer of the Vietnam Business and Philippines Business, subsequently completing both acquisitions in January 2018. BOCHK continued to leverage its competitive

Embarking on a new centenary journey of service in Hong Kong

In 1917, Bank of China set up a sub-branch in Hong Kong, which was its first overseas institution and unveiled the internationalisation of China's banking industry. After a century of continuing efforts, the small sub-branch with less than 10 staff members, has developed into a leading commercial banking group, one of the three note-issuing banks, one of the largest listed companies and the sole clearing bank for RMB business in Hong Kong. With its most extensive local branch network as well as diversified and efficient e-channels, BOCHK not only plays a significant role in local economic development, but also makes important contributions to the prosperity and stability of Hong Kong. Above all, it is an epitome of the internationalisation of China's banking industry in the past century. On 7 July 2017, BOCHK held a gala event in celebration of BOC's centenary of service to Hong Kong. It also issued "Bank of China (Hong Kong) Centenary Commemorative Banknote" denominated in HKD100. Capitalising on its competitive advantages in business in Hong Kong region, the Bank will continue to enhance the management system of ASEAN institutions and facilitate the transformation of BOCHK into a top-tier, full-function and internationalised regional bank.



The Bank celebrated its 100th anniversary of operation in Hong Kong

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advantages in Hong Kong and to refine the management mechanism of its ASEAN entities, while promoting regional synergies and pushing forward its transformation into an internationalised regional bank.

BOCHK achieved solid growth in its operating results and outperformed the market in key business areas. Total customer deposits and loans grew considerably and further increased BOCHK's market influence. Its asset and liability structure was further optimised, with asset quality outperforming the local market. Moreover, it diversified its corporate finance business and arranged a number of major syndicated loans, financing projects for cross-border merger and acquisition transactions and major bilateral financing. BOCHK remained the top mandated arranger in the Hong Kong-Macao syndicated loan market for the 13th consecutive year. It also maintained its leading market position in serving as the main receiving bank for initial public offerings in Hong Kong. By providing industrial and commercial enterprises with innovative products and services, BOCHK was able to support local corporates and the economic development of Hong Kong while achieving a continuous rise in market penetration. It maintained its leadership in the UnionPay merchant acquiring and card issuing business in Hong Kong, and achieved rapid development in governmental and institutional businesses. By promoting product innovation and functional upgrades, BOCHK made good progress in the development of its transaction banking business and accelerated the development of its global transaction banking system. BOCHK was also committed to enriching its product offering, optimising the service model of its wealth management business and establishing brand specialisms, resulting in continuous growth in the number of mid- to high-end customers and the scale of assets under wealth management. During the year, it successfully issued its Bank of China (Hong Kong) Centenary Commemorative Banknote, denominated in HKD100, in celebration of the centenary of Bank of China's service to Hong Kong.

BOCHK fully capitalised on the Group's network coverage and expanded cross-border business. Through strengthened collaboration within the Group and a focus on mainstream clients, projects, businesses and products, BOCHK made a concerted effort to explore business opportunities through the Belt and Road Initiative and in the ASEAN region. Catering to customer needs, it remained committed to providing financing solutions to "Going Global" Chinese enterprises and corporates in countries along the Belt and Road, and to expanding and diversifying its business cooperation with leading enterprises in local areas. This further increased its market share and influence. Capturing opportunities from China's FTZs and the Guangdong-Hong Kong-Macao Greater Bay Area, BOCHK established additional cross-border financial service centres. It enhanced its cross-border service model and market competitiveness by focusing on service sharing, product innovation, unified branding, business collaboration and the development of its distribution channels, which led to a satisfactory increase in the number of cross-border customers.

BOCHK elevated its competitive edge in financial markets and accelerated the development of its key business platforms. Progress was made in enhancing its trading capabilities and income generation through customised products and services tailored to clients' treasury needs. It was also committed to exploring business opportunities with overseas central banks and international sovereign institutions, generating encouraging income growth. BOCHK reinforced its leading position in the banknote market and became the world's sole overseas operating bank of EURO Extended Custodial Inventory (ECI). It also supported Guangxi Branch's establishment as the ASEAN Currency Banknote Centre in order to proactively acquire new customers for its ASEAN banknote business. BOCHK further consolidated its competitive advantages in global RMB clearing business and achieved stable growth in clearing business conducted through China's CIPS. It acted as the sole designated bank for the Hong Kong Central Moneymarkets Unit for providing cross-border fund settlement services

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for institutions in both Hong Kong and the Chinese mainland, while also providing comprehensive services for institutions relating to “Bond Connect”. Thanks to its efforts to boost key business platforms, including credit cards, private banking, life insurance, asset management, custody, trust as well as securities and futures, it was able to provide customers with a wider range of financial services, increase income from diversified business operations and create new competitive advantages.

BOCHK strengthened innovation in FinTech in order to improve customer service efficiency. Both online and offline channels were integrated into BOCHK’s commitment to enhancing internet finance and improving customer experience through “smart” products and services. As a result, the total number of e-channel customers continued to rise, together with a significant increase in the total number of transactions. BOCHK invested further in FinTech innovations by incorporating big data analysis and enriching scenario-based applications. In addition, it launched blockchain technology applications for trade finance and applications in biometric identification such as fingerprint, finger vein and voiceprint authentication, all of which formed part of its efforts to offer customers a safer and more convenient banking experience. BOCHK also stepped up the development of mobile payment services and its diversified service platform for cross-border business by actively cooperating with internet and

telecommunication companies as well as financial institutions. By deepening its branch network transformation, BOCHK utilised its most extensive network coverage in Hong Kong and refined its overall service capabilities for personal and corporate customers. It also enhanced the “smart” service levels of its network and strengthened service delivery to mid- to high-end personal clients, SME customers and cross-border customers, which led to notable improvement in the overall productivity of its network.

BOCHK received a number of awards in 2017, including “Strongest Bank in Asia Pacific and Hong Kong” and “Best Trade Finance Bank in Hong Kong” from *The Asian Banker*, “Bank of the Year in Hong Kong 2017” from *The Banker*, “Hong Kong Domestic Cash Management Bank of the Year”, “Hong Kong Domestic Foreign Exchange Bank of the Year”, “Mobile Banking Initiative of the Year — Hong Kong”, “Digital Banking Initiative of the Year — Hong Kong” and “Online Securities Platform of the Year — Hong Kong” from *Asian Banking and Finance* and “Best FinTech (Emerging Solutions/Payment Innovation) Gold Award” at the Hong Kong Information Communications Technology Awards 2017. It also received the “Best SME’s Partner Gold Award 2017” from the Hong Kong General Chamber of Small and Medium Business.

(Please refer to the results report of BOCHK for a full review of BOCHK’s business performance and related information.)

Comprehensive Operation Platforms

Giving full play to the competitive advantages arising from its comprehensive operations, the Bank actively seized opportunities arising from the Belt and Road Initiative and the rapid establishment of China's multi-layered capital markets. By focusing on its specialised business areas, deepening business collaboration and promoting cross-selling and product innovation, the Bank provided comprehensive and high quality financial services to customers.

Investment Banking Business

BOCI

The Bank is engaged in investment banking business through BOCI. As at the end of 2017, BOCI had issued share capital of HKD3.539 billion, total assets of HKD72.138 billion, net assets of HKD17.736 billion, and realised a profit for the year of HKD2.077 billion. BOCI achieved leading positions in a number of core businesses.

BOCI proactively grasped the strategic opportunities arising from the Belt and Road Initiative, "Going Global" Chinese enterprises, mixed ownership reforms of state-owned enterprises and the development of the Guangdong-Hong Kong-Macao Greater Bay Area. It constantly intensified marketing efforts, reinforced internal controls and improved risk management practices. With the aim of serving the real economy, BOCI promoted the principle of "customer-led, technology-assisted, innovation-driven", and strived to establish interconnected and multilateral partnerships, so as to build a customer-focused ecosystem based on "cooperation for mutual growth and prosperity".

By optimising its M&A business structure, BOCI continued to improve its global service capability and achieved a breakthrough in M&A performance. It steadily expanded its equity underwriting and financial advisory businesses. BOCI's bond issuance and underwriting businesses continued to maintain leading positions in the market. By conducting a number of landmark projects, BOCI achieved its best ever results

in 2017. It continued to expand its footprint in Asia and Europe and successfully built up its solid presence in the Singapore and Southeast Asian debt capital markets. By strengthening cross-selling, reactivating inactive clients and steadily enhancing its trading system, BOCI solidified its leading positions in terms of brokerage and equity derivative businesses in Hong Kong.

BOCI further promoted cross-border cooperation and expanded its sales and service network. By continuously investing in research, BOCI enhanced its cross-border research capability, accurately grasped the global pulse of market trends and improved its value and influence as a "think tank". BOCI-Prudential Asset Management Limited maintained its position as a top-ranked service provider in the Hong Kong Mandatory Provident Fund (MPF) and Macao Pension Fund businesses. New funds were launched to further enrich the variety of its investment fund offering. In addition, a sub-fund of its fund series was approved to be registered under the Chinese Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme. The MPF Scheme managed by BOCI-Prudential Asset Management was selected by the Hong Kong Housing Authority to be one of three MPF Schemes offered to its employees.

BOCI seized opportunities arising from capital market developments in the Chinese mainland, strengthened cross-border business cooperation and explored high quality projects in line with industry development trends. By establishing both an onshore and offshore commodities business platform, building a cross-border trading channel and continuously strengthening its clearing system, BOCI provided clearing services on the London Metal Exchange (LME) and Intercontinental Exchange Europe (ICE Europe) to Chinese securities firms. It strengthened its private banking and asset management service platforms and steadily developed its trust business by setting up BOCI Trustee (Hong Kong) Limited, the first overseas trust company of the Group. BOCI conformed to the market trend and launched several new products, such as family trust, to further broaden its revenue sources.

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BOCI was awarded “Best Offshore Chinese Investment Bank”, “Best Chinese Overseas IPO Underwriter”, “Best China International G3 Currency DCM Bookrunner in terms of bond underwriting volume”, “Best International Bank (Hong Kong)”, “Most Popular Brokerage in the Greater China Area”, “Greater China Research Score Leader Table”, “Best Private Bank, Hong Kong — High Net Worth Individuals”, “Top 10 Providers of Asia-Centric Research”, “Oil and Products House of the Year, Asia” and “Best Pension Fund over 3 Years” by various authoritative media platforms and other institutions. BOCI earned the highest credit rating from international credit rating institutions among Chinese investment banks.

BOCI China

The Bank is engaged in securities-related business in the Chinese mainland through BOCI China. As at the end of 2017, the registered capital, total assets and net assets of BOCI China were RMB2.500 billion, RMB46.522 billion and RMB11.574 billion, respectively. It realised a profit for the year of RMB1.069 billion.

BOCI China strived to push forward the transformation and development of its various businesses and to enhance its core competitiveness by emphasising a customer-centric approach, adhering to a robust and aggressive development principle and holding fast to the risk compliance bottom line. As a result, its market influence steadily strengthened. It continued to transform its investment banking business model to “investment bank + commercial bank”, “investment bank + investment” and “domestic + overseas”. It shifted its brokerage business focus towards wealth management, continually increased its service capability and market influence and improved the versatility of its branches. BOCI China outperformed its peers in terms of assets under management (AUM) and income growth and maintained a leading position

due to its impressive comprehensive strength. It successfully launched the first public securitisation programme for the off-balance non-standard assets of banking institutions, and issued the first exchange enterprise asset-backed securities related to the Belt and Road Initiative.

BOCI China was awarded “Excellent Equity Refinancing Investment Bank”, “Excellent Bond Investment Bank”, “Excellent Asset Management Broker” and “Excellent Wealth Management Leader in China” by *Securities Times*, “IPO Avant-garde Investment Bank”, “Bond Underwriting Avant-garde Investment Bank” by *International Financial News* and “Sell-side Analyst Crystal Ball Award” by *Capital Week*.

BOCIM

The Bank operates its fund management business in the Chinese mainland through BOCIM. As at the end of 2017, BOCIM’s registered capital amounted to RMB100 million, its total assets stood at RMB3.825 billion and its net assets totalled RMB2.838 billion. Its profit for the year reached RMB980 million.

BOCIM sustainably strengthened internal control, steadily expanded its asset management business and further enhanced its comprehensive strengths. As at the end of 2017, BOCIM’s AUM reached RMB822.0 billion. In particular, its public-offered funds reached RMB362.5 billion, an increase of 5.96% compare with the prior year-end, and its non-monetary public-offered funds reached RMB232.8 billion.

In 2017, BOCIM received the “Golden Fund Bond Investment Return” award, while its BOC Steadiness Increased Income Bond Fund was awarded “Golden Bull Three-year Sustained Superior Bond Fund” and “Golden Fund Three-year Bond Star Fund”.

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Insurance

BOCG Insurance

The Bank is engaged in general insurance business in Hong Kong through BOCG Insurance. As at the end of 2017, BOCG Insurance reported issued share capital of HKD3.749 billion, total assets of HKD8.064 billion and net assets of HKD4.039 billion. In 2017, BOCG Insurance recorded gross written premiums of HKD2.112 billion and a profit for the year of HKD123 million, remaining at the forefront of the Hong Kong general insurance market in terms of gross written premium.

BOCG Insurance has accumulated a strong base of high-quality customers in Hong Kong market and deep experience in insurance underwriting and industry-leading underwriting proficiency. During the year, based on the development strategy of “Foothold in Hong Kong, Move in Concert with the Chinese mainland, Dedicate to the Group, Uplift Core Value”, BOCG Insurance served the construction of the financial artery of the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, so as to give full play to the unique value of its comprehensive financial services and provide benefit to all of its valued customers.

In keeping with the technology-driven development strategy, BOCG Insurance pushed forward technological innovation, data applications and the transformation of its system architecture and customer services. In line with its mid- and long-term development plan, it accelerated the updating and upgrading of its core systems and thereby improved its overall digitalisation capabilities.

BOCG Insurance enhanced the proficiency of its insurance business. Based on the market development strategy of “Deepen Services in Hong Kong, Refine Business Approach in the Chinese Mainland, Reach Out to Overseas Markets, Widen Brand Awareness”, BOCG Insurance served “Going Global” Chinese enterprises as well as local large Chinese enterprises. It also devoted itself to business cooperation across platforms in Guangdong, Hong Kong and Macao. It continuously deepened the communications with the insurance businesses of the Group and facilitated the cooperation with other companies in the same

industry and in overseas markets, thus enhancing the popularity of its brand.

BOCG Insurance strengthened comprehensive risk management and improved its risk management system to effectively guard against business risks. It implemented full-scale, full-process and all-staff risk management measures, and covered all business areas under a three-dimensional risk management system. By proactively managing post-underwriting risks, it strengthened the effective management of its insurance programmes and mitigated various risks at the source.

BOC Life

The Bank is engaged in life insurance business in Hong Kong through BOC Life. As at the end of 2017, BOC Life’s issued share capital was HKD3.538 billion, total assets amounted to HKD130.596 billion and net assets amounted to HKD8.833 billion. Its profit for the year was HKD1.184 billion.

BOC Life proactively leveraged its multiple distribution channels and developed innovative products and value-added services. It launched a number of innovative products to cater for the differentiated demands of Hong Kong and high-end customers as well as visitors to Hong Kong. Amongst them, the innovative annuity product “SmartRetire Annuity Insurance Plan”, with unique and flexible features including the Retirement Fund Payout Option and Premium Payment Term Options, captured extensive attention from the younger customer segment and from the market.

BOC Life made active use of innovative technology to enhance customer experience. It launched the first online hospital cash claims platform in Hong Kong, “Easy Claims”, providing convenient and real-time approval and convenient claim services for customers. It introduced “eConnect” for customers to store policies of other insurance companies. It pioneered the adoption of the Electronic Bill Presentment and Payment service for premium payment and introduced “e-signature” to significantly reduce the number of customer signatures required. BOC Life established new customer service centres equipped with special features including the “Predictive-underwriting Engine”, the first of its kind in the industry, to provide

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one-stop professional life insurance services to visitors to Hong Kong and high-end customers.

BOC Life received “Brand of the Year” and “Cross Border Insurance Service” Excellence Awards from *Bloomberg Businessweek*, “2017 RMB Business Outstanding Awards” from Hong Kong Ta Kung Wen Wei Media Group and “High Net Worth Team of the Year” from *Benchmark*.

BOC Insurance

The Bank is engaged in property insurance business in the Chinese mainland through BOC Insurance. As at the end of 2017, BOC Insurance reported registered assets of RMB4.535 billion, total assets of RMB12.411 billion and net assets of RMB3.668 billion. In 2017, it realised gross written premiums of RMB5.768 billion, and a profit for the year of RMB183 million.

BOC Insurance continued to improve its customer-centred marketing management system and advanced its customer group building strategy. It made remarkable progress in the expansion of major domestic projects and realised a year-on-year growth of 31.1% in premium income from customers with premiums higher than RMB1 million. It accelerated the pace of its overseas business development and played an active role in facilitating the establishment of a BRICS insurance and re-insurance support system, thus expanding its influence in the international community. It also actively responded to the Belt and Road Initiative, supported large domestic enterprises in their “Going Global” efforts, and operated overseas insurance-related programmes in nearly 60 countries and regions, with a year-on-year increase of 37.7% in premium income, thus securing a leading position in the overseas insurance markets. Through new channels such as “direct mailing + telesales”, WeChat and APPs, BOC Insurance enriched its online service functions and expanded its personal accident insurance and health insurance products, reporting a year-on-year growth of 35% in premium income. Adhering to the concept of “creating value with professionalism, winning customers through services”, BOC Insurance increased technology input,

made innovations in service approaches and properly settled major claims, thus continuously enhancing its service quality.

BOC Insurance was rated as a “Quality Enterprise” in the 2017 Corporate Governance Assessment on Insurance Legal Entities by the China Insurance Regulatory Commission (CIRC). It was granted an “A-” rating by Standard & Poor’s for the fourth consecutive year, with a “stable” outlook.

BOC-Samsung Life

The Bank is engaged in life insurance business in the Chinese mainland through BOC-Samsung Life. As at the end of 2017, BOC-Samsung Life’s registered capital stood at RMB1.667 billion, total assets amounted to RMB12.985 billion and net assets amounted to RMB1.180 billion. In 2017, BOC-Samsung Life recorded written premiums and premium deposits of RMB7.075 billion and a profit for the year of RMB19 million.

Focusing on the core essence of insurance, BOC-Samsung Life vigorously developed regular premium sales and high-value business so as to optimise its business portfolio and improve the quality of its development. In 2017, it realised a 111% year-on-year increase in regular premium sales and a 196% year-on-year increase in long-term savings revenue and risk protection business premiums. It steadily promoted its investment capabilities and obtained a CIRC credit risk management qualification quality certification. BOC-Samsung Life also intensified its use of innovative technology, added life insurance sales to BOC “smart counters”, provided automated self-service online application services through its official website, launched a mobile APP for group medical insurance self-service claims, added self-service policy endorsement functionality to WeChat-based services and set up a new service hotline. It carried out supply-side structural reform in product innovation, introducing pension annuity product “ZunXiangJinSheng” for retired people, upgrading life insurance product “ZunXiangJiaYing 2” for mid- and high-end customers, launching medical insurance product “AnYouXiangBan” and critical illness

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insurance product “XiangYou”, in line with customers’ differentiated demands.

BOC-Samsung Life was awarded “Innovative Life Insurer of Excellent Competitiveness” by *China Business Journal* and “Best Bancassurance Company of the Year” by *National Business Daily*. It also received the “15th China’s Financial Annual Champion Awards — Growing Insurance Company of the Year” from Hexun.com.

Investment Business

BOCG Investment

The Bank is engaged in direct investment and investment management business through BOCG Investment. BOCG Investment’s business scope includes private equity investment, fund investment and management, real estate investment and management and non-performing asset (NPA) investment. As at the end of 2017, BOCG Investment registered issued share capital of HKD34.052 billion, total assets of HKD101.344 billion and net assets of HKD57.550 billion. In 2017, it recorded a profit for the year of HKD3.043 billion.

BOCG Investment effectively implemented the Group’s overall strategies, steadily pushed forward its fund management model, gradually realised its business transformation from “investment” to “investment + investment management” and continued to increase its operating strength. It grasped business opportunities brought about by the Belt and Road Initiative, accelerated the expansion of its investment structure, participated in investing in the world’s leading logistics industry project and prepared the BOC Overseas Fund. It supported the country’s new urbanisation plan by initiating the establishment of the “BOC Feature Towns Construction Fund”, the first of its kind in the Chinese mainland. BOCG Investment adhered to market-oriented operations, substantially enhanced its financial efficiency and exploited investment opportunities in emerging industries. It expanded its asset securitisation businesses and launched the “BOC — CMS Beijing Metro World Centre ABS”, the first of its kind for a

bank. It diversified its financing channels and issued the first interbank venture capital Panda Bond in the Chinese mainland market. It also innovated the model of targeted poverty alleviation by setting up the “BOC Western China Logistics Fund” and establishing the “BOC Philanthropy” platform.

BOC Aviation

The Bank is engaged in the aircraft leasing business through BOC Aviation. BOC Aviation is one of the world’s leading aircraft operating leasing companies and is the largest aircraft operating leasing company headquartered in Asia, as measured by the value of owned aircraft. As at the end of 2017, BOC Aviation recorded issued share capital of USD1.158 billion, total assets of USD16.040 billion and net assets of USD3.819 billion. It recorded a profit for the year of USD587 million.

Committed to pursuing sustainable growth, BOC Aviation continued to implement its proactive business strategy and steadily promoted its standing in the aircraft leasing industry. Actively supporting the Belt and Road Initiative, it had leased more than 65% of its aircraft to airlines of the Belt and Road countries as of year-end. Actively targeting customer demand, the company built on its existing order book and took delivery of 74 aircraft, all of which have been placed on long-term leases, making a historical record high. During the year, BOC Aviation signed 103 leases for future deliveries and added 17 new customers. The



BOC Aviation delivered aircraft to the customer

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company consistently sought to optimise its asset structure and improve its sustainable development. It sold 30 aircraft in 2017, leaving it with an average owned fleet age of three years (weighted by net book value) as at year-end, one of the youngest aircraft portfolios in the aircraft leasing industry.

(Please refer to the BOC Aviation Annual Report for a full review of its business performance.)

BOC Asset Investment

The Bank is engaged in debt-for-equity conversion and related business in the Chinese Mainland through BOC Asset Investment. As a wholly-owned subsidiary of the Bank, BOC Asset Investment commenced operation in November 2017, following CBRC approval, with registered capital of RMB10 billion.

Adhering to the Group's strategy, BOC Asset Investment actively implemented the strategic decision of the state to deepen supply-side structural reform. It conducted debt-for-equity conversions based on both market-oriented and law-based principles, with the aim of improving enterprises' business operations and helping them to reduce their leverage ratios and improve their market value, thus effectively serving the real economy and preventing and mitigating financial risks. In December 2017, BOC Asset Investment completed its first project by investing in a market-oriented debt-for-equity conversion project for Aluminum Corporation of China. It was the largest investor in this project among all debt-for-equity conversion institutions under banks.

Service Channels

As the most internationalised and comprehensive bank in China, the Bank has established specialised and diversified service channels and provides comprehensive financial services to customers in the Chinese mainland and many other countries and regions. The Bank is committed to further developing its physical outlets and e-banking channels in a coordinated manner, and providing customers with an integrated and consistent experience through interactions across different channels. By integrating IT systems and financial services, the Bank streamlined its banking services and ensured that "one-point access" will trigger "whole-process response", allowing it to meet customers' needs anytime and anywhere.

Outlet Development

The Bank continued to carry forward its programme to upgrade outlets towards smarter functionality. Led by its investment in "smart counters", it promoted the transformation of outlets in terms of outlet hall management, sales service concepts and risk control systems. It enhanced its outlets so as to adapt to financial services competition within the new normal of the internet era. As at the end of 2017, the Bank had completed the installation of "smart counters" in a total of 8,526 outlets in the Chinese mainland, which led to significantly optimised business processes and improved customer experience.

The Bank consistently improved the operational management of its outlets. It optimised its outlet performance evaluation system, advanced the differentiated establishment of outlets, accelerated their transformation and development, extended their service channels and improved financial services in county regions. It allocated more marketing personnel to its outlets with the aim of improving their overall marketing capacity. It also reinforced the risk management of various businesses within the outlets to improve comprehensive efficiency in business growth. As at the end of 2017, the domestic commercial banking network (including Head Office, tier-1 branches, tier-2 branches and outlets) comprised of 10,674 branches and outlets, domestic non-

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commercial banking institutions totalled 386, and institutions in Hong Kong, Macao, Taiwan and other countries and regions totalled 545.

Unit: single item, except percentages

Items	As at	As at	Change (%)
	31 December 2017	31 December 2016	
ATM	42,507	46,810	(9.19%)
Smart Counter	16,235	253	6,317.00%
Self-service terminal	31,239	36,083	(13.42%)

Internet Finance

The Bank accelerated the development of its internet finance business and gave shape to a unified portal for mobile finance. In 2017, the Bank's cumulative e-channel transaction amount reached RMB192.40 trillion, an increase of 19.73% compared with the prior year. The substitution ratio of e-banking channels for outlet-based business transactions reached 94.19%. Among this, mobile banking transaction volumes hit RMB10.97 trillion, an increase of 60.25% year-on-year, meaning that mobile banking has become the most active online trading channel for personal customers.

Unit: million customers, except percentages

Items	As at	As at	Change (%)
	31 December 2017	31 December 2016	
Number of corporate online banking customers	3.4169	3.1408	8.79%
Number of personal online banking customers	147.9722	133.7110	10.67%
Number of mobile banking customers	115.3257	94.3995	22.17%
Number of telephone banking customers	113.3691	111.2993	1.86%

Unit: RMB billion, except percentages

Items	2017	2016	Change (%)
	Transaction amount of corporate online banking	165,881.831	
Transaction amount of personal e-banking	22,591.912	20,333.010	11.11%
Transaction amount of mobile banking	10,965.139	6,842.408	60.25%

The Bank further deepened data application. Taking advantage of internet model and new technologies, it improved e-banking services, advanced product innovation and developed scenario-based finance. Using advanced technologies such as fingerprint authentication, OCR identification, face recognition and "Face ID", the Bank improved the security and convenience of its mobile banking services. It integrated its portals, information, products and procedures to make them more customer-centred. As a result, it saw effective improvement in channel functions, providing a better customer experience than its peers. It also developed new functions for its e-banking channels. For example, it launched pioneering functions such as "BOC Global Payment of Intelligence (GPI)" and "SFTP Bank-Enterprise Direct Link" in personal online banking and corporate online banking, introduced "BOC E-Credit" application and one-to-one customer manager services to its WeChat banking services, and extended its SMS channel to more overseas institutions.

The Bank sped up the development of online consumer loans, made continuous efforts to grow its "BOC E-Credit" customer base, developed models to identify high quality corporates and personal customers and established a product incubation mechanism. It continued to push forward online payment, rolled out UnionPay QR Code payment product ahead of its peers and made overall plans to develop Near Field Communication (NFC) products. It actively helped China Nets Union Clearing Corporation and UnionPay to integrate banking applications in an effort to facilitate the regulated development of the online payment industry. In terms of online asset management, it added

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more functions to the BOC financial supermarket, such as balance wealth management and securities trading, which enabled it to offer one-stop integrated financial services that satisfy customers' demands and thus realise rapid growth in relevant business volumes. The Bank pushed forward "E Rong Hui" Version 2.0, a mobile fund trading application offering Paper Crude Oil, mock trading and other new services.

The Bank expanded its online scenarios for cross-border business and transformed the "BOC Easy-trade Cyber-tariff" system in cooperation with the regulators, maintaining a market-leading share with an increase of 1.11 percentage points compared with the prior year-end. The BOC E-commerce platform piloted the marketing model of "Webcasting + E-commerce". It deepened the application of big data, conducted customer asset enhancement pilot projects to support precision marketing, launched the "New Generation Concurrent Risk Control System in Internet Finance" in the field of risk management and control, and improved enterprise risk profiling, including correlation risk, by taking advantage of internet data. The Bank also adopted new approaches to support cross-industry expansion, deepening its strategic cooperation with China Mobile by integrating data, customer and channel resources, issuing debit and credit cards, and conducting joint campus marketing.



Information Technology Development

Unswervingly guided by innovations in information technology, the Bank kept improving its IT governance system and promoted the integrated development of information technology within the Group in order to vigorously facilitate the implementation of the Group's comprehensive operation strategy.

The Bank reinforced the development of its globally integrated information technology. It steadily rolled out its overseas information system integration and transformation project in Hong Kong and Macao, supported information system development in newly established overseas institutions, and successfully realised information system version unification, centralised deployment and integrated operation and management in over 50 overseas institutions across the world. It launched key projects including "Mobile Banking 3.0", "risk management 6+1", "smart counters", asset management systems, cross-border matchmaking services for SMEs and others, which enabled it to handle business more efficiently and offer better customer services, thus supporting its business development.

The Bank followed a technical development route that gives equal emphasis to centralised and distributed architectures, so as to boost the strategic transformation of its technical architecture. It carried out a series of foundational projects such as building a distributed private cloud platform, creating a big data technical platform and exploring scenario applications. It also continued to enhance its high-availability and disaster-recovery backup systems so as to lay a foundation for the long-term development of the Bank's information technology capacity. The Bank successfully achieved real time intra-city switching of its host system, allowing for the continuous and stable running of its core system via a seamless switch to the backup centre. This is a major breakthrough in the development of its high-

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availability and disaster recovery systems and a landmark achievement for the Bank. Adapting to development trends in the digital era, the Bank conducted research into the advancement and applications of such novel technologies as AI, biometric identification, blockchain and quantum communication, focusing on how to apply AI technology to risk prevention and control, customer experience, business transactions, security operations, etc.

The Bank gave full play to the driving force of FinTech in transforming business models and expanding financial services, actively embraced new techniques emerging in the FinTech sector, and promoted the deep integration of innovative techniques within financial services, so as to optimise key aspects of its businesses and improve customer experience. It successfully built a cloud architecture-based

environment for FinTech innovation tests, completed the preliminary verification of its distributed IT architecture, and made plans to apply such techniques to all the related businesses of the Bank. The Bank has devoted efforts to the R&D of a digital wallet based on blockchain technology, and successfully applied blockchain technology to “BOC for Public Welfare”, a targeted poverty alleviation platform. It also conducted researches on foreign exchange price forecasting and intelligent SWIFT routing with the aid of AI technologies. By integrating advanced technologies, such as deep learning, with the knowledge and experience accumulated by traders over time and SWIFT messaging features, the Bank has established a foreign exchange price forecast model and an intelligent SWIFT routing forecast model for various scenarios through independent R&D, both of which are reach the level of auxiliary production.

Promoting digital transformation by sticking to the driver of technology

The Bank attaches great importance to technological forces and infuses technological elements into the full flow and scope of its business. Through the deep integration of business, technology and data, the Bank has synchronised its online and offline businesses, and realised the digital transformation of core business lines. As a traditional commercial bank, it has made great progress in developing mobile banking, smart banking and internet banking services.

By fully capitalising on such emerging technologies as mobile internet, big data and biometric identification, the Bank launched customised “one-stop” online financial services with sound functions, notable features, and cutting-edge technologies, thus leading to the rapid growth in the number of contracted mobile banking customers and related transaction volume in 2017. In the future, the Bank will build its mobile banking service into a comprehensive financial services portal, so that customers can “share all resources and travel all around the world with their mobile phone in hand”.

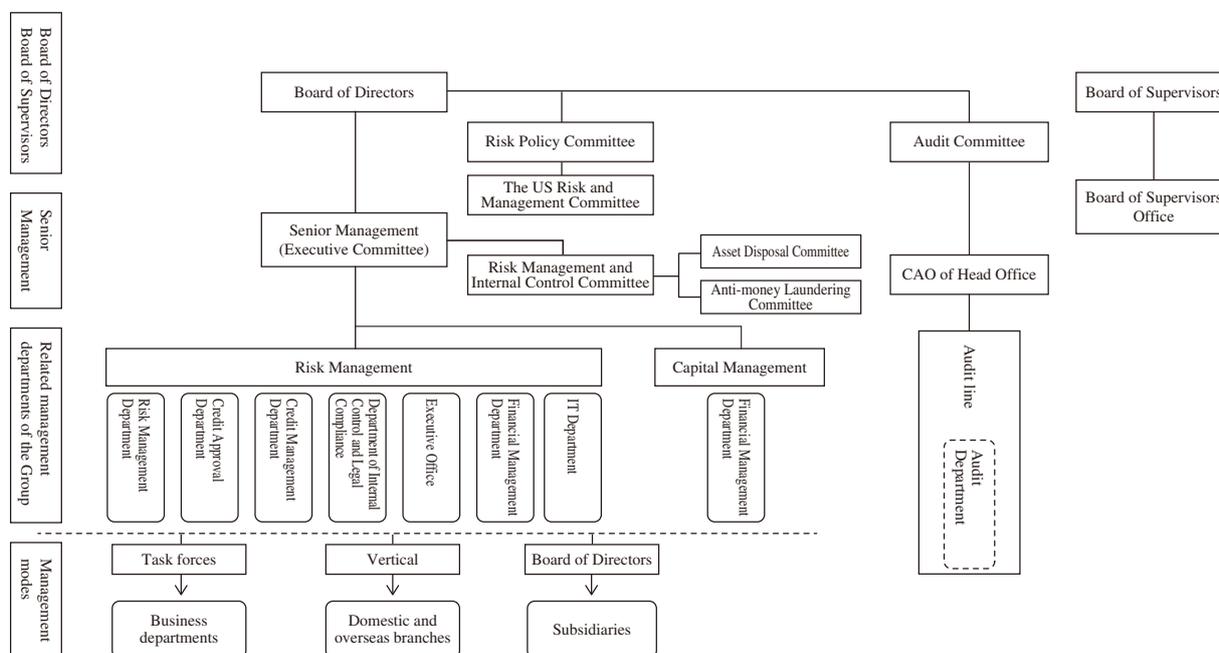
In 2017, the Bank focused on “smart counters” in a bid to optimise offline channels and business flows and increase the application of smart services. All domestic branches adopted “smart counters”, with smart facilities now installed at 8,526 outlets, representing outlet coverage of 80% in total. At the same time, the Bank continued to optimise various business flows. Throughout the year, it made 12 upgrades to its “smart counters”, and placed 73 categories of financial business scenarios under “one-stop” smart operation. Thanks to these efforts, it developed notable features in its international services, applying such cutting-edge technologies as face recognition and big data, supporting inclusive finance and promoting online and offline connectivity. As a result, the Bank’s outlets shifted their primary focus from transactional operation to value creation.

Management Discussion and Analysis — Risk Management

Dedicated to performing its duties as a Global Systemically Important Bank, the Bank actively adapted to the new stage of high-quality development of economy and continued to improve its risk management system in line with its business model. The Bank comprehensively followed local and overseas regulatory requirements, earnestly carried out risk inspection and pushed forward its compliance work of effective risk data aggregation and risk reporting, so as to ensure compliant operations. In addition, the Bank improved its comprehensive risk management mechanism, strengthened the consolidated risk

management of the Group and refined the risk assessment process for new products. It promoted the implementation of advanced capital management approaches, actively refined and updated its risk measurement model and increase the management coverage ratio of the internal ratings-based approach. In addition, the Bank sped up the construction of its risk management information system, integrated its risk database, strengthened its risk data governance, improved its risk reporting capability and earnestly promoted the application of big data and other technologies in risk management.

The risk management framework of the Bank is set forth below:



Credit Risk Management

Closely tracking changes in macroeconomic and financial conditions, the Bank controlled and mitigated credit risks. It adjusted the structure, promoted the development and consolidated the foundations of its credit risk management function. In addition, the Bank strengthened credit asset quality management, pushed forward optimisation of its credit structure, further improved its credit risk management policies and took a proactive and forward-looking stance on risk management.

Taking a customer-centric approach, the Bank further strengthened its unified credit granting management, and enhanced full-scope credit risk management. It improved its asset quality monitoring system and further enhanced potential risk identification,

control and mitigation mechanisms by intensifying post-lending management, reinforcing customer concentration control. The Bank maintained relatively stable asset quality by enhancing the supervision of risk analysis and asset quality control in key regions, and strengthening window guidance on all business lines.

The Bank continuously adjusted and optimised its credit structure. With the aim of advancing strategic implementation and balancing risk, capital and return, the Bank stepped up the application of the New Basel Capital Accord and improved the management plans of its credit portfolios. In line with the government's macro-control measures and the direction of industrial policy, the Bank enacted guidelines for industrial lending and continued to push forward the building of an industrial policy system so as to optimise its credit structure.

Management Discussion and Analysis — Risk Management

In terms of corporate banking, the Bank further strengthened risk identification and control, proactively reduced and exited credit relationships in key fields, strictly controlled the gross outstanding amount and weighting of loans through limit management and prevented and mitigated risk from overcapacity industries. It intensified the management of loans to local government financing vehicles (LGFVs) and strictly controlled the outstanding balances. In addition, the Bank implemented the government's macro-control policies and regulatory measures in the real estate sector so as to strengthen the risk management of real estate loans.

In terms of personal banking, the Bank implemented unified credit granting management for personal customers and improved management policies for personal loans, personal online loans and credit card overdrafts, in order to reduce credit risk and prevent the risk of cross-infection. It enforced regulatory requirements on residential mortgages and continued to strictly implement differentiated policies. It also strengthened risk control of key products and regions.

The Bank strengthened country risk management and incorporated it into its comprehensive risk management system. It performed an annual review of country risk ratings and implemented limit management of country risk exposures. It constantly optimised the Country Risk Exposure Statistical System to assess, monitor, analyse and report its exposures on a regular basis, thereby managing the use of limits in a precise manner. The Bank also established a country risk monitoring and reporting system covering yearly reporting, quarterly monitoring and the timely reporting of material risk events, which made it possible to regularly publish country risk analysis reports, provide updates on the country risk monitoring tables, make timely assessments of the impact of material country risk events and publish risk prompts. In addition, the Bank differentiated the management of potentially high-risk and sensitive countries and regions.

The Bank further stepped up the collection of NPAs. It continued to carry forward centralised collection through the unified allocation of internal and external collection resources. The Bank centrally managed NPA projects and took measures such as continually enhancing the hierarchical management of key projects and reinforcing control of key regions and key customers, in order to improve the quality and efficiency of disposals. The Bank tapped the potential value of NPAs through multiple measures, proactively

explored the application of "Internet Plus" in NPA collection. It adopted policies based on the actual conditions of individual enterprises, strengthened restructuring efforts and strived to help enterprises get out of difficulty, and promoted innovative means such as NPA securitisation of personal loans and credit card overdrafts. The Bank actively participated in the study and adjustment of regulatory policies and strengthened support to the real economy.

The Bank scientifically measured and managed the quality of credit assets based on the *Guidelines for Loan Credit Risk Classification* issued by the CBRC, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are recognised as NPLs. In order to further refine its credit asset risk management, the Bank used a 13-tier risk classification criteria scheme for corporate loans to domestic companies, covering on-balance sheet and off-balance sheet credit assets. In addition, the Bank strengthened risk classification management of key industries, regions and material risk events, and dynamically adjusted classification results. It strengthened the management of loan terms, managed overdue loans by the name list system and made timely adjustments to risk classification results, so as to truly reflect asset quality. The *Guideline for Loan Credit Risk Classification* is also applicable to the overseas operations of the Bank. However, the Bank classified credit assets in line with local applicable rules and requirements if they were stricter.

As at the end of 2017, the Group's NPLs totalled RMB158.469 billion, an increase of RMB12.466 billion compared with the prior year-end. The NPL ratio was 1.45%, down by 0.01 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB252.254 billion, an increase of RMB14.538 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 159.18%, down by 3.64 percentage points from the prior year-end. The NPLs of domestic institutions totalled RMB154.208 billion, an increase of RMB12.750 billion compared with the prior year-end. Domestic institutions' NPL ratio was 1.80%, down by 0.01 percentage point compared with the prior year-end. The Group's outstanding special-mention loans stood at RMB317.025 billion, an increase of RMB6.395 billion compared with the prior year-end, accounting for 2.91% of total loans and advances, down by 0.20 percentage point from the prior year-end.

Management Discussion and Analysis — Risk Management

Five-category Loan Classification

Unit: RMB million, except percentages

Items	As at 31 December 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
Group				
Pass	10,421,064	95.64%	9,516,729	95.43%
Special-mention	317,025	2.91%	310,630	3.11%
Substandard	59,265	0.54%	61,247	0.61%
Doubtful	45,404	0.42%	36,817	0.37%
Loss	53,800	0.49%	47,939	0.48%
Total	10,896,558	100.00%	9,973,362	100.00%
NPLs	158,469	1.45%	146,003	1.46%
Domestic				
Pass	8,140,120	94.83%	7,387,949	94.49%
Special-mention	288,857	3.37%	289,101	3.70%
Substandard	57,659	0.67%	58,763	0.75%
Doubtful	43,370	0.51%	35,758	0.46%
Loss	53,179	0.62%	46,937	0.60%
Total	8,583,185	100.00%	7,818,508	100.00%
NPLs	154,208	1.80%	141,458	1.81%

Migration Ratio

Unit: %

Items	2017	2016	2015
Pass	1.97	3.05	2.22
Special-mention	20.37	19.39	22.07
Substandard	57.97	36.67	48.25
Doubtful	31.98	44.31	46.25

In accordance with International Accounting Standard No. 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2017, the Group's identified impaired loans totalled RMB157.882 billion, an increase of RMB12.571 billion compared with the prior year-end. The identified impaired loans to total loans ratio was 1.45%, a decrease of 0.01 percentage point compared with the prior year-end. For domestic institutions, identified impaired loans totalled RMB154.208 billion, an increase of RMB12.750 billion compared with the prior year-end. The identified impaired loans to total loans ratio of domestic institutions was 1.80%, down by 0.01 percentage point compared with the prior year-end. The Bank's operations in Hong Kong, Macao, Taiwan and other countries and regions reported identified impaired loans of RMB3.674 billion and the identified impaired loans to total loans ratio of 0.16%, representing a decrease of RMB0.179 billion and 0.02 percentage point compared with the prior year-end respectively.

Movement of Identified Impaired Loans

Unit: RMB million

Items	2017	2016	2015
Group			
Balance at the beginning of the year	145,311	130,237	99,789
Increase during the year	71,573	72,721	71,325
Decrease during the year	(59,002)	(57,647)	(40,877)
Balance at the end of the year	157,882	145,311	130,237
Domestic			
Balance at the beginning of the year	141,458	127,635	97,057
Increase during the year	69,854	70,700	69,422
Decrease during the year	(57,104)	(56,877)	(38,844)
Balance at the end of the year	154,208	141,458	127,635

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Loans and Identified Impaired Loans by Currency

Unit: RMB million

Items	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Total loans	Impaired loans	Total loans	Impaired loans	Total loans	Impaired loans
Group						
RMB	8,325,013	145,605	7,607,730	130,301	7,011,867	112,983
Foreign currency	2,571,545	12,277	2,365,632	15,010	2,123,993	17,254
Total	10,896,558	157,882	9,973,362	145,311	9,135,860	130,237
Domestic						
RMB	8,243,556	145,540	7,480,833	130,277	6,799,585	112,763
Foreign currency	339,629	8,668	337,675	11,181	399,509	14,872
Total	8,583,185	154,208	7,818,508	141,458	7,199,094	127,635

The Bank makes adequate and timely allowances for loan impairment losses in accordance with the principles of prudence and authenticity. Allowances for impairment losses on loans consist of individually assessed and collectively assessed allowances. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for the accounting policy in relation to allowances for impairment losses.

In 2017, the Group's impairment losses on loans and advances stood at RMB84.025 billion, a decrease of RMB2.770 billion compared with the prior year. The credit cost was 0.81%, a decrease of 0.10 percentage point compared with the prior year. Specifically, domestic institutions registered impairment losses on loans and advances of RMB81.369 billion, a decrease of RMB3.913 billion compared with the prior year. The credit cost of domestic institutions was 0.99%, a decrease of 0.15 percentage point compared with the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with regulatory requirements on borrower concentration.

Unit: %

Indicators	Regulatory Standard	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Loan concentration ratio of the largest single borrower	≤10	3.8	2.3	2.3
Loan concentration ratio of the ten largest borrowers	≤50	17.4	14.2	14.0

Notes:

- 1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower ÷ net regulatory capital.
- 2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers ÷ net regulatory capital.

Please refer to Notes V.18 and VI.3 to the Consolidated Financial Statements for detailed information regarding loan classification, the classification of identified impaired loans and allowance for loan impairment losses.

The following table shows the top ten individual borrowers as at the end of 2017.

Unit: RMB million, except percentages

	Industry	Related Parties or not	Outstanding loans	% of total loans
Customer A	Manufacturing	No	65,342	0.60%
Customer B	Transportation, storage and postal services	No	35,758	0.33%
Customer C	Transportation, storage and postal services	No	35,414	0.33%
Customer D	Manufacturing	No	35,311	0.32%
Customer E	Mining	No	28,760	0.26%
Customer F	Commerce and services	No	22,578	0.21%
Customer G	Commerce and services	No	20,185	0.19%
Customer H	Transportation, storage and postal services	No	19,791	0.18%
Customer I	Commerce and services	No	18,800	0.17%
Customer J	Production and supply of electricity, heating, gas and water	No	17,817	0.16%

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Market Risk Management

In response to changes in the market environment, the Bank continued to refine its market risk management system in order to strictly control market risk.

The Bank actively adapted to the changes in business environment by improving its market risk appetite transmission mechanism and refining its model for the market risk limit management of the Group. To improve its risk warning and mitigation capabilities, the Bank conducted forward-looking research and judgement regarding market risks and cross-financial risks. The Bank continuously advanced the building of a market risk data mart and management system and studied and applied advanced risk measurement approaches, so as to enhance the accuracy of risk measurement and improve its risk quantitative management ability. Moreover, the market risk process management was reinforced through the strengthening of full process risk control. Please refer to Note VI.4 to the Consolidated Financial Statements for detailed information regarding market risk.

The Bank strengthened risk control of new products, major risk areas and key links in the bond investment business by closely tracking financial market fluctuations and performing forward-looking risk analysis. It regularly carried out risk inspections and stress tests on the bond investment business of the Group and established a management framework for the disposal and write-off mechanism of defaulted bonds, in order to improve risk management and control processes for bond investment.

The Bank continually assessed interest rate risk in its banking book mainly through analysis of interest rate repricing gaps, made timely adjustments to the structure of its assets and liabilities based on changes in the market situation and controlled the fluctuation of net interest income at an acceptable level. Assuming that the yield curves of all currencies were to shift up or down 25 basis points in parallel, the Group's sensitivity analysis of net interest income on all currencies is as follows⁵:

Unit: RMB million

Items	As at 31 December 2017				As at 31 December 2016			
	RMB	USD	HKD	Other	RMB	USD	HKD	Other
Up 25 bps	(3,503)	(563)	360	(487)	(2,316)	(560)	97	(222)
Down 25 bps	3,503	563	(360)	487	2,316	560	(97)	222

In terms of exchange rate risk management, the Bank sought to achieve currency matching between fund source and application and managed exchange rate risk through timely settlement and hedging, thus effectively controlling its foreign exchange exposure.

Liquidity Risk Management

The Bank continues to develop and improve its liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

Adhering to an appropriate balance of safety, liquidity and profitability, and following regulatory requirements, the Bank improved its liquidity risk management in a forward-looking and scientific manner. The Bank enhanced liquidity risk management at the institution and group level, including that of branches, subsidiaries and business lines. It formulated sound liquidity risk management policies and contingency plans, periodically re-examined liquidity

⁵ This analysis is based on the approach prescribed by the CBRC, which includes all off-balance sheet positions.

Management Discussion and Analysis — Risk Management

risk limits, upgraded the early warning system for liquidity risk and strengthened the management of high-quality liquid assets, in order to strike an appropriate balance between risk and return. In addition, the Bank regularly improved its liquidity stress-testing scheme and performed stress tests on a quarterly basis. The stress tests showed that the Bank had adequate payment ability to cope with distressed scenarios.

As at the end of 2017, the Group's liquidity risk indicator met regulatory requirements. The Group's liquidity ratio is shown in the table below (in accordance with relevant provisions of domestic regulatory authorities):

Unit: %

Major regulatory ratio		Regulatory standard	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Liquidity ratio	RMB	≥25	47.1	45.6	48.6
	Foreign currency	≥25	56.9	52.7	62.0

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing. As at the end of 2017, the Bank's liquidity gap was as follows (please refer to Note VI.5 to the Consolidated Financial Statements):

Unit: RMB million

Items	As at 31 December 2017	As at 31 December 2016
Overdue/undated	2,213,972	2,132,049
On demand	(6,879,942)	(6,502,279)
Up to 1 month	(1,429,232)	(1,130,916)
1–3 months (inclusive)	(312,210)	(73,401)
3–12 months (inclusive)	163,908	39,125
1–5 years (inclusive)	3,050,952	2,561,345
Over 5 years	4,769,231	4,461,169
Total	1,576,679	1,487,092

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature in the same period.

Reputational Risk Management

The Bank earnestly implemented regulatory requirements on reputational risk management, continued to enhance its reputational risk management system and mechanism and strengthened the consolidated management of reputational risk, so as to enhance the overall reputational risk management level of the Group. It attached great importance to the investigation and pre-warning of potential reputational risk factors, further improved its routine public opinion monitoring capability, conducted reputational risk identification, assessment and reporting, established a coordination mechanism between reputational risk management departments and liable departments and dealt appropriately with reputational risk events,

thus effectively maintaining the brand reputation of the Group. In addition, the Bank continued to roll out training sessions on reputational risk, so as to enhance employees' awareness of reputational risk and foster the Group's culture of reputational risk management.

Internal Control and Operational Risk Management

Internal Control

The Board of Directors, senior management and their special committees earnestly performed their duties regarding internal control and supervision and emphasised early risk warning and prevention, so as to improve the Group's level of compliance operation.

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The Bank continued to adopt the “three lines of defence” mechanism for internal control. The first line of defence consists of business departments and all banking outlets. They are the owners of, and are accountable for, local risks and controls. They undertake self-directed risk control and management functions in the course of their business operations, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organisation of rectification measures.

The internal control and risk management departments of the Bank’s institutions at all levels form the second line of defence. They are responsible for overall planning, implementing, examining and assessing risk management and internal control, and for identifying, measuring, monitoring and controlling risks. The Bank enhanced the use of the Group’s operational risk monitoring and analysis platform, so as to realise regular monitoring of material risks, and to promote the optimisation of business processes and systems.

The third line of defence rests in the audit and inspection departments of the Bank. The audit department is responsible for performing internal audits of the Bank’s internal control and risk management function in respect of its adequacy and effectiveness. The inspection department is responsible for staff non-compliance sanctions, investigation of cases and management accountability. The Bank continuously strengthened education and raised employees’ awareness of moral hazards. It reinforced employee behaviour management, diligently investigated internal fraud cases and strictly pursued accountability according to the basic principles of “inquiry of four accountable subjects into one case”, “both institutional and business-line management accountability” and “management two levels higher than the branch-outlet accountable where serious fraud occurs”. In 2017, the Bank continued to push forward the implementation of the reform of its human resource management system for the audit line, and further intensified the vertical management of its audit function. It enhanced audit team building, deepened

IT applications in audit and the use of IT-based audit approaches, and strived to establish a circulatory monitoring mechanism. Taking an issue-oriented approach, the Bank focused on comprehensive audits of institutions and special audits of businesses. It strengthened audits and inspections of high-risk institutions and businesses, as well as fields prioritised by the Group and of special concern to regulators. The Bank concentrated its attention on systemic matters, emerging trends, concerning tendencies and importance, so as to practically perform its internal audit function. It further clarified the responsibilities and procedures of its rectification management function so as to achieve the effective rectification of problems and to continually improve the Bank’s internal governance and control mechanism.

By rigorously implementing the regulations of the CBRC regarding specialised rectification practices, the Bank organised look-back rectification and accountability with a focus on “Two Strengthen and Two Curbing”, proactively carried out internal control case prevention activities according to “process optimisation, fundamental resolutions and foundation reinforcement” and promoted process optimisation so as to lay a more solid foundation for effective internal control. In addition, the Bank promoted the standardisation of its staff compliance archive, fostered compliance culture and developed an internal control and compliance management evaluation system so as to enhance the routine management and control of its branches.

The Bank continued to implement the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, adhering to the primary goal of ensuring the effectiveness of its internal control over financial reporting and the accuracy of its financial information. It also constantly improved non-financial internal control. The Bank earnestly implemented the *Guidelines for Internal Control of Commercial Banks* by following the basic principles of “complete coverage, checks and balances, prudence and correspondence”, so as to promote internal control governance and an organisational structure characterised by a reasonable division of work, well-defined responsibilities and clear reporting relationships.

Management Discussion and Analysis — Risk Management

The Bank established and implemented a systematic financial accounting policy framework in accordance with relevant accounting laws and regulations. Accordingly, its accounting basis was solidified and the level of standardisation and refinement of its financial accounting management was further improved. The Bank set criteria for accounting appraisal and continued to promote the qualification of in-depth accounting groundwork. It continually strengthened the quality management of its accounting information, so as to ensure the effectiveness of internal control over financial reporting. The financial statements of the Bank were prepared in accordance with the applicable accounting standards and related accounting regulations, and the financial position, operational performance and cash flows of the Bank were fairly presented in all material respects.

The Bank paid close attention to fraud risk prevention and control, proactively identifying, assessing, controlling and mitigating risks. In 2017, the Bank succeeded in preventing 149 external cases involving RMB72.16 million.

Operational Risk Management

The Bank continuously improved its operational risk management system. It promoted the application of operational risk management tools, using various management tools including Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC), etc., to continually identify, assess and monitor operational risks. The Bank enhanced its system support capability by optimising its operational risk management information system. It promoted the construction of its business continuity management system, optimised its operating mechanism to enhance its business operating sustainability, carried out disaster recovery drills and improved the Group's capacity for continuous business operation.

Compliance Management

The Bank continuously improved its compliance risk governance mechanism and management process to ensure the stable and sound development and sustainable operation of the Group. It formulated

and implemented an AML system building plan to improve its governance structure, enhance resource commitment and talent fostering, integrate monitoring and analysis resources and increase the weight of compliance management in branch evaluation. It improved sanction compliance management, implemented rigorous sanction management policies and implemented the sanction requirements of the UN, Chinese regulators and overseas local regulators, as well as standardising customer and transaction due diligence and enhancing centralised correspondent banking management. It formulated the 50 Guidelines on Further Enhancing Compliance Management for Overseas Institutions, reiterated the basic rules governing the Group's compliance management, five compliance pillars and detailed compliance requirements, and enhanced overseas business risk control. It tracked global regulatory trends, regulatory inspection and evaluation and other compliance risk information in a timely manner, and implemented requirements from local and overseas regulatory institutions. It promoted system and model building and improved system functionality. It implemented the "All Employee AML Training Plan" by conducting various forms of AML training to enhance all employees' compliance awareness and capacity.

The Bank enhanced the management of its connected transactions and internal transactions. It strengthened the routine monitoring of connected transactions and strictly controlled their risks. It also conducted self-evaluation and realised improvement with regard to regulation implementation, system management, data quality and other dimensions. In addition, it revised its measures for managing internal transactions, continuously implemented internal transaction monitoring and reporting, and guided and standardised the operation mechanism for internal transaction verification.

Capital Management

Adhering to the concept of value creation, the Bank continuously strengthened its capital management to ensure its capital sufficiency and better risk mitigation ability, and to improve capital efficiencies and its value creation capabilities.

Management Discussion and Analysis — Risk Management

Adhering to the principle of linking capital input with output, the Bank further improved its capital budget allocation mechanism. It reinforced capital assessment in order to improve the awareness of value creation and capital constraints. It optimised its on-balance sheet and off-balance sheet asset structures, developed capital-lite businesses, reduced the proportion of high-capital-consumption assets and reasonably controlled increases in off-balance sheet risk assets, so as to enhance value contribution. The Bank implemented its internal capital adequacy assessment process

(ICAAP) and completed its 2017 capital adequacy assessment. As at the end of 2017, the Bank's capital adequacy ratio remained robust and met the regulatory requirement. The Bank replenished external financing in a proactive and prudent manner. It successfully issued a total of RMB60.0 billion of tier-2 capital bonds in the domestic market, which effectively increased its capital adequacy. The Bank will continue to improve its capital management level, promote high quality development of all of its businesses and constantly create value for shareholders.

Capital Adequacy Ratios

As at the end of 2017, the capital adequacy ratios separately calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Regulation Governing Capital Adequacy of Commercial Banks* are listed below:

Capital Adequacy Ratios

Unit: RMB million, except percentages

Items	Group		Bank	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Calculated in accordance with the <i>Capital Rules for Commercial Banks (Provisional)</i>				
Net common equity tier 1 capital	1,356,088	1,280,841	1,180,299	1,106,112
Net tier 1 capital	1,461,090	1,384,364	1,280,013	1,205,826
Net capital	1,725,330	1,609,537	1,526,537	1,414,052
Common equity tier 1 capital adequacy ratio	11.15%	11.37%	10.85%	10.98%
Tier 1 capital adequacy ratio	12.02%	12.28%	11.77%	11.96%
Capital adequacy ratio	14.19%	14.28%	14.04%	14.03%
Calculated in accordance with the <i>Regulation Governing Capital Adequacy of Commercial Banks</i>				
Core capital adequacy ratio	11.69%	11.77%	11.39%	11.65%
Capital adequacy ratio	14.56%	14.67%	14.36%	14.50%

Please refer to Note VI.7 to the Consolidated Financial Statements for detailed information.

Leverage Ratio

As at the end of 2017, the leverage ratio calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* is listed below:

Unit: RMB million, except percentages

Items	As at 31 December 2017	As at 31 December 2016
Net tier 1 capital	1,461,090	1,384,364
Adjusted on- and off-balance sheet assets	20,927,313	19,604,737
Leverage ratio	6.98%	7.06%

Please refer to Supplementary Information II.5 to the Consolidated Financial Statements for detailed information.

Management Discussion and Analysis

— Organisational Management and Human Resources Development and Management

Organisational Management

As at the end of 2017, the Bank had a total of 11,605 institutions worldwide, including 11,060 institutions in the Chinese mainland and 545 institutions in Hong Kong, Macao, Taiwan and other countries and regions. Its domestic commercial banking business comprised 10,674 institutions, including 37 tier-1 and direct branches, 336 tier-2 branches and 10,300 outlets.

Geographic Distribution of Organisations and Employees of the Bank:

Unit: RMB million/unit/person, except percentages

Items	Assets		Organisations		Employees	
	Total assets	% of total	Number	% of total	Number	% of total
Northern China	5,972,587	28.44%	1,991	17.16%	60,780	19.54%
Northeastern China	673,820	3.21%	949	8.18%	25,399	8.16%
Eastern China	4,248,684	20.23%	3,602	31.04%	94,130	30.25%
Central and Southern China	3,095,381	14.74%	2,796	24.09%	69,623	22.38%
Western China	1,565,227	7.45%	1,722	14.84%	38,274	12.30%
Hong Kong, Macao and Taiwan	3,534,045	16.83%	424	3.65%	17,665	5.68%
Other countries and regions	1,911,087	9.10%	121	1.04%	5,262	1.69%
Elimination	(1,533,407)					
Total	19,467,424	100.00%	11,605	100.00%	311,133	100.00%

Note: The proportion of geographic assets was based on data before intra-group elimination.

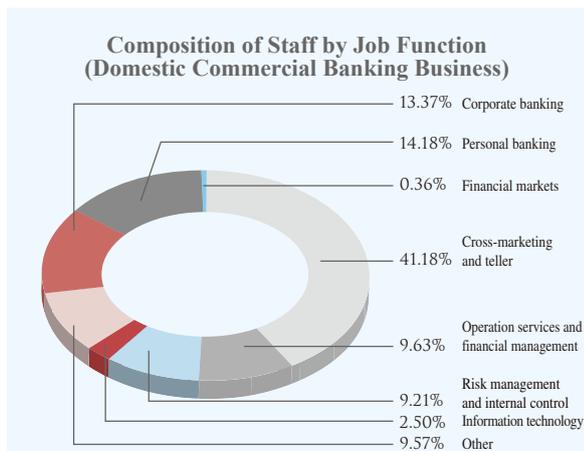
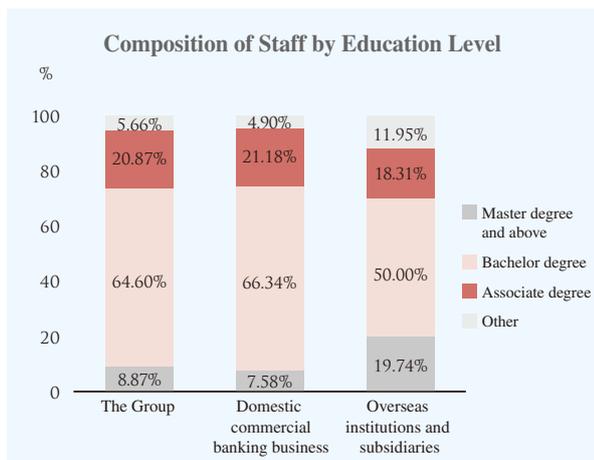
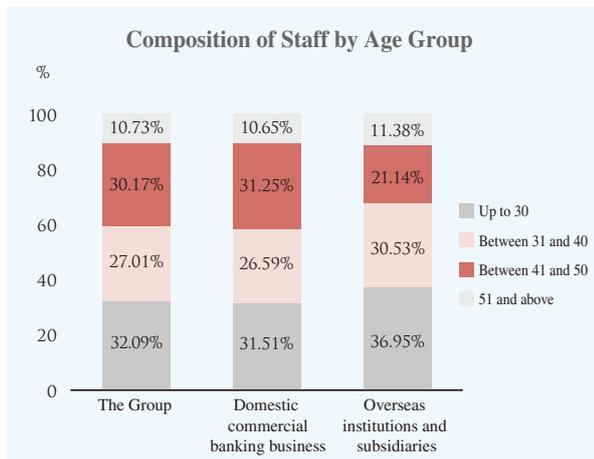
Human Resources Development and Management

As at the end of 2017, the Bank had 311,133 employees. There were 288,206 employees in the Chinese mainland, of which 277,870 worked in the Bank's domestic commercial banking business. The Bank had 22,927 employees in Hong Kong, Macao, Taiwan and other countries and regions. As at the end of 2017, the Bank bore costs for a total of 5,671 retirees.

In 2017, in line with the Group's strategies and annual priorities, the Bank deepened reform of the Group's organisational structure and management mechanism. It improved the organisational structure and service system for inclusive finance so as to enhance its inclusive finance service capabilities. It refined its AML management system, increased resources for AML-related work and sharpened its risk control abilities, thus providing solid support for the implementation of the Group's strategies and business management.

Management Discussion and Analysis

— Organisational Management and Human Resources Development and Management



Adhering to a strategy-oriented and performance-based human resources allocation mechanism, the Bank endeavoured to improve its staff structure and allocate more human resources to strategic, core and emerging businesses, so as to consistently enhance staff efficiency. It formulated a layered, classified and long-term mechanism for the development of international talent, continued to develop international and comprehensive talent and reinforced the building of a talent pool of employees fluent in minority languages. Following national strategies, the Bank made more efforts regarding talent support and development in relation to key fields such as targeted poverty alleviation, the Belt and Road Initiative, the coordinated development of the Beijing-Tianjin-Hebei region, the development of the Xiongan New Area, inclusive finance and the economic development of county areas. It sat atop the rankings for “Best Employer in Financial Industry in the Opinion of Chinese University Students” for the 10th consecutive year.

In line with the Group’s strategic priorities, the Bank improved the allocation mechanism for staff costs, put more resources into strategic and fundamental fields and made great efforts to increase input-output efficiency of resources. It refined its performance assessment system and implemented a wide-ranging honours and rewards system to encourage all institutions and employees to be hardworking, enterprising, and to strive for excellence.

In response to the Belt and Road Initiative, the Bank held the Belt and Road International Financial Exchange & Cooperation Seminars for eight Pacific island countries and four Latin American countries, thereby promoting economic and trade cooperation as well as personal and cultural exchanges. It enhanced professional training in key fields to sharpen employees’ competence in risk and internal control, non-performing loan mitigation, RMB internationalisation, the coordinated development of the Beijing-Tianjin-Hebei region, internet finance, interest rate liberalisation and green credit. In 2017, the domestic commercial banking institutions of the Bank held a variety of training courses, totalling 75,039 sessions with 2,851,047 participants.

Management Discussion and Analysis — Outlook

In 2018, the economic environment will be characterised by the coexistence of positive and uncertain factors. Overall, however, there will be more opportunities than challenges. On the international front, the global economy will rebound in a steady, continuous manner, with the United States and Europe back on track for recovery. The high points of global economic development will come from China and countries along the Belt and Road, although local financial risks will require vigilance. On the domestic front, China will enter into a stage of high-quality economic growth and accelerate the implementation of its innovation-driven strategy. Its macroeconomic policy orientation is expected to be consistent and new economic growth drivers will gather strength.

Standing at the starting point of a new era, the Bank will firmly grasp historic opportunities and persistently enable advancement through technology, drive development through innovation, deliver performance through transformation and enhance strength through reform. It will hard work in an effort to complete all the tasks centered on reform and development and to build BOC into a world-class bank in the new era. **First**, enable advancement through technology. The Bank will quicken steps to build a digitalised bank that offers an excellent user experience, rich scenarios, smooth online-offline coordination, innovative and flexible products, backed by efficient operation and management and intelligent risk control. **Second**, drive development through innovation. Keeping a close eye on the market trends and customer needs, the Bank will accelerate innovation in technology, products and business. It will strive to become a provider of high-quality financial services, a builder of connected platforms, a creator of data-driven values and a pioneer of intelligent services across the globe. **Third**, deliver performance through transformation. Centred on the demands of the real economy and the requirement for high-quality development, the Bank will optimise the supply of financial resources, serve the development of the real economy, and foster a high-quality development model with great capability for value creation and market competitiveness. **Fourth**, enhance strength through reform. The Bank will consolidate its customer base, improve its product system, intensify risk management and control, push forward the transformation of its channels, improve operation efficiency, strengthen team building and achieve high-quality growth through the reform of mind-set, of the mechanism and of the organisation.

The year 2018 marks the beginning of the implementation of the spirit of the 19th National Congress of the Communist Party of China. The Bank will fully implement the state's macroeconomic policies, continue to pursue progress while ensuring stability and make a strong start to building a world-class bank in the new era. **First**, the Bank will grasp development opportunities. Focused on serving the real economy, it will increase synergy in its online and offline channels, push forward the integration of its domestic and overseas resources, make better use of existing and new assets and improve collaboration of comprehensive services. It will boost its personal banking business and businesses in key regions, increase technological input, and allocate more financial resources to the key fields and links of China's social and economic development. The outstanding of RMB loans of the Bank's domestic operations are expected to increase by 10% in 2018. **Second**, the Bank will resolve developmental difficulties. It will focus on solving problems, conduct cause analysis, accelerate the expansion of its customer base and fund sources, continue to drive forward centralised operational services and consolidate the basis for its business development. **Third**, the Bank will hold the bottom line for risk management. With a view to safeguarding national financial security and stability, the Bank will conscientiously carry out regulatory requirements, intensify risk governance and control of key areas, increase the disposal of NPLs and enhance compliance and internal control management, so as to resolutely prevent and mitigate financial risks and hold the bottom line of no systematic financial risks. **Fourth**, the Bank will strengthen the professional standards of employees. It will intensify employee training, improve professional line building, and work hard to build professional teams with high-quality personnel, so as to lay a solid foundation for building a world-class bank in the new era.

Corporate Social Responsibilities



Hunan Branch delivered financial knowledge to students



Sichuan Branch carried out financial education activities in rural areas

The Bank paid close attention to the new patterns and emerging challenges of China's social and economic development in the new era. Concentrating on the key areas of serving the real economy, promoting inclusive finance and supporting targeted poverty alleviation, it actively assumed its responsibilities as a state-owned commercial bank. Leveraging the advantages arising from its global and integrated operations, the Bank explored innovative practices in fulfilling social responsibilities, sought win-win cooperation with stakeholders and promoted the sound and sustainable development of the economy, society and environment.

Responsibility to the country

The Bank received visits from the political leaders of many countries including the United Kingdom, Austria, Pakistan, Peru, the Philippines and Panama. It deepened the construction of the financial artery of the Belt and Road Initiative. As at the end of 2017, we followed up on over 500 major projects along the Belt and Road, and from 2015 to 2017, we established credit lines totalling approximately USD100 billion for countries along the Belt and Road. It held a Belt and Road international financial cooperation seminar for Pacific Island countries and four Latin American countries (Panama, Ecuador, Costa Rica and Colombia). In addition, it increased support for the coordinated development of the Beijing-Tianjin-Hebei region, the Yangtze River Economic Belt, the Guangdong-Hong

Kong-Macao Greater Bay Area and the Xiongan New Area. Focusing on cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness, the Bank advanced supply-side structural reform and served to improve quality and efficiency of the real economy. It also established the Inclusive Finance Department and improved its inclusive finance service framework, with the aim of safeguarding and improving people's well-being, supporting the strategy of revitalising the countryside and boosting consumption upgrading. Having served the Beijing 2008 Olympic Games, the Bank became the official banking partner of the Beijing 2022 Olympic and Paralympic Winter Games.

Responsibility to shareholders

The Bank further improved its mechanism for corporate governance, information disclosure and stakeholder engagement, effectively enhanced its risk management capability and market competitiveness and ensured integrity and compliance management, so as to realise steady development and create sustainable value for shareholders. As of the end of 2017, the Bank's total assets reached RMB19.47 trillion, placing it among the top global banks by assets. Its stand-alone credit profile and preference share ratings by Standard & Poor's Rating Services remained at the highest level among its Chinese peers. Moreover, the Bank ranked 42nd among the "Fortune Global 500", 4th in the "Top 1,000 World Banks" by

Corporate Social Responsibilities

The Banker and 12th in the “2017 Hurun Brand List” by Hurun Research Institute with a brand value of RMB147 billion, up 13.95% year-on-year.

Responsibility to customers

The Bank further expanded its cross-border financial services worldwide and strengthened the capability of its integrated global operations. It set up subsidiaries in 54 countries and regions outside the Chinese mainland, transacting RMB349.68 trillion in cross-border RMB clearing and RMB3.83 trillion in settlement throughout the year. It promoted coordinated development between outlets and electronic channels by bringing information technology into full play. It accelerated the introduction of “smart counters” which has achieved full coverage across domestic tier-1 branches and thus greatly improving customer experience. The number of mobile banking customers reached 115.3257 million, an increase of 22.17% over the previous year. The Bank realised counter-based processing at relevant outlets, and provided seamless O2O services.

Responsibility to employees

Adhering to the principle of “people first”, the Bank earnestly guaranteed its employees’ rights and interest, held its Employee Delegates’ Meeting and encouraged employees to propose suggestions for corporate development. It also established a

human resources management model aligned with its corporate culture and operational management needs. It adopted innovative approaches to attract young talent through global campus recruitment, actively improved its education and training system and provided its employees with smoother career paths and greater space for career development. Moreover, the Bank created a positive working environment featuring employee care activities and a healthy work-life balance. As a result, it has topped the “Best Employer in Financial Industry in the Opinion of Chinese University Students” ranking organised by ChinaHR.com for ten consecutive years.

Responsibility to the society

The Bank has supported poverty alleviation work in Yongshou, Changwu, Xunyi and Chunhua counties of Xianyang, Shaanxi Province for 15 consecutive years since 2002. In 2017, by bringing the strengths of the Bank, its customers, employees and international communities into full play, and by further implementing the “Ten One Batch” programme, the Bank concentrated on its “target”, stuck to poverty alleviation through industrial development and focused on people’s livelihood and on villages affected by extreme poverty. Leveraging its industry advantages, it intensified efforts to implement 31 poverty alleviation projects in the areas of industry, education, medical care and infrastructure. It introduced comprehensive pilot projects related to



Johannesburg Branch participated in the activity boycotting rhino horn trade



London Branch carried out charitable activities

Corporate Social Responsibilities

new agriculture and animal husbandry initiated by Chai Tai Group and promoted the Xianyang-Jiangsu poverty alleviation market programme. It set up a scholarship fund of HKD20 million, carried out poverty alleviation through “BOC for Public Welfare” e-commerce platform and purchased more than RMB80 million worth of agricultural and miscellaneous products from the four designated impoverished counties. In 2017, more than 100,000 impoverished people benefited from the Bank’s poverty alleviation efforts and support for the local economic and social development.

The Bank extended government-sponsored student loans for the 18th consecutive year and accumulatively granted RMB22.841 billion for over 1.8 million financially underprivileged students. It sponsored the Chinese Spring Festival celebration in Trafalgar Square in London, the largest celebration outside Asia, for the 17th consecutive year. The Bank sponsored the Tan Kah Kee Science Award for the 14th consecutive year to honour Chinese scientists who have made original scientific and technological achievements. For the 9th consecutive year, it conducted strategic cooperation with the National Center for the Performing Arts. The Bank sponsored the Rainbow Bridge programme for the 6th consecutive year, supporting more than 290 outstanding but financially disadvantaged Chinese and American students to take part in cross-border exchanges programmes. It continued to support poverty alleviation programmes in Xinjiang for the 4th consecutive year.

Responsibility to the environment

The Bank vigorously developed green finance, proactively promoted green credit practices and led its peers in green finance development. It actively fulfilled the central government’s requirement of cutting overcapacity, controlled and compressed the scale of credit granted to overcapacity industries and increased investment in green industries, in order to play an active role in driving the transformation of development mode. It intensified products and services innovation and actively promoted international exchange and cooperation in green finance. The Bank assisted enterprises to issue green bonds in both domestic and overseas markets, and successfully issued the first RMB green bonds labelled and certified by Climate Bonds Initiative (CBI). It persisted in green and low-carbon operations, advocated “green office” concept and promoted the application of energy-saving technology at the Head Office and branches to reduce resource consumption, greenhouse gas emission and waste discharge.

The Bank’s fulfillment of its social responsibilities was widely recognised by the society. In 2017, it won awards including “Most Socially Responsible Financial Institution”, “Most Socially Responsible Outlet with Special Contribution” and “Excellent Charity Project Award of the Year” from the China Banking Association, “Excellent Finance Brand of Social Responsibility” from the China Finance Brand Summit Forum 2017, and “Most Socially Responsible Bank” from the China Banking Industry Development Forum.

For details of the Bank’s corporate social responsibility performance, please refer to the Bank’s 2017 Corporate Social Responsibility Report published on the websites of SSE, HKEX and the Bank.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

Changes in Ordinary Share Capital

Unit: Share

	As at 1 January 2017		Increase/decrease during the reporting period					As at 31 December 2017	
	Number of shares	Percentage	Issuance of new shares	Bonus shares	Shares transferred from surplus reserve	Others	Subtotal	Number of shares	Percentage
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	294,387,791,241	100.00%	-	-	-	-	-	294,387,791,241	100.00%
1. RMB-denominated ordinary shares	210,765,514,846	71.59%	-	-	-	-	-	210,765,514,846	71.59%
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	83,622,276,395	28.41%	-	-	-	-	-	83,622,276,395	28.41%
4. Others	-	-	-	-	-	-	-	-	-
III. Total Ordinary Shares	294,387,791,241	100.00%	-	-	-	-	-	294,387,791,241	100.00%

Notes:

- As at 31 December 2017, the Bank had issued a total of 294,387,791,241 ordinary shares, including 210,765,514,846 A Shares and 83,622,276,395 H Shares.
- As at 31 December 2017, none of the Bank's A Shares and H Shares were subject to selling restrictions.

Changes in Share Capital and Shareholdings of Shareholders

Number of Ordinary Shareholders and Shareholdings

Number of ordinary shareholders as at 31 December 2017: 759,155 (including 565,106 A-Share Holders and 194,049 H-Share Holders)

Number of ordinary shareholders as at the end of the last month before the disclosure of this report: 724,112 (including 533,440 A-Share Holders and 190,672 H-Share Holders)

The top ten ordinary shareholders as at 31 December 2017 are set forth below:

Unit: Share

No.	Name of ordinary shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total ordinary shares	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of ordinary shares
1	Central Huijin Investment Ltd.	–	188,461,533,607	64.02%	–	None	State	A
2	HKSCC Nominees Limited	74,258,449	81,872,134,909	27.81%	–	Unknown	Foreign legal person	H
3	China Securities Finance Co., Ltd.	466,929,827	8,071,148,385	2.74%	–	None	State-owned legal person	A
4	Central Huijin Asset Management Ltd.	–	1,810,024,500	0.61%	–	None	State-owned legal person	A
5	Buttonwood Investment Platform Ltd.	–	1,060,059,360	0.36%	–	None	State-owned legal person	A
6	The Bank of Tokyo-Mitsubishi UFJ Ltd.	–	520,357,200	0.18%	–	Unknown	Foreign legal person	H
7	HKSCC Limited	183,093,100	496,801,651	0.17%	–	None	Foreign legal person	A
8	Huatai Securities Company Limited	191,698,830	217,995,345	0.07%	–	None	Domestic non-state-owned legal person	A
9	Anbang Property & Casualty Insurance Co., Ltd. — Traditional Product	–	208,018,959	0.07%	–	None	Other	A
10	China 50 ETF	5,259,350	161,439,600	0.05%	–	None	Other	A

The number of shares held by H-Share Holders was recorded in the register of members kept at the H-Share Registrar of the Bank.

HKSCC Nominees Limited acted as the nominee for all the institutional and individual investors that maintain an account with it as at 31 December 2017. The aggregate number of the Bank's H Shares held by HKSCC Nominees Limited included the number of shares held by the National Council for Social Security Fund.

Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Central Huijin Investment Ltd.

HKSCC Limited is the nominee holder who holds securities on behalf of others. The securities included the SSE securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect.

Save as disclosed above, the Bank is not aware of any connected relation or concerted action among the aforementioned ordinary shareholders.

Changes in Share Capital and Shareholdings of Shareholders

Substantial Shareholder Interests

The register maintained by the Bank under section 336 of the SFO recorded that, as at 31 December 2017, the shareholders indicated in the following table were substantial shareholders having interests in shares of the Bank (as defined in the SFO):

Name of shareholder	Capacity (types of interest)	Number of shares held/Number of underlying shares (unit: share)	Type of shares	Percentage of total issued A-Share capital	Percentage of total issued H-Share capital	Percentage of total issued ordinary share capital
Central Huijin Investment Ltd.	Beneficial owner	188,461,533,607	A	89.42%	–	64.02%
	Interest of controlled corporations	1,810,024,500	A	0.86%	–	0.61%
	Total	190,271,558,107	A	90.28%	–	64.63%
National Council for Social Security Fund	Beneficial owner	7,518,157,041	H	–	8.99%	2.55%
	Interest of controlled corporations	5,979,827,830	H	–	7.15%	2.03%
BlackRock, Inc.		1,064,000(S)	H	–	0.00127%	0.00036%
	Beneficial owner	1,275,055,949	H	–	1.52%	0.43%
JPMorgan Chase & Co.		290,074,918(S)	H	–	0.35%	0.10%
	Investment manager	441,487,694	H	–	0.53%	0.15%
	Trustee	28,325	H	–	0.00003%	0.00001%
	Custodian corporation/ approved lending agent	2,500,393,560(P)	H	–	2.99%	0.85%
	Total	4,216,965,528	H	–	5.04%	1.43%
		290,074,918(S)	H	–	0.35%	0.10%
	2,500,393,560(P)	H	–	2.99%	0.85%	

Notes:

- BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., while BlackRock Holdco 2 Inc. holds the entire issued share capital of BlackRock Financial Management, Inc. Thus BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have equal interests in shares of the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 5,979,827,830 H Shares and a short position of 1,064,000 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it. In the long position of 5,979,827,830 H Shares, 9,966,000 H Shares are held through derivatives. In the short position of 1,064,000 H Shares, 27,000 H Shares are held through derivatives.
- JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. Thus JPMorgan Chase & Co. is deemed to have equal interests in shares of the Bank as JPMorgan Chase Bank, N.A. under the SFO. JPMorgan Chase & Co. holds a long position of 4,216,965,528 H Shares and a short position of 290,074,918 H Shares of the Bank through JPMorgan Chase Bank, N.A. and other corporations controlled by it. In the long position of 4,216,965,528 H Shares, 2,500,393,560 H Shares are held in the lending pool and 266,313,652 H Shares are held through derivatives. In the short position of 290,074,918 H Shares, 281,944,918 H Shares are held through derivatives.
- "S" denotes short position, "P" denotes lending pool.

Unless stated otherwise, all interests stated above represented long positions. Save as disclosed above, as at 31 December 2017, no other interests (including derivative interests) or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Changes in Share Capital and Shareholdings of Shareholders

Controlling Shareholder of the Bank

Central Huijin Investment Ltd.

Central Huijin Investment Ltd. (“Huijin”) is a state-owned investment company established under the Company Law, with Mr. DING Xuedong as its legal representative. Wholly owned by China Investment Corporation, Huijin makes equity investments in major

state-owned financial institutions, as authorised by the State Council. To the extent of its capital contribution, Huijin exercises its rights and fulfils its obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the major state-owned financial institutions of which it is the controlling shareholder.

As at 31 December 2017, the basic information of companies directly held by Huijin is as follows:

No.	Company name	Proportion of the total capital held by Huijin
1	China Development Bank	34.68%
2	Industrial and Commercial Bank of China Limited ★☆	34.71%
3	Agricultural Bank of China Limited ★☆	40.03%
4	Bank of China Limited ★☆	64.02%
5	China Construction Bank Corporation ★☆	57.11%
6	China Everbright Group Ltd.	55.67%
7	China Everbright Bank Company Limited ★☆	19.53%
8	China Export & Credit Insurance Corporation	73.63%
9	China Reinsurance (Group) Corporation ☆	71.56%
10	New China Life Insurance Company Limited ★☆	31.34%
11	China Jiayin Investment Limited	100.00%
12	China Galaxy Financial Holding Co., Ltd.	78.57%
13	Shenwan Hongyuan Group Co., Ltd. ★	25.03%
14	China International Capital Corporation Limited ☆	58.58%
15	China Securities Co., Ltd. ☆	32.93%
16	Jiantou & Zhongxin Assets Management Limited	70.00%
17	Guotai Junan Investment Management Co., Ltd.	14.54%

Notes:

- ★ denotes A share listed company and ☆ denotes H share listed company.
- The industrial and commercial registration change regarding the integration of China Galaxy Financial Holding Co., Ltd. and China Galaxy Investment Management Co., Ltd. was completed in February 2018. Huijin directly held 69.07% of the shares of China Galaxy Financial Holding Co., Ltd.
- CSRC approved the non-public issuance of no more than 2.5 billion shares of Shenwan Hongyuan Group Co., Ltd. (Shenwan Hongyuan Group) on 12 December 2017. The above shares was listed on the Shenzhen Stock Exchange on 30 January 2018. Huijin directly held 22.28% of the shares of Shenwan Hongyuan Group.
- China International Capital Corporation Limited (“CICC”) and Tencent Mobility Limited entered into an agreement on 20 September 2017. CICC issued H shares to Tencent Mobility Limited through private placement and the number of which accounted for 4.95% of the total issued shares. As at the end of 2017, the relevant procedures were still in process.
- Besides the above companies controlled or held by Huijin, Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Central Huijin Asset Management Ltd., established in November 2015 and registered in Beijing with registered capital of RMB5 billion, provides asset management business.

Changes in Share Capital and Shareholdings of Shareholders

For further details regarding China Investment Corporation, please refer to the information on its website (www.china-inv.cn). Please refer to the *Announcement on Matters Related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank for relevant information of China Investment Corporation.

As at 31 December 2017, no other legal-person shareholder held 10% or more voting shares of the Bank (excluding HKSCC Nominees Limited).

From 1 January 2017 to 31 December 2017, directors of the Bank who are recommended by Huijin are listed as follows.

ZHANG Xiangdong	Non-executive Director
ZHANG Qi	Non-executive Director (leaved the post in June 2017)
WANG Wei	Non-executive Director (leaved the post in January 2017)
LIU Xianghui	Non-executive Director (leaved the post in June 2017)
LI Jucai	Non-executive Director
XIAO Lihong	Non-executive Director
WANG Xiaoya	Non-executive Director
ZHAO Jie	Non-executive Director

Save as the above directors, Huijin did not recommend other personnel who directly or indirectly have right or responsibility for the Bank's operational activities in respect of plan, instruction and control.

Preference Shares

Issuance and Listing of Preference Shares

With the approvals of CBRC (Yinjianfu [2014] No. 563) and CSRC (Zhengjianxuke [2014] No. 938), the Bank made a non-public issuance of RMB39.94 billion (approximately USD6.5 billion) Offshore Preference Shares on 23 October 2014 in the offshore market. Such Offshore Preference Shares have been listed on the Hong Kong Stock Exchange since 24 October 2014.

With the approvals of CBRC (Yinjianfu [2014] No. 562) and CSRC (Zhengjianxuke [2014] No. 990), the Bank made a non-public issuance of RMB32 billion Domestic Preference Shares (First Tranche) on 21 November 2014 in the domestic market. With the approval of SSE (Shangzhenghan [2014] No. 818), Domestic Preference Shares (First Tranche) have been traded on the Comprehensive Business Platform of SSE since 8 December 2014. The Bank made a non-public issuance of RMB28 billion Domestic Preference Shares (Second Tranche) on 13 March 2015 in the domestic market. With the approval of SSE (Shangzhenghan [2015] No. 377), Domestic Preference Shares (Second Tranche) have been traded on the Comprehensive Business Platform of SSE since 31 March 2015.

For the terms of issuance of the Offshore Preference Shares and Domestic Preference Shares, please refer to the Bank's announcements published on the websites of SSE, HKEX and the Bank.

Changes in Share Capital and Shareholdings of Shareholders

Number of Preference Shareholders and Shareholdings

Number of preference shareholders as at 31 December 2017: 48 (including 47 domestic preference shareholders and 1 offshore preference shareholder)

Number of preference shareholders as at the end of the last month before the disclosure of this report: 48 (including 47 domestic preference shareholders and 1 offshore preference shareholder)

The top ten preference shareholders as at 31 December 2017 are set forth below:

Unit: Share

No.	Name of preference shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total preference shares	Number of shares pledged or frozen	Type of shareholder	Type of preference shares
1	Bank of New York Mellon Corporation	–	399,400,000	39.96%	Unknown	Foreign legal person	Offshore Preference Shares
2	China Mobile Communications Group Co., Ltd.	–	180,000,000	18.01%	None	State-owned legal person	Domestic Preference Shares
3	China National Tobacco Corporation	–	50,000,000	5.00%	None	State-owned legal person	Domestic Preference Shares
4	Zhong Wei Capital Holdings Co., Ltd.	–	30,000,000	3.00%	None	State-owned legal person	Domestic Preference Shares
5	Yunnan Branch of China National Tobacco Corporation	–	22,000,000	2.20%	None	State-owned legal person	Domestic Preference Shares
6	China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH	–	21,000,000	2.10%	None	Other	Domestic Preference Shares
7	China Shuangwei Investment Co., Ltd.	–	20,000,000	2.00%	None	State-owned legal person	Domestic Preference Shares
7	National Social Security Fund Portfolio 304	–	20,000,000	2.00%	None	Other	Domestic Preference Shares
7	Bosera Fund — ICBC — Bosera — ICBC — Flexible Allocation No. 5 Specific Multi-customer Assets Management Plan	–	20,000,000	2.00%	None	Other	Domestic Preference Shares
10	Ping An Life Insurance Company of China, Ltd. — proprietary fund	–	19,000,000	1.90%	None	Domestic non-state-owned legal person	Domestic Preference Shares

Changes in Share Capital and Shareholdings of Shareholders

The Bank of New York Mellon Corporation, acting as the custodian for all the offshore preference shareholders that maintain an account with Euroclear and Clearstream as at 31 December 2017, held 399,400,000 Offshore Preference Shares, representing 100% of the Offshore Preference Shares.

Both Yunnan Branch of China National Tobacco Corporation and China Shuangwei Investment Co., Ltd. are wholly-owned subsidiaries of China National Tobacco Corporation. Zhong Wei Capital Holdings Co., Ltd. is a subsidiary of China Shuangwei Investment Co., Ltd.

Save as disclosed above, the Bank is not aware of any connected relation or concerted action among the aforementioned preference shareholders, and among the aforementioned preference shareholders and the Bank's top ten ordinary shareholders.

Profit Distribution of Preference Shares

For the profit distribution policy of the preference shares and the profit distribution arrangement during the reporting period, please refer to the section "Report of the Board of Directors".

Other Information regarding the Preference Shares

During the reporting period, there was no redemption, conversion into ordinary shares or voting rights recovery in respect of the preference shares of the Bank.

Preference shares issued by the Bank contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; and preference shares issued are non-derivative instruments that will be settled in the entity's own equity instruments, but includes no contractual obligation for the entity to deliver a variable number of its own equity instruments. The Bank classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

The funds raised from the issuance of the Offshore Preference Shares and Domestic Preference Shares have been fully used to replenish the Bank's additional tier 1 capital and increase its capital adequacy ratio.

Issuance of Other Securities

Please refer to Note V.30 to the Consolidated Financial Statements for details of the bonds issued by the Bank.

No shares of the Bank have been specifically issued to its employees.

Directors, Supervisors and Senior Management Members

Basic Information

Incumbent Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position	Term of office
CHEN Siqing	1960	Male	Chairman	From April 2014 to the date of the Annual General Meeting in 2020
REN Deqi	1963	Male	Executive Director and Executive Vice President	From December 2016 to the date of the Annual General Meeting in 2019
ZHANG Xiangdong	1957	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2020
LI Jucai	1964	Male	Non-executive Director	From September 2015 to the date of the Annual General Meeting in 2018
XIAO Lihong	1965	Female	Non-executive Director	From August 2017 to the date of the Annual General Meeting in 2020
WANG Xiaoya	1964	Female	Non-executive Director	From August 2017 to the date of the Annual General Meeting in 2020
ZHAO Jie	1962	Male	Non-executive Director	From August 2017 to the date of the Annual General Meeting in 2020
Nout WELLINK	1943	Male	Independent Director	From October 2012 to the date of the Annual General Meeting in 2018
LU Zhengfei	1963	Male	Independent Director	From July 2013 to the date of the Annual General Meeting in 2019
LEUNG Cheuk Yan	1951	Male	Independent Director	From September 2013 to the date of the Annual General Meeting in 2019
WANG Changyun	1964	Male	Independent Director	From August 2016 to the date of the Annual General Meeting in 2019
Angela CHAO	1973	Female	Independent Director	From January 2017 to the date of the Annual General Meeting in 2019
WANG Xiquan	1960	Male	Chairman of the Board of Supervisors	From November 2016 to the date of the Annual General Meeting in 2019
WANG Xueqiang	1957	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2019
LIU Wanming	1958	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2019
DENG Zhiying	1959	Male	Employee Supervisor	From August 2010 to the date of the 2019 Employee Delegates' Meeting
GAO Zhaogang	1969	Male	Employee Supervisor	From April 2016 to the date of the 2019 Employee Delegates' Meeting
XIANG Xi	1971	Female	Employee Supervisor	From August 2012 to the date of the 2019 Employee Delegates' Meeting
CHEN Yuhua	1953	Male	External Supervisor	From June 2015 to the date of the Annual General Meeting in 2018
ZHANG Qingsong	1965	Male	Executive Vice President and Chief Information Officer	Executive Vice President from November 2016 and Chief Information Officer from March 2017
LIU Qiang	1971	Male	Executive Vice President	From November 2016
FAN Dazhi	1964	Male	Secretary of Party Discipline Committee	From December 2016
PAN Yuehan	1964	Male	Chief Risk Officer	From April 2016
XIAO Wei	1960	Male	Chief Audit Officer	From November 2014

Note: During the reporting period, no director, supervisor or senior management member held any share of the Bank.

Former Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position held before leaving the post	Term of office
TIAN Guoli	1960	Male	Chairman	From May 2013 to August 2017
GAO Yingxin	1962	Male	Executive Director and Executive Vice President	From December 2016 to January 2018
WANG Wei	1957	Male	Non-executive Director	From September 2014 to January 2017
ZHANG Qi	1972	Male	Non-executive Director	From July 2011 to June 2017
LIU Xianghui	1954	Male	Non-executive Director	From October 2014 to June 2017
XU Luode	1962	Male	Executive Vice President	From June 2015 to June 2017
GENG Wei	1963	Male	Secretary to the Board of Directors and Company Secretary	Secretary to the Board of Directors from June 2015 to March 2018 and Company Secretary from October 2015 to March 2018

Note: No former director or senior management member held any share of the Bank during their terms of office.

Directors, Supervisors and Senior Management Members

Remuneration of Directors, Supervisors and Senior Management Members Paid in 2017

Name	Position	Remuneration before tax from the Bank in 2017 (Unit: RMB ten thousand)				Whether remunerated by shareholding companies or other connected parties
		Remuneration paid	Contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund	Other monetary income	Total	
Incumbent Directors, Supervisors and Senior Management Members						
CHEN Siqing	Chairman	51.91	18.65	–	70.56	No
REN Deqi	Executive Director and Executive Vice President	46.72	14.18	–	60.90	No
ZHANG Xiangdong	Non-executive Director	–	–	–	–	Yes
LI Jucai	Non-executive Director	–	–	–	–	Yes
XIAO Lihong	Non-executive Director	–	–	–	–	Yes
WANG Xiaoya	Non-executive Director	–	–	–	–	Yes
ZHAO Jie	Non-executive Director	–	–	–	–	Yes
Nout WELLINK	Independent Director	60.00	–	–	60.00	No
LU Zhengfei	Independent Director	55.00	–	–	55.00	Yes
LEUNG Cheuk Yan	Independent Director	40.00	–	–	40.00	No
WANG Changyun	Independent Director	40.00	–	–	40.00	Yes
Angela CHAO	Independent Director	39.74	–	–	39.74	Yes
WANG Xiquan	Chairman of the Board of Supervisors	51.91	13.25	–	65.16	No
WANG Xueqiang	Shareholder Supervisor	81.26	32.59	4.58	118.43	No
LIU Wanming	Shareholder Supervisor	76.02	33.86	4.58	114.46	No
DENG Zhiying	Employee Supervisor	5.00	–	–	5.00	No
GAO Zhaogang	Employee Supervisor	5.00	–	–	5.00	No
XIANG Xi	Employee Supervisor	5.00	–	–	5.00	No
CHEN Yuhua	External Supervisor	24.88	–	–	24.88	No
ZHANG Qingsong	Executive Vice President and Chief Information Officer	46.72	15.04	–	61.76	No
LIU Qiang	Executive Vice President	46.72	13.11	–	59.83	No
FAN Dazhi	Secretary of Party Discipline Committee	38.93	11.02	–	49.95	No
PAN Yuehan	Chief Risk Officer	86.69	33.96	2.54	123.19	No
XIAO Wei	Chief Audit Officer	86.69	35.83	2.54	125.06	No
Former Directors, Supervisors and Senior Management Members						
TIAN Guoli	Chairman	30.28	10.63	–	40.91	No
GAO Yingxin	Executive Director and Executive Vice President	46.72	16.35	–	63.07	No
WANG Wei	Non-executive Director	–	–	–	–	Yes
ZHANG Qi	Non-executive Director	–	–	–	–	Yes
LIU Xianghui	Non-executive Director	–	–	–	–	Yes
XU Luode	Executive Vice President	19.47	5.67	–	25.14	No
GENG Wei	Secretary to the Board of Directors and Company Secretary	82.56	33.62	4.58	120.76	No

Directors, Supervisors and Senior Management Members

Notes:

- 1 In accordance with the government regulations, since 1 January 2015, the Bank remunerates Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, Secretary of Party Discipline Committee and executive vice presidents pursuant to the rules on remuneration reform for central enterprises.
- 2 The 2017 final remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, shareholder supervisors and other senior management members is to be determined and will be disclosed in an additional announcement by the Bank.
- 3 The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income. Independent directors receive directors' remunerations and allowances. Other directors are not remunerated by the Bank. Chairman of the Board of Directors, executive directors and senior management members do not receive any remuneration from the Bank's subsidiaries.
- 4 Independent directors receive remuneration in accordance with the resolution of the 2007 Annual General Meeting. External supervisors receive remuneration in accordance with the resolution of the 2009 Annual General Meeting. Remuneration for shareholder supervisors is in accordance with relevant remuneration scheme of the Bank and approved by the shareholders' meeting.
- 5 In 2017, Non-executive Directors Mr. ZHANG Xiangdong, Mr. LI Jucai, Ms. XIAO Lihong, Ms. WANG Xiaoya, Mr. ZHAO Jie, Mr. WANG Wei, Mr. ZHANG Qi, and Mr. LIU Xianghui were not remunerated by the Bank.
- 6 Some independent directors of the Bank served as independent non-executive directors of other legal entities or organisations, which caused such legal entities or organisations to be defined as connected parties of the Bank. Save as disclosed above, none of the directors, supervisors or senior management members of the Bank was remunerated by the connected parties of the Bank during the reporting period.
- 7 The above persons' remuneration is calculated on the basis of their actual time working as directors, supervisors or senior management members of the Bank in 2017. Employee supervisors' remuneration above is paid for their service as supervisors of the Bank during the reporting period.
- 8 For the starting time of the term of office of the above-mentioned directors, supervisors and senior management members, please refer to the section "Basic Information".
- 9 The Bank incurred RMB13.7380 million in remuneration to its directors, supervisors and senior management members' services in 2017.

Positions held in Shareholding Companies by Directors, Supervisors and Senior Management Members

Save as disclosed above, in 2017, none of the Bank's directors, supervisors or senior management members held any position in the shareholding companies of the Bank.

Directors



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Directors

1 CHEN Siqing

Chairman

Chairman of the Board of Directors since August 2017. Mr. CHEN joined the Bank in 1990 and served as Vice Chairman of the Bank from April 2014 to August 2017, President of the Bank from February 2014 to August 2017, and Executive Vice President of the Bank from June 2008 to February 2014. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager and Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN previously worked in the Hunan Branch of the Bank before he was dispatched to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. CHEN served as Chairman of the Board of Directors of BOC Aviation Limited from December 2011 to March 2018. Since December 2011, Mr. CHEN has been serving as a Non-executive Director of BOC Hong Kong (Holdings) Limited. He served as Vice Chairman of the Board of Directors of BOCHK (Holdings) from March 2014 to August 2017, and has been serving as Chairman of the Board of Directors of BOCHK (Holdings) since August 2017. Mr. CHEN graduated from Hubei Institute of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant and holds the title of Senior Economist.

2 REN Deqi

Executive Director and Executive Vice President

Executive Director of the Bank since December 2016 and Executive Vice President of the Bank since July 2014. Mr. REN joined the Bank in 2014. He worked in China Construction Bank (“CCB”) for many years and held various positions. From October 2013 to May 2014, Mr. REN served as General Manager of Risk Management Department of CCB. From August 2003 to October 2013, Mr. REN successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, and General Manager of the Hubei Branch of CCB. Mr. REN has been serving as a Non-executive Director of BOC Hong Kong (Holdings) Limited since October 2015, and President of Shanghai RMB Trading Unit since September 2016. He obtained a Master’s Degree in Engineering from Tsinghua University in 1988. He holds the title of Senior Economist.

3 ZHANG Xiangdong

Non-executive Director

Non-executive Director of the Bank since July 2011. Mr. ZHANG served as a non-executive director of China Construction Bank Corporation from November 2004 to June 2010, and served as Chairman of the Risk Management Committee under its Board of Directors from April 2005 to June 2010. From August 2001 to November 2004, Mr. ZHANG worked as Vice President of PBOC’s Haikou Central Sub-branch and concurrently served in the SAFE as Deputy Director General of Hainan Province Branch and Deputy Director General and Inspector of the General Affairs Department. Mr. ZHANG served as a member of the Stock Offering Approval Committee of CSRC from September 1999 to September 2001. He served as a member of China International Economic and Trade Arbitration Commission from January 2004 to December 2008. Mr. ZHANG graduated from Renmin University of China with a Bachelor’s degree in Law in 1986. He completed his post-graduate studies in international economic law at Renmin University of China in 1988, and was awarded a Master’s degree in Law in 1990. Mr. ZHANG holds the professional title of senior economist and is qualified to practice law in China.

4 LI Jucai

Non-executive Director

Non-executive Director of the Bank since September 2015. Mr. LI served as Party Committee Member and Secretary of Party Discipline Committee of the Information Network Center under the Ministry of Finance from December 2014 to September 2015. He acted as the specialised Deputy Secretary of Party Committee of the Information Network Center under the Ministry of Finance from April 2010 to December 2014. From November 1996 to April 2010, he had successively been the Deputy Head of the Science Division of the Culture, Education and Administration Department, Division Head of the Investment Evaluation Center, Director of Administration Office and Head of the Administrative Division of the Information Network Center under the Ministry of Finance. Mr. LI majored in Finance in China Northeast University of Finance and Economics and graduated with a Bachelor's degree in 1986. Mr. LI has qualification of senior economist.

5 XIAO Lihong

Non-executive Director

Non-executive Director of the Bank since August 2017. Ms. XIAO served as Inspector of the Current Account Management Department of the SAFE from April 2014 to August 2017. She was Deputy Director-General of the Current Account Management Department of the SAFE from September 2004 to April 2014, and concurrently as Vice General Manager and Party Committee Member of the Beijing Branch of China Construction Bank from July 2011 to July 2012. She served successively as Deputy Chief of the Current Account Division and the Non-trade Foreign Exchange Management Division of the Supervision and Inspection Department, and Chief of the Business Supervision Division of the Current Account Management Department of the SAFE from October 1996 to September 2004. She graduated from the China Central University of Finance and Economics in August 1988 with a Bachelor's Degree, and from the Central University of Finance and Economics and Peking University in September 2003 and July 2012, respectively, both with a Master's Degree.

6 WANG Xiaoya

Non-executive Director

Non-executive Director of the Bank since August 2017. Ms. WANG served as Non-executive Director of Industrial and Commercial Bank of China Limited from January 2012 to June 2017. From May 2007 to December 2011, she was Deputy Director-General of the Research Bureau of the PBOC. She taught at the Central China Normal University where she served as Assistant Lecturer and Lecturer from July 1985 to January 1995. She served as Deputy Chief and Chief of the Macroeconomic Analysis Division of the Research Bureau of the PBOC from July 1997 to May 2007, and concurrently as Deputy Mayor of Tongliao City in the Inner Mongolia Autonomous Region from October 2005 to February 2007. She received a professional title of research fellow in 2005. Ms. WANG was a member of the Post-Doctoral Academic Committee and a Post-Doctoral Co-mentor at the PBOC Research Institute of Finance. Currently, she is Invited Professor at the Graduate School of Chinese Academy of Social Sciences, a mentor at the PBC School of Finance, Tsinghua University and a member of the Academic Committee of the China Institute for Rural Studies of Tsinghua University. Ms. WANG graduated from the Economics Faculty of Central China Normal University and the Graduate School of Chinese Academy of Social Sciences in January 1990 and June 1997 with a Master's Degree and a Doctor's Degree, respectively.

Directors

7 ZHAO Jie

Non-executive Director

Non-executive Director of the Bank since August 2017. Mr. ZHAO served as Inspector of the Agricultural Department of the Ministry of Finance from August 2014 to August 2017. He was an Inspector of the Office of Countryside Comprehensive Reform of the State Council from September 2008 to August 2014. From December 1991 to September 2008, Mr. ZHAO served successively as Chief of Division of Taxation and Chief of Comprehensive Division of the Department of Taxation, Deputy Chief of the Department of Taxation, Deputy Chief of the Department of Tax System and Regulations of the Ministry of Finance, Chief of Office of Panel of Countryside Taxation Reform of the State Council, and Deputy Chief and Inspector of Office of Countryside Comprehensive Reform of the State Council. He graduated from Jiangxi University of Finance and Economics and Public Institute of the Ministry of Finance in August 1982 and July 2005, respectively, with a Bachelor's Degree and a Doctor's Degree.

Directors



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Directors

8 Nout WELLINK

Independent Director

Independent Director of the Bank since October 2012. Mr. WELLINK served as a member of the Executive Board of the Dutch Central Bank (“DNB”) for almost 30 years, the last 14 years as its President. He retired from DNB on 1 July 2011. DNB is part of the European System of Central Banks since 1999, but still holds supervision on national pension funds and insurance companies. Since the establishment of the European Monetary Union, Mr. WELLINK served as a member of the Governing Council of the European Central Bank (“ECB”). Starting from 1997, Mr. WELLINK served as a member of the Board of Directors of the Bank for International Settlements, which he chaired from 2002 to 2006. From 2006 to 2011, he also chaired the Basel Committee on Banking Supervision. From 1997 to 2011, Mr. WELLINK was a member of the Group of Ten Central Bank Governors and Governor of the International Monetary Fund. Prior to his appointment in 1982 as an executive director of DNB, Mr. WELLINK held several posts in the Dutch Ministry of Finance, including as the Treasurer General from 1977 to 1982. After studying Dutch law at Leyden University from 1961 to 1968 with a Master’s degree obtained, Mr. WELLINK obtained a doctor’s degree in economics at the Rotterdam Erasmus University in 1975. In 2008 he received an honorary doctorate from Tilburg University. From 1988 to 1998, Mr. WELLINK was an Extraordinary Professor at the Free University in Amsterdam. Mr. WELLINK is currently Vice Chairman of Supervisory Board of PricewaterhouseCoopers Accountants N.V., and Member of Advisory Board of Systemic Risk Council. Mr. WELLINK had served many additional functions in the past, including member of the supervisory board of a bank, a re-insurance company and other enterprises on behalf of the Dutch authorities, Chairman of the Board of Supervisors of the Netherlands Open Air Museum, member and treasurer of the Royal Picture Gallery Mauritshuis and the Westeinde Hospital in The Hague. He was awarded a Knighthood in the Order of the Netherlands Lion in 1980 and is Commander of the Order of Orange-Nassau since 2011.

9 LU Zhengfei

Independent Director

Independent Director of the Bank since July 2013. Mr. LU currently serves as the distinguished professor of Cheung Kong Scholar of Guanghua School of Management, Peking University. He served as the head of the Accounting Department of the School of Business, Nanjing University between 1994 and 1999, and the head of the Accounting Department of Guanghua School of Management, Peking University between 2001 and 2007, and Associate Dean of Guanghua School of Management, Peking University between 2007 and 2014. Mr. LU also currently serves as an executive director of the Accounting Society of China and Deputy Director of Financial Management Committee, an editorial board member of *Accounting Research* and *Audit Research*, and a member of the Disciplinary Committee of the Chinese Institute of Certified Public Accountants. In 2001, he was elected as a member of “The Hundred People Project of Beijing New Century Social Science Theoretical Talent”. In 2005, he was elected to the “New Century Excellent Talent Support Plan” of the Ministry of Education, PRC. In 2013, he was elected to the “Renowned Expert Training Project” (first batch) of the Ministry of Finance. In 2014, he was elected as distinguished professor of Cheung Kong Scholar of the Ministry of Education, PRC. He currently serves as an independent non-executive director or an independent supervisor of a number of companies listed on the Hong Kong Stock Exchange, including: Independent Non-executive Director of Sinotrans Ltd. since September 2004, Independent Non-executive Director of Sino Biopharmaceutical Ltd. since November 2005, Independent Non-executive Director of China National Materials Co., Ltd. since December 2009, and Independent Supervisor of PICC Property and Casualty Co., Ltd. (“PICC P&C”) since January 2011. He was an independent non-executive director of PICC P&C from February 2004 to December 2010. Mr. LU graduated from Renmin University of China in 1988 with a Master’s degree in Economics (Accounting), and received his Doctor’s degree in Economics (Management) from Nanjing University in 1996.

10 LEUNG Cheuk Yan

Independent Director

Independent Director of the Bank since September 2013. He is a former partner of Baker & McKenzie, which he joined in July 1987 and from which he retired in June 2011. During 2009 and 2010, he had served as a part-time member of the Central Policy Unit of The Hong Kong Special Administrative Region Government. Mr. LEUNG has been an independent non-executive director of MMG Limited, which is listed on The Stock Exchange of Hong Kong Limited, since July 2012. Mr. LEUNG graduated from The Chinese University of Hong Kong with a Bachelor of Social Science degree (First Class Honours) in 1976, obtained a Master of Philosophy degree from The University of Oxford in 1981 and completed his legal study at The College of Law in England in 1982. He was admitted to practice as a solicitor in Hong Kong in 1985, in England and Wales in 1988, in the Australian Capital Territory in 1989 and in Victoria, Australia in 1991. He is a Senior Associate Member of St. Antony's College, Oxford.

11 WANG Changyun

Independent Director

Independent Director of the Bank since August 2016. Mr. WANG currently serves as professor and doctoral supervisor in finance at Renmin University of China ("RUC"). He served as a lecturer at RUC from 1989 to 1995 and as a lecturer at Business School, National University of Singapore from 1999 to 2005. He served successively as the Chair of Applied Finance Department of RUC, Director of China Financial Policy Research Center (a key research base of Ministry of Education) and Executive Vice Dean of Hanqing Advanced Institute of Economics and Finance at RUC from 2006 to 2016. Mr. WANG is currently also the Vice Chairman of China Investment Specialty Construction Association, Director of China Finance Annual Meeting Committee, Director of China Finance Association, Deputy Editor of *Finance Research Quarterly*, Deputy Editor of *China Finance Research*, and Deputy Editor of *China Financial Review*. He also serves as the standing committee member of Beijing Haidian District People's Political Consultative Conference, the Central Committee member of China Democratic League, the special auditor of State Auditing Administration, the independent non-executive director of Hope Commercial Factoring Co., Ltd., Sichuan Star Cable Co., Ltd. and Beijing Haohua Energy Resource Co., Ltd. Mr. WANG has received social recognition and prizes including the Special Government Allowance of State Council, Best Paper Award of Chicago Board of Trade in 2001, and the "Middle Age Experts with National Outstanding Contribution", membership of "the Program for New Century Excellent Talents" of Ministry of Education in 2004, "Financial Support of National Science Fund for Distinguished Young Scholars" in 2007, a member of the "New Century National Hundred, Thousand and Ten Thousand Talent Program" in 2013, and the "Cheung Kong Distinguished Professor" of Ministry of Education in 2014. He obtained his Master degree in economics from RUC in July 1989 and Doctorate in Financial Economics from the University of London in January 1999.

Directors

12 Angela CHAO

Independent Director

Independent Director of the Bank since January 2017. Ms. CHAO serves as Chairman and CEO of Foremost Group, an international shipping company. From 1994 to 1996, Ms. CHAO worked in the mergers & acquisitions department of Smith Barney, which is now Morgan Stanley Smith Barney. From 1996 to 1999, Ms. CHAO served as deputy general manager of Foremost Group, and from 2001 to 2017, Ms. CHAO had successively served as vice president, senior vice president and Deputy Chairman of Foremost Group. Since 2018, she has served as Chairman and CEO of Foremost Group. In May 2005, Ms. CHAO was unanimously voted to be BIMCO39's (The Baltic and International Maritime Council 39) Counsellor. In September 2005, she was selected as "Eminent Young Overseas Chinese" by the Overseas Chinese Affairs Office of the State Council of China. In November 2007, she was invited as speaker of World Shipping (China) Summit. In April 2011, she became a Founding Member of the *Wall Street Journal's* Task Force on Women in the Economy. Ms. CHAO currently serves on the Boards of The Metropolitan Opera, Museum of Modern Art PS1, the UK P&I Marine Insurance Mutual, Foremost Foundation, Shanghai Mulan Education Foundation, and she also serves on the Harvard Business School's Board of Dean's Advisors, Carnegie-Tsinghua Center for Global Policy Board of Advisors, Lincoln Center Global's China Advisory Council, the Chairman's Council of the Metropolitan Museum of Art and American Bureau of Shipping Council. In addition, she is also a member of the Council on Foreign Relations, serves on the Young Leaders Forum of the National Committee on US-China Relations and serves as the member of Shanghai Jiao Tong University's Antai College of Economics and Management Advisory Board, and honorary chairperson of the Jiao Tong University Alumni Association in America. Ms. CHAO graduated from Harvard College in three years in 1994 with a Bachelor's degree in economics (Magna Cum Laude), and received her Master of Business Administration degree from Harvard Business School in 2001.

Supervisors



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Supervisors

1 WANG Xiquan

Chairman of the Board of Supervisors

Chairman of the Board of Supervisors of the Bank since November 2016 and Vice Party Secretary of the Bank since June 2016. Mr. WANG previously served in several positions at Industrial and Commercial Bank of China Limited (“ICBC”) for many years. He served as the Executive Vice President of ICBC from September 2012 to July 2016 and Executive Director from June 2015 to July 2016. Mr. WANG served as a member of the senior management of ICBC from April 2010 to September 2012. Between September 1999 and April 2010, he successively served as Deputy Head of the Hebei Branch of ICBC, General Manager of Risk Management Department, General Manager of Internal Audit Bureau, and General Manager of Human Resources Department. Mr. WANG graduated from Shanxi Institute of Finance and Economics in 1983 and received a Doctorate degree in Management from Nanjing University in 2009. He holds the title of Senior Economist.

2 WANG Xueqiang

Shareholder Supervisor

Shareholder Supervisor of the Bank since August 2004 and Head of the Office of Board of Supervisors since April 2005. Mr. WANG served as Deputy Director General Supervisor and Director General Supervisor of the Bank from July 2003 to August 2004 before the Bank’s corporate restructuring. Mr. WANG served as Deputy Director General Supervisor at Agricultural Development Bank of China from October 2001 to July 2003, and worked with the Central Financial Working Commission from October 2000 to October 2001. From November 1996 to September 2000, Mr. WANG worked with Hong Kong Gang Ao International (Holdings) Co., Ltd. and Hong Kong Fujian Group Limited in succession. Prior to that, Mr. WANG worked with the Ministry of Finance from August 1985 to October 1996. Mr. WANG graduated from China Central University of Finance and Economics in 1985 and obtained his Doctorate in Economics from Public Finance Institute of the Ministry of Finance in 2008. Mr. WANG is a senior accountant and Certified Public Accountant, accredited by the Chinese Institute of Certified Public Accountants.

3 LIU Wanming

Shareholder Supervisor

Shareholder Supervisor of the Bank since August 2004 and Deputy General Manager of the Office of Board of Supervisors since April 2005. Since January 2014, Mr. LIU has served as Deputy General Manager of the Audit Department of the Head Office of the Bank. From November 2001 to August 2004, Mr. LIU was designated by the State Council to serve as Director Supervisor and Deputy Director General Supervisor at Bank of Communications and the Bank respectively. From August 1984 to November 2001, he worked with the National Audit Office, Agricultural Development Bank of China and the Central Financial Working Commission. Mr. LIU received a Bachelor’s degree in Economics from Jiangxi University of Finance and Economics in 1984.

4 DENG Zhiying

Employee Supervisor

Employee Supervisor of the Bank since August 2010. Mr. DENG currently serves as General Manager of the Supervisory Department of the Bank’s Head Office. Mr. DENG has served as Deputy General Manager of the Supervisory Department of the Bank’s Head Office from July 2008 to July 2010. From June 2007 to July 2008, Mr. DENG served as a member of the Party Committee and as Secretary of the Party Discipline Committee in the Tianjin Branch of the Bank. From February 2008 to July 2008, Mr. DENG also served as the Director of the Labour Union of the branch. From June 1993 to June 2007, Mr. DENG worked in the Supervisory Office, the Inspection and Audit Department and the Supervisory Department of the Bank’s Head Office. From August 1984 to June 1993, Mr. DENG worked in the Party Discipline Committee. Mr. DENG received a Bachelor’s degree in History from Nankai University in 1984.

5 GAO Zhaogang

Employee Supervisor

Employee Supervisor of the Bank since April 2016. Mr. GAO is currently the General Manager of the Human Resources Department of the Bank. Mr. GAO worked in the Organization Department of the CPC Central Committee from January 2001 to July 2014, successively serving as a Consultant (of deputy head level) of the Office of Enterprise Cadres, the Deputy Head, Head and Deputy Inspector of the Bureau Five of Cadres. From December 1998 to January 2001, he served as the Deputy Head of Development Research Department of China National Petroleum Corporation. Mr. GAO worked in Dagang Oilfield and China National Petroleum Company from July 1992 to December 1998. Mr. GAO graduated from Xi'an Shiyou Institute in 1992 and obtained Doctorate in Management Science and Engineering from Beijing University of Technology in 2012.

6 XIANG Xi

Employee Supervisor

Employee Supervisor of the Bank since August 2012. Ms. XIANG is currently Deputy General Manager and Chief Financial Officer of the Jiangsu Branch of the Bank. She previously held the following various positions in the Bank, including Deputy General Manager and Chief Financial Officer of Suzhou Branch of the Bank from March 2010 to June 2015, a member of the CPC Committee, Deputy General Manager and Chief Financial Officer of Suzhou Branch from July 2005 to March 2010, Assistant to General Manager of the Suzhou Branch from March 2003 to July 2005, Deputy General Manager and General Manager of High-tech Industrial Development Zone Sub-branch of the Suzhou Branch from October 2000 to July 2005, and cadre, deputy group chief, section chief, Deputy Director and Deputy General Manager of the International Trade Settlement Division of the Suzhou Branch from July 1993 to October 2000. Ms. XIANG graduated from the Department of English of East China University of Science and Technology in 1993, and obtained an MBA Degree jointly conferred by Fudan University and the University of Washington in December 2004.

7 CHEN Yuhua

External Supervisor

External Supervisor of the Bank since June 2015. Mr. CHEN served as Vice President of China Cinda Asset Management Co., Ltd. from December 2008 to August 2013. Mr. CHEN served as Chairman of China Cinda Investment Co., Ltd. from April 2004 to December 2008. Mr. CHEN served as Head of the Equity Department of China Cinda Asset Management Company and General Manager of China Cinda Investment Co., Ltd from March 2000 to April 2004. Mr. CHEN served as President of China Cinda Trust & Investment Company from December 1996 to March 2000. Mr. CHEN served as Deputy General Manager of the Personnel Department and Deputy General Manager of the Personnel & Training Department of China Construction Bank (CCB) Head Office from April 1994 to December 1996. Mr. CHEN served as Division Head of the Construction Economy Department of CCB Head Office and General Manager of CCB Real Estate Consulting Corporation from March 1992 to March 1994. Mr. CHEN served as Deputy Head of the Construction Economy Division, Deputy Head of the Real Estate Credit Department and Head of a direct sub-branch of CCB Sichuan Branch from August 1986 to March 1992. Mr. CHEN graduated from Zhongnan University of Finance and Economics in 1986 and received a Master's degree in Economics.

Senior Management Members



1 REN Deqi

Executive Director and Executive Vice President

Please refer to the section “Directors”

2 ZHANG Qingsong

Executive Vice President and Chief Information Officer

Executive Vice President of the Bank since November 2016 and Chief Information Officer of the Bank since March 2017. Mr. ZHANG joined the Bank in 1990. He served as General Manager of the Clearing Department of the Bank from March 2014 to July 2016, and served as General Manager of Singapore Branch from December 2011 to June 2014. From March 2006 to December 2011, he successively served as Deputy General Manager of the Asset-Liability Management Department, Deputy General Manager of the Treasury, Director of the Global Markets Department, Director (Securities Investment) of the Global Markets Unit, General Manager (Securities Investment) of the Global Markets Unit, and also as General Manager of Hong Kong Trading Center (Hong Kong Branch) from July 2009 to December 2011. He graduated from the Graduate School of People’s Bank of China with a Master’s degree in Economics in 1990. He holds the title of Associate Researcher.

3 LIU Qiang

Executive Vice President

Executive Vice President of the Bank since November 2016. Mr. LIU joined the Bank in 2016. He worked in Agricultural Bank of China (“ABC”) for many years and held various positions. He served as General Manager of the Shanghai Branch of ABC from July 2015 to July 2016 and also as Executive Deputy Director of Shanghai Management Department of ABC from September 2015 to July 2016. From June 2005 to June 2015, he successively served as Deputy General Manager and General Manager of Business Department, General Manager of Important Client Department, and Deputy General of Beijing Branch, General Manager of the Asset-Liability Management Department/ County Area Capital and Funds Management Center, and also served as Chairman of the Board of Supervisors of ABC Financial Leasing Co., Ltd. Since March 2018, Mr. LIU has been serving as Chairman of the Board of Directors of BOC Aviation Limited. He graduated from China Agricultural University in 1993 and obtained a Master’s degree in Agriculture from China Agricultural University in 1997. He holds the title of Senior Economist.

4 FAN Dazhi

Secretary of Party Discipline Committee

Secretary of Party Discipline Committee of the Bank since December 2016. Mr. FAN joined the Bank in 2016. He served as Chairman of the Board of Directors of Hua Xia Bank since November 2016. From August 2007 to November 2016, he served successively as Director, Vice President, and President of Hua Xia Bank. From January 2004 to August 2007, he served as Director and General Manager of Beijing Securities Co., Ltd. From December 1999 to January 2004, Mr. FAN served successively as Deputy Head of Beijing Overseas Financing and Investment Management Center, and Director and Deputy General Manager of Beijing State-owned Assets Management Co., Ltd. He graduated from Dongbei University of Finance and Economics in 1987, and graduated from the Graduate School of China Academy of Social Sciences with a Doctor’s degree in Economics in 2012. He has the qualification of Senior Accountant.

Directors, Supervisors and Senior Management Members



5 6

5 PAN Yuehan

Chief Risk Officer

Chief Risk Officer of the Bank since April 2016. Mr. PAN joined the Bank in 1984. He served as General Manager of the Shanghai Branch of the Bank from March 2011 to November 2015 and concurrently as Vice President of Shanghai RMB Trading Unit of the Bank from March 2012 to November 2015. From April 2009 to March 2011, he served as General Manager of the Suzhou Branch of the Bank. He previously served as the Deputy General Manager and Chief Financial Officer of the Jiangsu Branch of the Bank. He obtained a Master's degree from China Europe International Business School in 2008.

6 XIAO Wei

Chief Audit Officer

Chief Audit Officer of the Bank since November 2014. Mr. XIAO joined the Bank in 1994, and served as General Manager of Financial Management Department of the Bank's Head Office from November 2009 to November 2014. Mr. XIAO served as Deputy General Manager of the Beijing Branch of the Bank from May 2004 to November 2009, and also concurrently served as Chief Financial Officer of the Beijing Branch of the Bank from January 2007 to November 2009. He successively served as the Assistant General Manager and the Deputy General Manager of the Asset-Liability Management Department of the Bank's Head Office from December 1999 to May 2004, and also served as temporary Deputy General Manager of the Beijing Branch of the Bank from November 2002 to May 2004. Mr. XIAO obtained a Doctor's Degree in Economics from Renmin University of China in 1994. He has the qualification of Senior Accountant.

Directors, Supervisors and Senior Management Members

Changes in Directors, Supervisors and Senior Management Members

Changes in the Bank's directors were as follows:

Ms. Angela CHAO began to serve as Independent Director and member of the Audit Committee, the Risk Policy Committee and the Connected Transactions Control Committee of the Board of Directors of the Bank as of 4 January 2017.

Mr. WANG Wei ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Board of Directors of the Bank as of 19 January 2017 due to change of job.

Mr. ZHANG Qi ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Personnel and Remuneration Committee of the Board of Directors of the Bank as of 30 June 2017 due to the fulfilment of his term of office.

Mr. LIU Xianghui ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Board of Directors of the Bank as of 30 June 2017 due to the fulfilment of his term of office.

Mr. ZHAO Jie began to serve as Non-executive Director of the Bank as of 4 August 2017, and began to serve as member of the Audit Committee and the Risk Policy Committee of the Board of Directors of the Bank as of 28 August 2017.

Mr. TIAN Guoli ceased to serve as Chairman of the Board of Directors, Executive Director as well as Chairman and member of the Strategic Development Committee of the Board of Directors of the Bank as of 16 August 2017 due to change of job.

Mr. CHEN Siqing began to serve as Chairman of the Board of Directors, Chairman of the Strategic Development Committee of the Board of Directors of the Bank and ceased to serve as Vice Chairman of the Board of Directors of the Bank as of 29 August 2017.

Ms. XIAO Lihong began to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Board of Directors of the Bank as of 31 August 2017.

Ms. WANG Xiaoya began to serve as Non-executive Director and member of the Strategic Development Committee and the Personnel and Remuneration Committee of the Board of Directors of the Bank as of 31 August 2017.

Mr. GAO Yingxin ceased to serve as Executive Director and member of the Risk Policy Committee of the Board of Directors of the Bank as of 24 January 2018 due to change of job.

Changes in the Bank's supervisors were as follows:

Mr. GAO Zhaogang began to serve as member of the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors of the Bank as of 20 February 2017.

Mr. CHEN Yuhua began to serve as Chairman of the Financial and Internal Control Supervision Committee of the Board of Supervisors of the Bank as of 20 February 2017.

Changes in the Bank's senior management members were as follows:

Mr. ZHANG Qingsong began to serve as Chief Information Officer of the Bank as of 31 March 2017.

Mr. XU Luode ceased to serve as Executive Vice President of the Bank as of 11 June 2017.

Mr. CHEN Siqing ceased to serve as President of the Bank as of 16 August 2017. Mr. CHEN Siqing will perform the duties of President of the Bank until the new President is appointed by the Bank and approved by the CBRC.

Mr. GAO Yingxin ceased to serve as Executive Vice President of the Bank as of 24 January 2018.

The Board of Directors of the Bank considered and approved the appointment of Mr. LIN Jingzhen as Executive Vice President of the Bank on 2 March 2018. The qualifications of Mr. LIN Jingzhen as Executive Vice President of the Bank are subject to the approval by CBRC.

Mr. GENG Wei ceased to serve as Secretary to the Board of Directors and Company Secretary of the Bank as of 2 March 2018.

The Board of Directors of the Bank considered and approved the appointment of Mr. MEI Feiqi as Secretary to the Board of Directors and Company Secretary of the Bank on 2 March 2018. Mr. MEI Feiqi will begin to serve as Secretary to the Board of Directors after his obtaining of the certificate for passing the board secretary eligibility training of the Shanghai Stock Exchange and his qualifications having been approved by CBRC. Mr. REN Deqi, Executive Director and Executive Vice President of the Bank, will perform the duties of the Secretary to the Board of Directors until the date on which Mr. MEI Feiqi's term of office as Secretary to the Board of Directors becomes effective.

Corporate Governance

Overview of Corporate Governance

The Bank takes excellent corporate governance as an important objective. Adhering to the rules and regulations governing capital markets and relevant industries, the Bank has made constant efforts to improve its corporate governance framework, which comprises the shareholders' meeting, the Board of Directors, the Board of Supervisors and the Senior Management. This framework operates smoothly owing to a clear division of duties. All special committees of the Board of Directors and the Board of Supervisors have performed their duties and functioned effectively, thereby enhancing the Bank's corporate governance capabilities.

The Bank has been working on improving the system of its corporate governance regimes. It diligently implemented the meeting spirit of the Party building work in the whole nation's state-owned enterprises, as a result of which the Party building work related requirements were incorporated into the Articles of Association. Meanwhile, in accordance with the regulatory requirements and its actual development, the Bank further adjusted and optimised the responsibilities and duties of special committees of the Board of Directors. It amended the normative documents pertaining to corporate governance such as procedural rules of special committees of the Board of Directors, efficiently assisting the Board of Directors in performing its responsibilities and duties.

The Bank places great emphasis on improving its corporate governance operation mechanisms. It ensures that minority shareholders are properly informed and able to participate and make decisions. The annual shareholders' meetings are held in Beijing and Hong Kong by way of video conference, allowing shareholders from both the Chinese mainland and

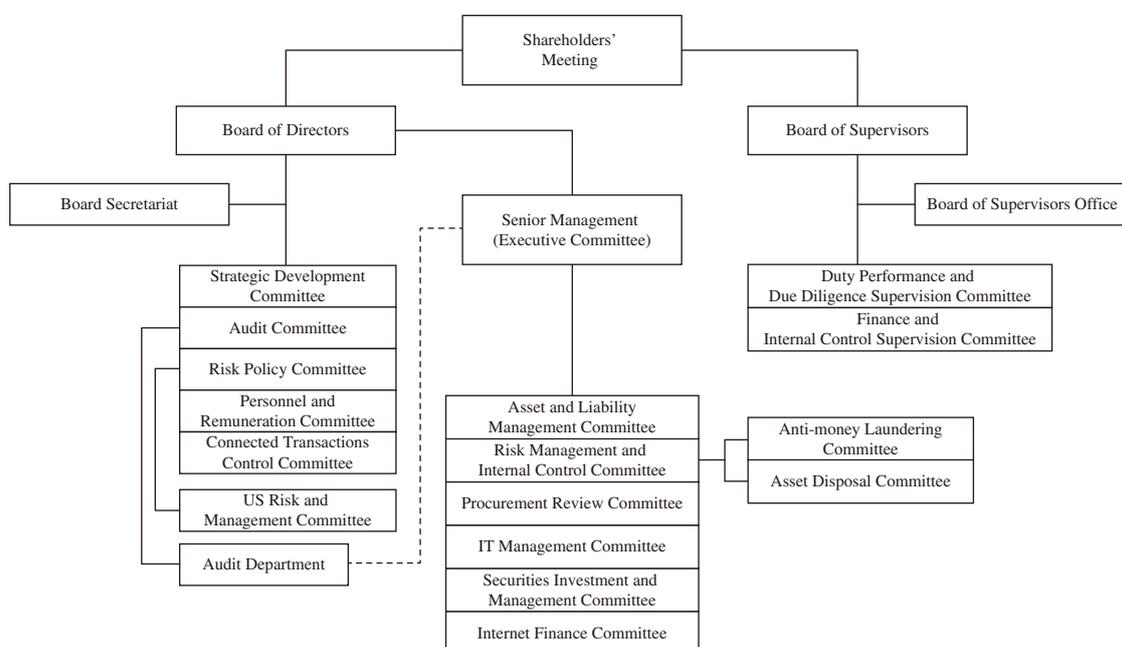
Hong Kong to attend in person. In addition, online voting for A-Share Holders is available to safeguard the rights and interests of the minority shareholders. The Bank focuses on constantly enhancing coordinative operations among the operation mechanisms of the Board of Directors, information disclosure and stakeholder engagement. It continues to support the Board of Directors in functioning more constructively and making scientific and efficient decisions. It works on heightening transparency and proactively performing its duties owing to the relevant stakeholders including shareholders, customers, staff and society.

The Bank makes great efforts to promote Board diversity. It has formulated the *Bank of China Limited Board Diversity Policy*, which lays out the stance of the Bank on the diversity of the members of the Board of Directors and the approaches to realise that on an on-going basis. All appointments are made on merit, in the context of the skills and experience the Board of Directors as a whole requires, and taking into full consideration from various aspects the object and requirements for diversity, including but not limited to regulatory requirements, gender, age, cultural and educational background, geographical location, professional experience, skills, knowledge, and length of service of directors, etc. The Bank applies the aforementioned diversity policy and requirements to the director selection and engagement process.

In 2017, the Bank's corporate governance performance continued to be recognised by the capital markets and the public. The Bank received many awards in corporate governance among which it was awarded "Best Board of Directors" by Dongshiju.com and "Most Respected Board of Directors of Chinese Listed Companies for 2017" by JRJ.com.

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Corporate Governance Compliance

During the reporting period, the actual performance of the Bank's corporate governance was fully in compliance with the Company Law and the requirements for the governance of listed companies set out in the normative documents of CSRC.

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. Save as disclosed in this annual report, during the reporting period, the Bank has complied with all the provisions of the *Code* and has substantially complied with most of the recommended best practices set out in the *Code*.

Amendments to the Articles of Association

The 2016 First Extraordinary General Meeting held on 18 November 2016 approved the proposal on the amendments to the Articles of Association of the Bank. The amendments mainly focused on relevant provisions of corporate governance. The above-mentioned amendments were approved by CBRC and took effect on 22 May 2017.

The 2016 Annual General Meeting held on 29 June 2017 approved the proposal on the amendments to the Articles of Association of the Bank. The amendments mainly focused on incorporating Party building into the Articles of Association. The above-mentioned amendments were approved by CBRC and took effect on 27 November 2017.

Corporate Governance

Shareholders and Shareholders' Rights

The Bank highly values the protection of its shareholders' interests and has established and maintained an effective and multi-channel shareholder communication platform. This includes holding shareholders' meetings and maintaining an investor hotline to ensure that all shareholders are treated equally, properly informed and able to participate in and exercise their voting and other rights regarding the major issues of the Bank. The Bank is independent and completely autonomous in all of its business operations. It operates independently and separately from its controlling shareholder, Huijin, in respect of its business, personnel, asset, institutional and financial matters.

Shareholders' Right to Convene an Extraordinary Shareholders' Meeting and a Meeting of Shareholders of Different Categories

According to the Articles of Association, shareholders individually or in aggregate holding a total of 10% or more voting shares of the Bank have the right to make a written request to the Board of Directors to convene an extraordinary shareholders' meeting. Two or more shareholders holding a total of 10% or more voting shares of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after receipt of a written request for convening an extraordinary shareholders' meeting or a meeting of shareholders of different categories submitted by the proposing shareholders, the proposing shareholders may by themselves convene the meeting within four months after the Board of Directors receives the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are convened by the Board of Directors. Where the proposing shareholders convene and hold a meeting because the Board of Directors

fails to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

Shareholders' Right to Propose Resolutions at Shareholders' Meetings

According to the Articles of Association, any shareholder who holds, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose a resolution in a shareholders' meeting. Any shareholder who holds, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose and submit in writing to the Board of Directors interim proposals 10 days prior to the convening of a shareholders' meeting. When the Board of Directors decides not to include such proposals on the meeting agenda, it shall explain and clarify the reasons at the shareholders' meeting. When the proposing shareholders dissent with the Board of Directors' decision to exclude such proposals, they may request to call for an extraordinary shareholders' meeting by themselves based on the procedures stipulated in the Articles of Association.

Shareholders' Right to Present Enquiries

According to the Articles of Association, any shareholder who holds severally or jointly with others 5% or more voting shares of the Bank shall have the right to present enquiries to the shareholders' meeting. The Board of Directors, the Board of Supervisors, or other relevant senior management members shall attend the shareholders' meeting, accept enquiries, and answer or explain accordingly.

Please refer to the Articles of Association for details of the rights pertaining to shareholders. If shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to the section "Reference for Shareholders — Investor Enquiry" for contact details.

Shareholders' Meeting

Functions and Powers of Shareholders' Meeting

The shareholders' meeting is the body of authority of the Bank. The shareholders' meeting is responsible for making decisions on the important issues of the Bank, including considering and approving the Bank's profit distribution plan, annual financial budget and financial statements, changes in the Bank's registered capital, adopting resolutions on matters such as the issue of bonds and other securities, merger and division, amending the Articles of Association of the Bank, electing directors, electing shareholders' representative supervisors and external supervisors and deciding the remunerations of directors and supervisors.

Convening of Shareholders' Meeting

On 29 June 2017, the Bank held its 2016 Annual General Meeting in Beijing and Hong Kong by way of video conference. A-Share Holders could also cast votes online. This meeting considered and approved nine proposals including the 2016 work report of the Board of Directors, the 2016 work report of the Board of Supervisors, the 2016 annual financial statements, the 2016 profit distribution plan, the 2017 annual budget for fixed assets investment, the appointment of Ernst & Young Hua Ming LLP as the Bank's external auditor for 2017, the election of directors, the issuance of bonds and the amendments to the Articles of Association. The meeting also heard the 2016 report on connected transactions, the 2016 duty report of independent directors and the 2016 report on the implementation on the *Scheme on the Authorisation to the Board of Directors Granted by the Shareholders' Meeting of Bank of China*. The proposals regarding the issuance of bonds and the amendments to the Articles of Association were special resolutions.

The aforementioned meeting was convened and held in strict compliance with the relevant laws and regulations as well as the listing rules of the Chinese mainland and Hong Kong. The Bank's directors,

supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

The Bank issued announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 29 June 2017, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEX and the Bank.

Implementation of the Resolutions Passed at the Shareholders' Meeting by the Board of Directors

During the reporting period, the Board of Directors has fully implemented the resolutions passed at the shareholders' meetings and scheme on the authorisation to the Board of Directors granted by the shareholders' meeting, and earnestly carried out the proposals regarding the 2016 profit distribution plan, the 2017 annual budget for fixed assets investment, the issuance of bonds, the appointments of directors and 2017 external auditor, the amendments to the Articles of Association and so on.

Board of Directors

Functions and Powers of the Board of Directors

The Board of Directors, which is responsible to the shareholders' meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association: convening shareholders' meetings and implementing the resolutions of shareholders' meetings; deciding on the Bank's strategic policies, business plans and material investment plans (except for those material investment plans that are subject to shareholders' meeting approval as specified in the Articles of Association); formulating the annual financial budgets, final accounts and plans for profit distribution and loss making-up of the Bank; appointing or dismissing members of special committees and the Senior Management of the Bank; reviewing and deciding on the establishment of the Bank's

Corporate Governance

basic administrative system, internal management framework and important sub-entities; developing and reviewing the corporate governance policies of the Bank; taking charge of performance evaluation and matters of material reward and punishment for senior management members, and hearing the reports of the Senior Management and examining their work, among others. The Board of Directors continuously reviews and updates the Articles of Association and the Bank's corporate governance policies and systems in accordance with the applicable laws and regulations, relevant regulatory requirements and listing rules, and ensures compliance with such policies and systems.

Composition of the Board of Directors

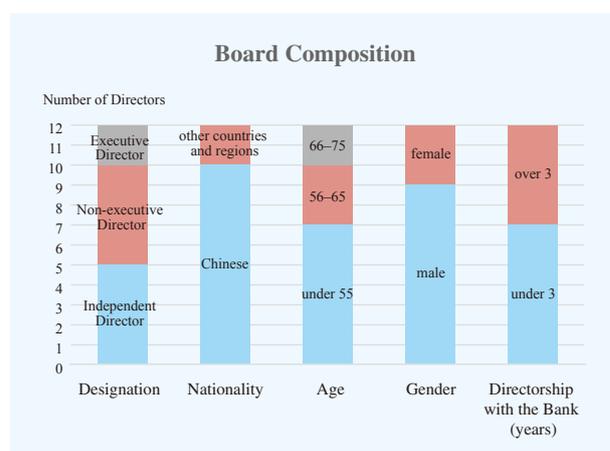
The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and the Connected Transactions Control Committee, as well as the US Risk and Management Committee established under the Risk Policy Committee, to assist the Board of Directors in performing its functions under the authorisation of the Board of Directors.

The Board of Directors of the Bank is rationally structured and diversified. Currently, the Board of Directors comprises twelve members. Besides the Chairman, there is one executive director, five non-executive directors and five independent directors. The proportion of independent directors exceeds one-third of the total number of directors. The Bank's directors are elected at the shareholders' meeting, with a term of office of three years starting from the date when the Bank receives approval of the appointment from CBRC. A director may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations, supervisory requirements and the Articles of Association of the Bank.

The positions of Chairman and President of the Bank are assumed by two persons. Mr. CHEN Siqing ceased to serve as President of the Bank as of 16 August 2017, and began to serve as Chairman of

the Board of Directors of the Bank as of 29 August 2017. Prior to the appointment of a new President by the Bank and the approval by CBRC, Mr. CHEN Siqing shall be entrusted to perform the duties of President.

For detailed background and an explanation of recent changes of the Board members, please refer to the section "Directors, Supervisors and Senior Management Members".



Convening of Board Meetings

In 2017, the Bank convened eight on-site meetings of the Board of Directors on 23 January, 31 March, 28 April, 9 June, 30 June, 17 August, 30 August and 30 October, respectively. At these meetings, the Board of Directors reviewed and approved 46 proposals related to the Bank's regular reports, the nomination of candidates for the directors, the amendments to the Articles of Association, the issuance of bonds, the dividend distribution plan, the establishment of overseas branches and subsidiaries, and so on. It also heard 9 reports related to the 2016 report on internal control audit and internal control recommendations by the Bank's external auditors, and other matters.

In 2017, the Bank convened two meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors mainly reviewed and approved the proposals on the adjustments to members of the special committees of the Board of Directors, among others.

Risk Management and Internal Control by the Board of Directors and its Special Committees

The Board of Directors of the Bank considers a sound risk management system to be the basic prerequisite of realising the Bank's strategic goals. By continuously improving the independence, specialisation, foresight, and initiative of its risk management function, the Bank ensures the sound and sustainable development of its banking businesses and creates greater value for shareholders.

According to regulatory rules and internal management requirements, the Senior Management submits important risk management policies, systems and procedures to the Board of Directors and Risk Policy Committee for review and approval. The Risk Policy Committee regularly reviews the Group's overall risk status (covering major risk categories such as credit risk, market risk, operational risk, liquidity risk, legal and compliance risk and reputational risk) and work plan for the next stage and puts forward corresponding work requirements.

The Board of Directors and its Risk Policy Committee have acknowledged the full effectiveness of the existing risk management system of the Bank based on their close monitoring and quarterly evaluation of the system's effectiveness.

The Board of Directors attached great importance to the Group's far-reaching internal control system and continued to promote its development. It regularly heard and reviewed Senior Management reports concerning implementation of the *Guidelines on Internal Control of Commercial Banks*, bank-wide operational management, risk management, fraud case management and internal control system development and assessment, thus earnestly assuming its responsibility to improve and deliver a sound and effective internal control function.

The Audit Committee under the Board of Directors closely monitored the changing economic and financial environment at home and abroad, as well as the overall conditions of the Group's internal control function, including the establishment and operation of its internal control systems for both financial reporting and non-financial reporting. In addition, the committee heard and reviewed, on a regular and ad hoc basis, internal audit reports and assessment opinions on internal control, the progress in internal control improvements and remediation suggested by external auditors, as well as the overall situation regarding the prevention, control and redress of fraud cases and risk events. The committee guided and urged the Senior Management to improve the "three lines of defence" system of internal control and conducted special researches into the implementation of the human resources reform plan of the audit line and the rectification of problems identified by internal audit.

During the reporting period, the Bank performed self-assessment on internal control in line with the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. No material deficiencies were identified in the internal control systems for both the financial reporting and non-financial reporting of the Bank. Ernst & Young Hua Ming LLP, as the Bank's external auditor for internal control, audited the effectiveness of the Bank's internal controls over financial reporting and issued a standard unqualified opinion. The *2017 Internal Control Assessment Report of Bank of China Limited* and the *2017 Auditor's Report on Internal Control of Bank of China Limited* issued by Ernst & Young Hua Ming LLP have been published on the websites of SSE, HKEX and the Bank.

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Duty Performance of Directors

Directors' Attendance of Shareholders' Meetings, Meetings of the Board of Directors and Special Committees

During the reporting period, the attendance rate of each director of the shareholders' meetings, meetings of the Board of Directors and special committees is given below:

Number of meetings attended in person/Number of meetings convened during term of office

Directors	Shareholders' Meetings	Meetings of the Board of Directors	Meetings of the Special Committees of the Board of Directors				
			Strategic Development Committee	Audit Committee	Risk Policy Committee	Personnel and Remuneration Committee	Connected Transactions Control Committee
Incumbent Directors							
CHEN Siqing	1/1	10/10	6/6	–	–	–	–
REN Deqi	1/1	10/10	–	–	–	–	3/3
ZHANG Xiangdong	1/1	10/10	6/6	–	–	7/7	–
LI Jucai	1/1	10/10	6/6	4/4	–	–	–
XIAO Lihong	0/0	1/1	1/1	–	1/1	–	–
WANG Xiaoya	0/0	1/1	1/1	–	–	2/2	–
ZHAO Jie	0/0	4/4	–	2/2	2/2	–	–
Nout WELLINK	1/1	10/10	6/6	4/4	4/4	–	–
LU Zhengfei	1/1	10/10	–	4/4	–	7/7	3/3
LEUNG Cheuk Yan	1/1	9/10	–	4/4	–	7/7	3/3
WANG Changyun	1/1	10/10	6/6	4/4	4/4	7/7	–
Angela CHAO	1/1	10/10	–	4/4	4/4	–	3/3
Former Directors							
TIAN Guoli	0/1	4/6	4/4	–	–	–	–
GAO Yingxin	1/1	10/10	–	–	4/4	–	–
WANG Wei	0/0	0/0	–	–	–	–	–
ZHANG Qi	1/1	5/5	4/4	–	–	2/2	–
LIU Xianghui	1/1	5/5	4/4	–	1/1	–	–

Notes:

- 1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in directors.
- 2 Mr. TIAN Guoli was not able to attend the 2016 Annual General Meeting of the Bank on 29 June 2017 and the meetings of the Board of Directors on 23 January and 31 March 2017 due to other important business engagements. He authorised another director to attend and vote at the meetings of the Board of Directors as his proxy.
- 3 Mr. LEUNG Cheuk Yan was not able to attend the meeting of the Board of Directors on 17 August 2017 due to other important business engagements. He authorised another director to attend and vote at the meeting as his proxy.

Training and Expertise Enhancement of Directors

In 2017, the Board of Directors paid significant attention to enhancing directors' expertise, with a special focus on arranging relevant training. All directors of the Bank fully observed Rule A.6.5 of the *Code* as well as PRC regulatory requirements, actively participating in specialised training including sessions on understanding the Chinese economy; background and regulatory requirements of principles for effective risk data aggregation and risk reporting; anti-money laundering; core laws and regulations and latest trends in the US, among others. The Bank also gave special presentations and training to the directors newly appointed in 2017 regarding its business development, risk management system and directors' responsibilities. The Bank's directors also took it upon themselves to enhance their professional skills in various ways, including writing and publishing professional articles, attending forums and seminars, meeting with domestic and overseas regulators and conducting on-site research exercises at the Bank's domestic and overseas branches as well as at other advanced international banks.

Independence and Duty Performance of Independent Directors

There are currently five independent directors on the Board of Directors. This exceeds one-third of the total number of directors and is in compliance with the quorum requirement specified in the Articles of Association and relevant regulatory requirements. For the professional backgrounds and other details of the independent directors, please refer to the section "Directors, Supervisors and Senior Management Members". Independent directors individually serve as the Chairman of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee. As stipulated in the relevant domestic regulatory requirements and Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent director with regard to their independence. Based on these confirmations

and relevant information in possession of the Board of Directors, the Bank confirms their independent status.

In 2017, the Bank's independent directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. Please refer to the section "Directors' Attendance of the Shareholders' Meeting, Meetings of the Board of Directors and Special Committees" for the attendance of independent directors at meetings.

In 2017, independent directors put forward constructive recommendations on strategic planning, group risk management, anti-money laundering and development of overseas institutions, among others. These recommendations were adopted and diligently implemented by the Bank.

In 2017, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

Specific Explanation and Independent Opinions of Independent Directors on the Guarantee Business of the Bank

Pursuant to the provisions and requirements set forth in the circular (ZhengJianFa [2003] No. 56) issued by CSRC, and according to the principles of justice, fairness and objectivity, the Independent Directors of the Bank, Mr. Nout WELLINK, Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun and Ms. Angela CHAO have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities approved by PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated

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specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business principally comprises letters of guarantee. As at 31 December 2017, the outstanding amount of letters of guarantee issued by the Bank was RMB1,079.178 billion.

Responsibility Statement of Directors on Financial Reports

The following statement, which sets out the responsibilities of the directors regarding financial statements, should be read in conjunction with, but understood separately from, the auditor's statement of their responsibilities as set out in the Independent Auditor's Report contained in this annual report.

The directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the directors, there was no material event or condition during the reporting period that might have a material adverse effect on the continuing operation of the Bank.

Special Committees of the Board of Directors

Strategic Development Committee

The Strategic Development Committee comprises seven members, including Chairman Mr. CHEN Siqing, Non-executive Directors Mr. ZHANG Xiangdong, Mr. LI Jucai, Ms. XIAO Lihong and Ms. WANG Xiaoya and Independent Directors Mr. Nout WELLINK and Mr. WANG Changyun. Chairman Mr. CHEN Siqing serves as the Chairman of the committee.

The committee is mainly responsible for reviewing the strategic development plans presented by the Senior Management, assessing the factors that may affect the strategies of the Bank and their implementation, and advising the Board with regard to strategy

adjustments; reviewing the annual budget, strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off), the objectives of asset-liability management, IT development and other special strategic development plans of the Bank, and advising the Board accordingly; coordinating strategies on the overall development of various financial businesses and the development of domestic and overseas institutions, and deciding on the setup, cancellation and increase or decrease of capital of the Bank's domestic and overseas institutions within its scope of authorisation; designing and formulating key investment and financing plans and merger and acquisition plans of the Bank; and reviewing the substantial internal reorganisation and adjustment plans of the Bank, and advising the Board accordingly; reviewing the Bank's green credit strategy and its implementation of social responsibilities, and making relevant suggestions to the Board; establishing the Bank's strategic development plan and basic management regimes with regard to inclusive finance business, reviewing annual business plan and assessment measures on inclusive finance business, and supervising the Bank's implementation of inclusive finance strategies, policies and regulations.

The Strategic Development Committee held four on-site meetings and two meetings via written resolutions in 2017. At these meetings, it mainly approved the proposal on profit distribution for 2016, the business plan and financial budget for 2017, the 2016 corporate social responsibility report, the dividend distribution plan for preference shares, the proposal on the issuance of bonds and so on. In response to changes in international and domestic economic and financial situations, the Strategic Development Committee stepped up its analysis of the operating environment, paid constant attention to opportunities and challenges brought about by supply-side structural reform, and put forward many important comments and recommendations regarding the Bank's transformational development thus providing strong support to the scientific decision-making of the Board of Directors.

Audit Committee

The Audit Committee comprises seven members, including Non-executive Directors Mr. LI Jucai and Mr. ZHAO Jie and Independent Directors Mr. Nout WELLINK, Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan, Mr. WANG Changyun and Ms. Angela CHAO. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations formulated by the Senior Management; reviewing the external auditors' audit opinion on financial reporting, annual audit plan and recommendations for management; approving the annual internal audit plan and budget; appraising the duty performance, work quality and effectiveness of the external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing material deficiencies in internal control design and execution by the Senior Management and investigating fraud cases; reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held four meetings in 2017. It mainly reviewed the Bank's quarterly, interim and annual financial reports, the annual internal control assessment report and the proposal on *Amendments to the Procedural Rules for the Audit Committee*. It also reviewed and approved the 2017 work plan and financial budget for internal audit. In addition, it heard the report on the implementation of new accounting standard for financial instruments, the Senior Management response to the external auditor's management proposal for 2016, the report on the 2016 overseas supervision information, reports on internal audit in 2016 and the first half of 2017, the three-year plan for technology-driven audit, the report

on asset quality in the first quarter of 2017, the report on internal control progress in 2017, the prevention and control of external infringement cases in 2016.

Moreover, in response to changes in domestic and overseas economic trends, the Audit Committee paid close attention to developments in the Bank's progress towards improving business performance and cost-effectiveness control and put forward many important opinions and suggestions regarding the improvement of the corporate governance mechanism, the enhancement of internal audit independence, the amelioration of credit asset quality and the improvement of internal control measures.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2017 audit plan, including areas of focus for auditing the 2017 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control, compliance and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any difference of judgment between the auditors and the Senior Management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee heard and reviewed reports from the Senior Management concerning the Bank's business performance and major financial data. It also requested that the Senior Management submit the annual financial statements to the auditors in a timely manner, so as to ensure sufficient time for the annual audit. During the audit, the committee maintained independent communications with the auditors and arranged independent communications between the auditors and the independent directors. At its second meeting of 2018, the Audit Committee reviewed and approved the Bank's 2017 financial statements and submitted them to the Board of Directors for approval.

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In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the external auditors made a summary audit report and submitted a report on their independence compliance to the committee. The Bank's Senior Management appraised the external auditors' work. Based on this appraisal, the Audit Committee conducted its own assessment on the auditors' performance, effectiveness and independence compliance in 2017. It discussed re-engagement matters, and decided to reappoint Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2018, and to reappoint Ernst & Young as the Bank's international auditor for 2018. Such proposals have been submitted to the Board of Directors for approval.

Risk Policy Committee

The Risk Policy Committee of the Bank comprises five members, including Non-executive Directors Ms. Xiao Lihong and Mr. ZHAO Jie, Independent Directors Mr. Nout WELLINK, Mr. WANG Changyun and Ms. Angela CHAO. Independent Director Mr. Nout WELLINK serves as the Chairman of the committee.

The committee is mainly responsible for performing functions and exercising powers in relation to comprehensive risk management; reviewing the Bank's risk management strategies, substantial risk management policies, and risk management procedures and regimes, and advising the Board; discussing the risk management procedures and regimes with the management and making suggestions on how to improve them in order to ensure that the risk management policies, procedures and regimes are uniformly abided by throughout the Bank; reviewing the Group's risk data aggregation and risk reporting framework and ensuring that there is adequate resource support in place; examining the material risk activities of the Bank and judiciously exercising veto power regarding commitments that expose the Bank to credit and/or market risk exceeding the individual risk limits approved by the Risk Policy Committee or the Board of Directors or that cause approved aggregate limits to be exceeded;

supervising the implementation status of the Bank's risk management strategy, policy and procedure, and advising the Board; examining the risk management status and reviewing the risk management procedures and regimes; regularly evaluating and hearing reports on the implementation of risk management and internal control responsibilities by the management, functional departments and institutions, as well as risk data aggregation and risk reporting work, and proposing requirements for improvement; supervising the status of the Bank's compliance with laws and regulations; reviewing and examining relevant administrative systems related to legal compliance and making suggestions which are submitted to the Board for examination and approval, and hearing and examining the report on implementation status of the legal compliance policy of the Bank; assessing the material investigation results of risk management matters and the management's response to such results (either voluntarily or as required by the Board of Directors); reviewing the Bank's consumer rights protection strategy, policy and objective according to the Bank's overall strategic development plan, and making suggestions to the Board of Directors; supervising and assessing the Bank's consumer rights protection work, and regularly hearing reports on the Bank's consumer rights protection efforts; reviewing and approving the Bank's general policy on case prevention and control, and defining the management's functions, powers and authorities in relation to case prevention and control; putting forth overall requirements on case prevention and control, and reviewing related working reports; checking and effectively supervising the Bank's case prevention and control work, assessing the effectiveness of case prevention and control, and promoting the construction of case prevention and control management system.

The Risk Policy Committee held four meetings in 2017, at which it mainly reviewed and approved the general principles for risk management, internal rating system policy for credit risk, market risk management policy, market risk limits, and country risk ratings and limits. The committee also regularly reviewed the Group risk reports and so on.

In addition, the committee paid close attention to critical risk issues, in response to changes in overseas and domestic economic and financial conditions, adjustments of the government's macro policies and overall overseas and domestic regulations. The committee expressed important opinions and recommendations regarding the improvement of the Bank's risk governance mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk and so on.

The US Risk and Management Committee is established under the Risk Policy Committee, and it oversees and manages all the risks incurred by the Bank's institutions in the US, and performs the duties of the board of directors of the Bank's New York Branch and its special committees.

The US Risk and Management Committee currently comprises four members, all of whom are members of the Risk Policy Committee, including Non-executive Directors Ms. XIAO Lihong and Mr. ZHAO Jie, Independent Directors Mr. Nout WELLINK and Ms. Angela CHAO. Independent Director Mr. Nout WELLINK serves as co-chairman of the US Risk and Management Committee.

In 2017, the US Risk and Management Committee convened four meetings and regularly heard reports regarding the risk management and operations of all the Bank's institutions in the US, latest US regulatory trends and dynamics, among others. In addition, the committee reviewed and approved the relevant framework documents and important policies and regulations of the Bank's institutions in the US and the New York Branch.

The US Risk and Management Committee put forward opinions and recommendations regarding strengthening prevention and control of risks and compliance based on US regulatory dynamics, market changes and the business development strategies of the Bank's US operations.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises five members, including Non-executive Directors Mr. ZHANG Xiangdong and Ms. WANG Xiaoya, Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan and Mr. WANG Changyun. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and Senior Management, and making recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for Senior Management positions and the chairmanship of Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; drafting the remuneration plan of directors and senior management members, and making recommendations to the Board of Directors; and setting the performance appraisal standards and evaluating the performance of the members of the Senior Management of the Bank.

The Personnel and Remuneration Committee held three on-site meetings and four meetings by written resolutions in 2017. At these meetings, the committee mainly approved proposals on the performance evaluation and remuneration distribution plan for the Chairman, executive directors and senior management members for 2016, and the implementation plan

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for performance evaluation of the Chairman, the President, the Chairman of the Board of Supervisors and other senior management members in 2017, the proposals on nominating Mr. CHEN Siqing and Mr. ZHANG Xiangdong to be re-appointed as directors of the Bank, the proposals on nominating Ms. XIAO Lihong, Ms. WANG Xiaoya and Mr. ZHAO Jie as candidates for non-executive directors of the Bank, the proposal on appointing Mr. ZHANG Qingsong as Chief Information Officer of the Bank, the proposal on electing Mr. CHEN Siqing to be re-appointed as Vice Chairman of the Board of Directors of the Bank, the proposal on electing Mr. CHEN Siqing as Chairman of the Board of Directors of the Bank, the proposal on adjustments of members of special committees of the Board of Directors, the proposal on adjustments of members of the US Risk and Management Committee, and the proposal on amending the procedural rules of the Personnel and Remuneration Committee. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in line with regulatory requirements.

According to the Articles of Association of the Bank, any shareholder who holds by himself or jointly with others 3% or more of the total number of voting shares of the Bank may, by submitting a written proposal to the shareholders' meeting, recommend candidates for directors, provided the number of candidates nominated shall be in accordance with the provisions of the Articles of Association (between 5 and 17) and not exceed the number to be elected. List of candidates for directors may be recommended by the Board of Directors within the number of candidates stipulated in the Articles of Association, with reference to the diversity policy of the Bank and according to the number to be elected. The Personnel and Remuneration Committee shall preliminarily review the qualifications and conditions of candidates for directors, and refer those qualified candidates to the Board of Directors for further examination. After the Board of Directors' approval by resolutions, the candidates shall be referred to shareholders' meeting in written proposals. When directors need to be added or filled temporarily, the

Board of Directors shall raise the proposal and suggest the shareholders' meeting to elect or replace. During the reporting period, the Bank appointed directors in strict compliance with the Articles of Association.

Connected Transactions Control Committee

The Connected Transactions Control Committee comprises four members, including Executive Director Mr. REN Deqi, Independent Directors Mr. LU Zhengfei, Mr. LEUNG Cheuk Yan and Ms. Angela CHAO. Independent Director Mr. LEUNG Cheuk Yan serves as the Chairman of the committee.

The committee is mainly responsible for administering the connected transactions of the Bank in accordance with relevant laws, regulations and normative documents, and formulating administrative regulations with regard to connected transactions; confirming the Bank's connected parties according to laws, regulations and normative documents, and reporting the relevant confirmation to the Board of Directors and the Board of Supervisors; defining the connected transactions of the Bank in accordance with laws, regulations and normative documents; examining the connected transactions of the Bank pursuant to relevant laws, regulations and normative documents, as well as the business principles of justice and fairness; and examining information disclosure matters related to significant connected transactions of the Bank.

The Connected Transactions Control Committee held three meetings in 2017, at which it mainly reviewed and approved the report on connected transactions in 2016 and the report on the connected party list, among others. It also reviewed the statement of connected transactions of the Bank in 2016, among others. During the reporting period, the Connected Transactions Control Committee paid constant attention to the development of the Bank's connected party management and connected transaction monitoring system. Committee members put forward constructive suggestions regarding connected party management and connected transaction monitoring system development.

Board of Supervisors

Functions and Powers of the Board of Supervisors

The Board of Supervisors is the Bank's supervisory organ and is responsible to the shareholders' meeting. As stipulated in the Company Law and the Articles of Association of the Bank, the Board of Supervisors is responsible for overseeing the Board of Directors so as to ensure the establishment of a stable operational concept, value principles and a development strategy suitable for the Bank. It supervises the duty performance and due diligence of the Board of Directors, the Senior Management and its members as well as the Bank's financial activities, internal control and, risk management.

Composition of the Board of Supervisors

The Board of Supervisors currently comprises seven members. There are three shareholder supervisors (including the Chairman of the Board of Supervisors), three employee supervisors and one external supervisor. According to the Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations, supervisory requirements and the Articles of Association of the Bank. Shareholder supervisors and external supervisors are elected or replaced by the shareholders' meeting.

The Board of Supervisors has set up the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to assist in performing its authorised duties. The special committees mentioned above are responsible to the Board of Supervisors, members of which are supervisors, and each committee shall have at least three members.

Duty Performance of the Board of Supervisors

In 2017, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held six meetings and made relevant resolutions. The Duty Performance and Due Diligence Supervision Committee held two meetings, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of, and supervisory opinions from the Board of Supervisors during the reporting period, please refer to the section "Report of the Board of Supervisors".

Senior Management

Functions and Powers of the Senior Management

The Senior Management is the executive organ of the Bank. It is headed by the President, with executive vice presidents and other senior management members assisting the President's work. The main responsibilities of the President include presiding over the Bank's daily administrative, business and financial management; organising the implementation of the business plan and investment schemes; drafting basic management regulations and specific rules; nominating candidates for other senior management members; and reviewing employees' remuneration, benefit, reward and punishment measures.

Duty Performance of the Senior Management

In 2017, the Senior Management of the Bank managed the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorisations of the Board of Directors. According to the annual performance objectives approved by the Board of Directors and following the working ideas of "making progress in structural adjustments while keeping the asset size

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stable, making progress in liability business while keeping asset business stable, making progress in overseas operations while keeping domestic businesses stable, making progress in non-interest income while keeping interest income stable, making progress in service quality while keeping service base stable, and making progress in resolving non-performing assets while keeping asset quality stable”, the Senior Management made solid work progress on all fronts, and thus continuously enhanced the Bank’s operating results.

During the reporting period, the Senior Management of the Bank held 23 regular meetings, at which it discussed and decided upon a series of significant matters, including the Group’s business development, performance management, risk management, IT system development, internet finance and targeted poverty alleviation. It also convened 103 special meetings to arrange for matters relating to corporate banking, personal banking, financial markets, product innovation, inclusive finance, risk management and internal control, overseas development and integrated operations.

The Senior Management of the Bank currently presides over the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (which governs the Anti-money Laundering Committee and the Asset Disposal Committee), the Procurement Review Committee, the IT Management Committee, the Securities Investment and Management Committee and the Internet Finance Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Executive Committee, and pushed forward the sound development of the Bank’s various operations.

Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated and implemented the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the “*Management Rules*”) to govern securities transactions by directors, supervisors and senior management members of the Bank. The terms of the *Management Rules* are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the “*Model Code*”). All directors and supervisors confirmed that they have complied with the standards set out in both the *Management Rules* and the *Model Code* throughout the reporting period.

Appointment of External Auditors

Upon approval by the 2016 Annual General Meeting, Ernst & Young Hua Ming LLP was reappointed as the Bank’s domestic auditor and internal control auditor for 2017 and Ernst & Young was reappointed as the Bank’s international auditor for 2017.

Fees paid to Ernst & Young and its member firms for financial statements audit of the Group, including those of the Bank’s overseas subsidiaries and branches, were RMB215 million for the year ended 31 December 2017, of which the fees for internal control audit paid to Ernst & Young Hua Ming LLP totalled RMB14 million.

Ernst & Young and its member firms were not engaged in other significant non-auditing services with the Bank in 2017. The Bank paid RMB29.5845 million for non-auditing services to Ernst & Young and its member firms in the year.

Ernst & Young Hua Ming LLP and Ernst & Young have provided audit services to the Bank for five consecutive years. Mr. ZHANG Xiaodong and Mr. YANG Bo are the certified public accountants who signed the auditor's report on the Bank's financial statements prepared in accordance with CAS for the year ended 31 December 2017.

At the forthcoming 2017 Annual General Meeting, the Board of Directors will tender a resolution for review and approval regarding the proposal on engaging Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2018, providing audit services on its financial statements and internal control pursuant to CAS; and engaging Ernst & Young as the Bank's international auditor for 2018, providing financial statements audit services pursuant to IFRS.

Investor Relations and Information Disclosure

In 2017, the Bank continued to enhance its market communication. It successfully arranged presentations for its 2016 annual results and 2017 interim results. Through holding road shows, participating in influential investment forums, meeting visitors including analysts and investors as well as other measures, the Bank actively explained its development strategies and operating performance, timely responded to market concerns, and earnestly listened to market feedback. During the reporting period, the Bank held approximately 200 meetings and received positive feedback from the market. The

Bank continued to optimise electronic communication channels, continuously updated its investor relations webpage on the Bank's official website and provided timely and comprehensive responses to enquiries from investors via the investor hotline, email, and e-interaction online platform run by SSE and maintained convenient communication with minority shareholders, thus effectively protecting the rights of shareholders. In addition, the Bank further strengthened communications with its external credit rating agencies. The Bank's credit ratings were reaffirmed by major rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings. Thus, the Bank continued to maintain the highest level among domestic peers for all aspects of its external credit ratings, bringing with it the positive effect of lowering financing costs and enhancing the Bank's market image.

In 2017, the Bank prepared and disclosed its regular and provisional reports in strict adherence to the principles of truthfulness, accuracy, completeness, timeliness and fairness. It continuously enhanced the pertinence, effectiveness and transparency of information disclosure in order to guarantee investors' access to relevant information and ensure that the investors in the Chinese mainland and Hong Kong are provided with equal opportunity to access relevant information. It actively explored voluntary information disclosure to provide more comprehensive and effective information to investors. In 2017, the Bank released a total of more than 310 information disclosure documents on SSE and Hong Kong Stock Exchange.

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The Bank has established a comprehensive and complete information disclosure system and put in place clear specifications regarding information disclosure standard and the scope of application, responsibility and division of work of the parties concerned, as well as information handling and disclosing procedures and internal monitoring measures. In 2017, closely tracking changes in regulatory rules, the Bank reviewed and revised its information disclosure working procedures in a timely manner, thus further improving the completeness of its regulation system and the standardisation of its management work. The Bank carried out the registration and submission of insider information in strict compliance with relevant regulatory requirements and the rules of the Bank. The Bank reinforced the principal responsibility system and information correspondent mechanism at the Group level, organised information disclosure training

and conducted guidance on information disclosure obligations, so as to promote the building of a strong compliance culture of information disclosure and to improve the initiative and long-term perspective of its information disclosure management work.

In 2017, the Bank continued to receive wide recognition for its work in investor relations and information disclosure. The Bank won “Quam IR Awards 2016 — The Most Remarkable Investor Relations Recognition” from Quamnet and “Excellent Investor Relations Award of Listed Companies 2017” from JRJ.com. The Bank’s annual report won a Gold Award in the overall category of the annual report competition of the League of American Communications Professionals (LACP). It also won a Gold Award in Chairman’s/President’s letter and a Bronze Award in financial data of the Annual Report Competition (ARC).

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2017.

Principal Activities

The Bank provides a range of banking and related financial services, including commercial banking, investment banking, insurance, direct investment and investment management, fund management and aircraft leasing business.

Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

Results and Profit Distribution

The Group's annual results for 2017 are set out in the Consolidated Financial Statements. The Board of Directors has recommended a final dividend on ordinary shares for 2017 of RMB0.176 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 28 June 2018. If approved, the 2017 final dividend on the Bank's ordinary shares will be denominated and declared in RMB and paid in RMB or equivalent Hong Kong dollars. The actual amount distributed in Hong Kong dollars will be calculated according to the average of the exchange rates announced by PBOC in the week before 28 June 2018 (inclusive), being the date of the Bank's Annual General Meeting. The A-Share dividend distribution date is expected to be 13 July 2018 and the H-Share dividend distribution date is expected to be 8 August 2018 in accordance with relevant regulatory requirements and business rules. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2016 Annual General Meeting held on 29 June 2017, a final dividend on ordinary shares for 2016 of RMB0.168 per share (before tax) was approved for payment. The A-Share and H-Share dividends

were distributed to the shareholders separately in July and August of 2017 in accordance with relevant regulations. The distribution plan has been accomplished and the actual distributed amount for ordinary shares was approximately RMB49.457 billion (before tax). No interim dividend on ordinary shares was paid for the period ended on 30 June 2017 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2017.

At the Board meeting held on 23 January 2017, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2017, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

At the Board meeting held on 30 August 2017, the dividend distribution plans for the Bank's Offshore Preference Shares and Domestic Preference Shares (First Tranche) were approved. The Bank distributed dividends on the Offshore Preference Shares on 23 October 2017 and dividends on the Domestic Preference Shares (First Tranche) on 21 November 2017. According to the issuance terms of the Offshore Preference Shares, dividends on Offshore Preference Shares were denominated in RMB and paid in US dollars converted at a fixed exchange rate, with a total of approximately USD439 million (after tax) at an annual dividend rate of 6.75% (after tax). Dividends on the Domestic Preference Shares (First Tranche) was a total of RMB1.920 billion (before tax), with an annual dividend rate of 6.00% (before tax). The dividend distribution plans have been accomplished.

At the Board meeting held on 19 January 2018, the dividend distribution plan for the Bank's Domestic Preference Shares (Second Tranche) was approved. The Bank distributed a total of RMB1.540 billion (before tax) of dividends on the Domestic Preference Shares (Second Tranche) on 13 March 2018, with an annual dividend rate of 5.50% (before tax). The dividend distribution plan has been accomplished.

Report of the Board of Directors

Cash Dividend Payout for Ordinary Shares and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

Year of dividend distribution	Dividend per share (before tax) (Unit: RMB)	Total dividend (before tax) (Unit: RMB million)	Profit attributable to equity holders of the Bank (Unit: RMB million)	Payout ratio	Capitalisation of the capital reserve to share capital
2016	0.168	49,457	164,578	30%	Nil
2015	0.175	51,518	170,845	30%	Nil
2014	0.190	55,934	169,595	33%	Nil

Dividend Distribution for Preference Shares

Types of preference shares	Dividend payment date	Total dividend	Dividend rate
Offshore Preference Shares	23 October 2015	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	23 November 2015	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	14 March 2016	1,540 (RMB million, before tax)	5.50% (before tax)
Offshore Preference Shares	24 October 2016	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2016	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2017	1,540 (RMB million, before tax)	5.50% (before tax)
Offshore Preference Shares	23 October 2017	439 (USD million, after tax)	6.75% (after tax)
Domestic Preference Shares (First Tranche)	21 November 2017	1,920 (RMB million, before tax)	6.00% (before tax)
Domestic Preference Shares (Second Tranche)	13 March 2018	1,540 (RMB million, before tax)	5.50% (before tax)

Formulation and Implementation of Cash Dividend Policy

Ordinary Shares

In 2009, the Bank amended the Articles of Association to state that the Bank should maintain the continuity and stability of its profit distribution policy.

In 2013, the Bank amended the Articles of Association related to the cash dividend. This amendment clarified the Bank's profit distribution principles, policy and adjustment procedures, the consideration

process of the profit distribution plan and other matters. The amendment states that the Bank shall adopt cash dividend as the priority form of profit distribution. Except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the ordinary shareholders of the Bank. The amendment also states that the Bank shall offer online voting to shareholders when considering amendments to the profit distribution policy and profit distribution plan.

Report of the Board of Directors

The procedure to formulate the aforementioned dividend distribution policy was compliant, transparent and complete. The criterion and ratio of the dividend are explicit and clear. The independent directors fully expressed their opinions and the legitimate rights and interests of minority shareholders were fully respected and protected. The procedure was in line with the provisions of the Articles of Association and other rules and regulations.

The dividend distribution plan for ordinary shares of the Bank has been approved by the shareholders' meeting. In 2017, the Bank distributed dividends on ordinary shares for 2016 in strict compliance with the Articles of Association, its dividend distribution policy and the shareholders' meeting resolution on profit distribution.

Preference Shares

The preference shareholders of the Bank receive dividend at the specified dividend rate prior to the ordinary shareholders. The Bank shall pay the dividend to the preference shareholders in cash. The Bank shall not distribute dividends on ordinary shares before all the dividends on preference shares have been paid.

Dividends on the Bank's preference shares will be distributed on an annual basis. The first dividend period begins on the date of issuance of the preference shares. Once the preference shareholders have received dividends at the specified dividend rate, they shall not be entitled to participate in the distribution of the remaining profits of the Bank together with the ordinary shareholders.

The preference share dividend is non-cumulative. If any preference share dividend for any dividend period is not paid in full, such remaining amount of dividend shall not be carried forward to the following dividend year. The Bank shall be entitled to cancel the payment of any dividend of the preference shares, and such cancellation shall not constitute a default. The Bank may at its discretion use the funds arising from the cancellation of such dividend payment to repay other indebtedness due and payable.

Dividend payments are independent from the Bank's credit rating, nor do they vary with the credit rating.

The dividend distribution plans for preference shares of the Bank have been approved by the Board of Directors. In 2017, the Bank distributed dividends on domestic and offshore preference shares in strict compliance with the Articles of Association, the terms of issuance of preference shares and the Board of Directors' resolutions on dividend distribution.

Closure of H-Share Register of Members

The H-Share register of members of the Bank will be closed from Monday, 9 July to Thursday, 12 July 2018 (both days inclusive), for the purpose of determining the list of shareholders entitled to the proposed final dividends on ordinary shares. In order to qualify for the proposed final dividends, the H-Share Holders of the Bank who have not registered the relevant transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 6 July 2018. The ex-dividend date of the Bank's H Shares will be on Thursday, 5 July 2018.

Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB64.14 million.

Share Capital

As at the latest practicable date prior to the issue of this annual report, the Bank had sufficient public float based on publicly available information, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

Report of the Board of Directors

Distributable Reserves

Please refer to Note V.38 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

Please refer to Note V.21 to the Consolidated Financial Statements for details of the fixed assets of the Bank.

Financial Summary

Please refer to the section “Financial Highlights” for the summary of the annual results, assets and liabilities of the Bank for the last five years.

Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2017, the Bank has engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements according to the Hong Kong Listing Rules.

Directors’ Interests in Competing Businesses of the Bank

None of the directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

Remuneration Policy of Directors, Supervisors and Senior Management Members

The Bank has made a clear regulation on the remuneration of directors, supervisors and senior management members. The remuneration for Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, executive directors, Secretary of Party Discipline Committee and executive vice presidents shall be paid in accordance with the rules on remuneration reform for central enterprises, which consists of basic annual remuneration, performance-based annual remuneration and incentive income linked to term appraisal. The remuneration for other senior management members and shareholder supervisors consists of basic annual remuneration and performance-based remuneration, with part of performance-based remuneration paid in a deferred manner. Independent directors as well as external supervisors and employee supervisors are remunerated by the Bank while non-executive directors are not remunerated by the Bank. The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, contribution by the employer to social insurance, enterprise annuity, supplementary medical insurance and housing provident fund, as well as other monetary income.

Please refer to the section “Directors, Supervisors and Senior Management Members” for details of the remuneration of directors, supervisors and senior management members.

Directors’ and Supervisors’ Service Contracts

None of the directors or supervisors of the Bank has a service contract with the Bank or its subsidiaries that is not determinable within one year or is not determinable without payment of compensation other than normal statutory compensation.

Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts of Significance

No transaction, arrangement or contract of significance, in relation to the Bank's business to which the Bank, its holding companies, or its subsidiaries or fellow subsidiaries was a party and in which a director or a supervisor or any entity connected with them was materially interested, directly or indirectly, subsisted during the reporting period.

Directors' and Supervisors' Rights to Acquire Shares

During the reporting period, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party to any arrangement that would enable the Bank's directors and supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

To the best knowledge of the Bank, as at 31 December 2017, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code* as set out in Appendix 10 of the Hong Kong Listing Rules.

Financial, Business and Family Relations among Directors

Directors of the Bank are not related to one another with respect to finance, business and family, or other material relations.

Substantial Shareholder Interests

Please refer to the section "Changes in Share Capital and Shareholdings of Shareholders" for the details of the Bank's substantial shareholder interests.

Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank was entered into or existed during the reporting period.

Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.34 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option scheme of the Group.

Purchase, Sale or Redemption of the Bank's Securities

As at 31 December 2017, approximately 31.85 million shares of the Bank were held as treasury shares.

Please refer to the Notes to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's securities by the Bank and its subsidiaries.

Pre-emptive Rights

There are no compulsory provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association. The Articles of Association provide that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring its capital reserve, issuing convertible bonds, or through other means as permitted by laws, administrative regulations and relevant regulatory authorities.

Report of the Board of Directors

Permitted Indemnity Provision

As stipulated in the Articles of Association, within the scope permitted under applicable laws, administrative regulations and the Articles of Association, the Bank may purchase and maintain any liabilities insurance for the Bank's former and incumbent directors. The Bank will indemnify every former and incumbent director out of its own assets against any liability incurred when he/she served as director of the Bank to the maximum extent permitted by law and administrative regulations or alternatively to the extent that it is not prohibited by law and administrative regulations unless it is established that the director has not acted honestly or in good faith in performing his duties.

During the reporting period, the Bank renewed its directors' liability insurance to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

Equity-linked Agreement

The Bank has not been engaged in any equity-linked agreement during the reporting period.

Business Review

For disclosures of the Bank in respect of business review under paragraph 28 of Appendix 16 to the Hong Kong Listing Rules, please refer to sections "Management Discussion and Analysis" and "Corporate Social Responsibilities". The relevant disclosure constitutes part of the Report of the Board of Directors.

Use of Raised Funds

All proceeds raised from initial public offerings, issuance of subordinated bonds, the rights issue, issuances of tier 2 capital bonds and preference shares have been used to replenish the Bank's capital and increase the level of capital adequacy.

For details, please refer to the related announcements on the websites of SSE, HKEX and the Bank and the Notes to the Consolidated Financial Statements.

Tax and Tax Relief

Shareholders of the Bank are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2017.

A-Share Holders

In accordance with the provisions of the *Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2012] No. 85) and the *Notice on Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies* (Caishui [2015] No. 101) issued jointly by MOF, State Administration of Taxation of PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the transfer market, where the holding period is less than one month (inclusive), the dividends and bonuses shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends and bonuses shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, the dividends and bonuses shall not be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. The individual income tax levied on dividends and bonuses obtained by equity investment funds from listed companies is also calculated in accordance with the aforementioned rules.

In accordance with the provisions of Article 26.2 of the *Enterprise Income Tax Law of the People's*

Report of the Board of Directors

Republic of China, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

In accordance with Article 83 of the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* mean those investment proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

H-Share Holders

In accordance with Chinese tax laws and regulations, the dividends and bonuses received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macao. Accordingly, the Bank generally withholds 10% of the dividends to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax laws, regulations and agreements.

In accordance with the provisions of the *Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders who are Overseas Non-resident Enterprises* (Guoshuihan [2008] No. 897) published by the State Administration of Taxation of PRC, when Chinese resident enterprises distribute annual dividends for 2008 onwards to H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends on H Shares paid by the Bank.

The tax and tax relief of Shanghai-Hong Kong Stock Connect shall comply with the *Notice on the Relevant Taxation Policy regarding the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong* issued jointly by MOF, State Administration of Taxation of PRC, and CSRC.

Domestic Preference Share Holders

The individual income tax levied on dividends obtained by individuals from non-public issuance of domestic preference shares is calculated in accordance with the relevant Chinese tax laws and regulations.

In accordance with the provisions of the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China*, dividend income from domestic preference shares distributed between qualified resident enterprises are non-taxable, and dividend income from domestic preference shares obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

Offshore Preference Share Holders

In accordance with Chinese tax laws and regulations, when distributing dividends to overseas non-resident

Report of the Board of Directors

enterprises on offshore preference shares, the Bank shall withhold enterprise income tax at a rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of the dividends on offshore preference shares paid by the Bank.

Auditors

Please refer to the section “Corporate Governance — Appointment of External Auditors” for details of the Bank’s external auditors.

Consumer Rights Protection

The Bank attaches great importance to the protection of consumer rights and interests. It incorporates consumer protection efforts into its corporate governance and development strategies, strictly implements national laws and regulations on consumer protection, and earnestly protects the legitimate rights and interests of financial consumers.

In 2017, the Bank paid close attention to the protection of consumer rights and interests. It established the Consumer Protection Office, further improved its working mechanism, and carried out its work in a steady and orderly manner. In accordance with regulatory requirements, it launched specialised sales areas with video and audio recording for wealth management products, and developed a uniform product information inquiry platform. The Bank handled customer complaints promptly and properly,

with the aim of improving customer satisfaction, and carried out complaint management in a more standardised, sophisticated and systematic way. In addition, it carried out various activities to promote financial knowledge, coordinating with the regulators for events such as “Financial Knowledge Publicity” and “Financial Literacy Month” and organising “Focus, Sharing, Inclusiveness” themed publicity events for customer groups with special needs.

The Bank won awards such as “Most Socially Responsible Financial Institution”, “Most Socially Responsible Outlet with Special Contribution”, “Excellent Charity Project Award of the Year”, “Best Performance Award for China Banking Industry Financial Literacy Social Outreach” from the China Banking Association and “Medal Institution of Financial Social Outreach” designated by CBRC.

Members of the Board of Directors

Executive Directors: CHEN Siqing, REN Deqi

Non-executive Directors: ZHANG Xiangdong, LI Jucai, XIAO Lihong, WANG Xiaoya, ZHAO Jie

Independent Directors: Nout WELLINK, LU Zhengfei, LEUNG Cheuk Yan, WANG Changyun, Angela CHAO

On behalf of the Board of Directors

CHEN Siqing

Chairman

29 March 2018

Report of the Board of Supervisors

Meetings of the Board of Supervisors

In 2017, the Bank convened four on-site meetings of the Board of Supervisors on 31 March, 28 April, 30 August and 30 October. At these meetings, the Board of Supervisors reviewed and approved 14 proposals regarding the Bank's 2016 Annual Report, 2016 profit distribution plan, 2016 internal control assessment report, 2016 corporate social responsibility report, 2016 work report of the Board of Supervisors, 2017 work plan of the Board of Supervisors, evaluation opinions on the duty performance of directors and senior management members for 2016, Report for the First Quarter ended 31 March 2017, 2017 Interim Report and Report for the Third Quarter ended 30 September 2017, among others.

In 2017, the Board of Supervisors held two meetings by written resolution, in which it mainly reviewed and approved the proposals on appointing the Chairman of the Finance and Internal Control Supervision Committee and appointing member of the Duty Performance and Due Diligence Supervision Committee, among others.

In 2017, the attendance rate of each supervisor of the meetings of the Board of Supervisors is given below:

Supervisors	Number of meetings attended in person/Number of meetings convened during term of office
Incumbent Supervisors	
WANG Xiquan	6/6
WANG Xueqiang	6/6
LIU Wanming	6/6
DENG Zhiying	5/6
GAO Zhaogang	6/6
XIANG Xi	4/6
CHEN Yuhua	6/6

Notes:

1 Mr. DENG Zhiying was not able to attend the meeting of the Board of Supervisors in person on 31 March 2017 due to other important business engagements. He authorised another supervisor to attend and vote at the meeting as his proxy.

2 Ms. XIANG Xi was not able to attend the meetings of the Board of Supervisors in person on 28 April and 30 August 2017 due to other important business engagements. She authorised another supervisor to attend and vote at the meetings as her proxy.

In 2017, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one on-site meeting and one meeting by written resolution, at which it reviewed and approved the proposals on appointing the Chairman of the Finance and Internal Control Supervision Committee, appointing member of the Duty Performance and Due Diligence Supervision Committee, evaluation opinions on the duty performance of directors and senior management members for 2016, as well as other proposals. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four on-site meetings, at which it reviewed and approved the proposals on the Bank's 2016 Annual Report, 2016 profit distribution plan, 2016 internal control assessment report, 2016 corporate social responsibility report, Report for the First Quarter ended 31 March 2017, 2017 Interim Report and Report for the Third Quarter ended 30 September 2017 and other proposals.

Performance of Supervision and Inspection by the Board of Supervisors

In 2017, the Board of Supervisors studied the approaches to play its role in response to new conditions, in compliance with relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank. It made plans and pressed ahead with efforts to serve the Bank's overall target of deepening reform and pursuing sound development while fulfilling its supervisory responsibilities with special focus on prominent issues. Based on self-improvement and through special surveys, it focused its supervision efforts on duty performance, financial management, internal control and risk management. It broadened its supervisory scope and enhanced its supervisory achievements thus playing a constructive role in supervisory function in corporate governance and contributing to the fulfillment of the Bank's development objectives.

Report of the Board of Supervisors

Strengthened the supervision and assessment of duty performance of directors and senior management members in strict accordance with regulatory requirements. Supervisors attended the shareholders' meetings and attended the meetings of the Board of Directors and its special committees, and the meetings of the Senior Management as non-voting attendees. This allowed supervisors to stay informed of the duty performance of directors and senior management members, to follow up on the major decisions regarding significant matters and key operational and management measures, to track the implementation and promotion of the above decisions, and to share supervisory opinions and suggestions on major issues in a timely fashion. Supervisors stayed updated with the duty performance of directors, following up their speeches at the meetings of the Board of Directors and special committees, as well as following up on the implementation of resolutions passed at the meetings of the Senior Management and important instructions made by the Senior Management. They also improved their access to the routine duty performance of directors and senior management members, summarised and analysed the Management's duty performance each month, and highlighted major concerns to relevant parties. The Board of Supervisors organised interviews with directors and senior management members on their duty performance in the past year, evaluated annual duty performance of the Board of Directors, the Senior Management and their members on an objective and fair basis, and formed annual duty performance evaluation opinions based on overall consideration of the duty performance reports and discussions, as well as routine supervision information. Through supervision and assessment of their duty performance, the directors and senior management members, were motivated to better shoulder their responsibilities and improve duty performance. It further improved the corporate governance mechanism featuring each organ attending to its own duties, operating in a coordinated fashion with effective checks and balances.

Conscientiously fulfilled new supervisory duties granted by the Articles of Association of the Bank, and exercised solid strategic and financial supervision. First, the Board of Supervisors strengthened its strategic and financial supervision and kept itself informed of the Bank's development strategy, including its formulation, execution and assessment. It tracked the implementation progress of the 2017 business plan and financial budgets, and investigated major issues such as the setup of the Bank's overseas institutions, dividend distribution and capital management, by attending the meetings of the Board of Directors and the Senior Management as non-voting attendees. The Board of Supervisors offered proactive comments and suggestions on the Bank's strategic development plan in respect of corporate governance and its supervision. It paid adequate attention to the Bank's arrangements and executions in terms of strategic, financial and accounting management, streamlined and analysed the Bank's monthly financial and accounting data and developed an in-depth understanding of bank-wide dynamics in operation and management. It strengthened the tracking and research of the macro-economic situation and regulatory policies, enhanced comparative analysis with the business and financial data of its peers, summarised and analysed strategy implementation and financial statements on a monthly basis, uncovered weaknesses, analysed their causes and put forth relevant suggestions, and reminded relevant parties. Second, the Board of Supervisors diligently reviewed and oversaw regular reports. It held meetings with special committees, regularly communicated on special issues with the accounting and information, financial management, credit management, internal audit and other business departments as well as with external auditors, and heard reports regarding the preparation and audit of regular reports. The Board of Supervisors provided substantive comments and suggestions on such topics as strengthening management and control of credit risk, preventing market risk, reinforcing bond investment management, maintaining the stability of the Bank's capital adequacy ratio, tapping income growth drivers, powering innovation in the retail asset business, continuously enhancing

profitability, leveraging the Bank's internationalised competitive edge, pushing forward with asset structure adjustments, and focusing the influence of implementation of new accounting standards. Moreover, the Board of Supervisors issued supervisory letters in a timely manner. The Board of Directors, the Senior Management and relevant departments adopted these comments and suggestions as guidance towards the continuous improvement of relevant work.

Steadfastly adhered to the requirements of individual responsibility for risk supervision and deepened the supervision of risk management and internal control. First, the Board of Supervisors strengthened the supervision and guidance of risk prevention and control in key areas. It placed the prevention and mitigation of systematic risk higher on the Bank's agenda. By attending the meetings of the Board of Directors and the Risk Policy Committee and the meetings of the Senior Management on risk and internal control, it heard reports on the Group's risk profile, asset quality management and control and NPA mitigation, focusing on the Bank's regional, industrial and policy risk and the prevention and control of credit risk, liquidity risk, market risk, non-banking business risk, shadow banking risk and e-finance risk in key regions and industries. It stayed abreast of key NPA mitigation, including arrangements, implementation and effects. The Board of Supervisors summarised and analysed risk management on monthly basis, alerted the Senior Management and related departments to the weak links and the potential, tendentious issues, in an effort to promote early identification, warning and detection of risks in key areas as well as early action to address such risks. Second, the Board of Supervisors deepened the internal control supervision and assessment. It regularly heard reports on internal control and compliance, earnestly reviewed the Bank's internal control self-assessment report, and made timely reminders to the Board of Directors and the Senior Management of the Bank's material risk events. A communication and interaction mechanism was put in place between the Board of Supervisors and internal audit to strengthen information sharing. The Board of Supervisors dispatched personnel to take part in audit projects, enhanced function of the audit line as the third line of defence in internal control.

Earnestly performed its supervisory function by offering suggestions and launching special in-depth surveys. In addition to completing routine supervision and procedural work, the Board of Supervisors, taking a forward-looking view based on a clear picture of the present, concentrating on the issues of overall significance and weak links in operation and management, business development and risk and internal control, organised and launched four special surveys on the following topics, including customer credit risk management and control, operation and management of domestic branches, risk management of subsidiaries and strategic development and regulatory compliance of overseas institutions. The survey teams that were led by supervisors and consisted of directors and personnel from relevant departments of the Head Office conducted investigations within Head Office departments and a number of branches and institutions. Through customer visits, the survey teams investigated the implementation of the Head Office's decisions and plans, and gained an insight into the difficulties and challenges at work. In particular, they undertook deep and streamlined research into pervasive, emerging and cautionary issues, proposed possible solutions, and submitted special survey reports to the Board of Directors and the Senior Management. The Board of Directors and the Senior Management fully recognised the value of the survey reports, issued important instructions, and mandated senior management members and relevant functional departments to carefully study, earnestly rectify and provide timely feedback on the rectification progress. The surveys carried out by the Board of Supervisors played an active role in preventing potential risks, guaranteeing the sound operation of the Bank and promoting healthy development of its businesses.

Earnestly fulfilled the requirement of strict Party governance and pushed forward self-improvement. In accordance with the relevant regulations, new members were brought into the two special committees of the Board of Supervisors in order to bring into full play the committees' basic functions. The staffing of working body of the Board of Supervisors was reinforced, and its service awareness and efficiency consciousness were continuously enhanced for better daily service. The working body helped the Board of Supervisors, its

Report of the Board of Supervisors

two special committees, and individual supervisors to perform their duties effectively. The Board of Supervisors continued to conduct self-assessment of its duty performance and annual assessment of the duty performance of the supervisors, urging each supervisor to consciously perform their supervisory duties as defined in relevant laws, regulations and the Articles of Association. In 2017, through seminars, workshops and increased communication with its peers, the supervisors enhanced their duty performance capability and professional competence. All supervisors performed their duties faithfully and diligently, gave full play to their professional skills, attended related meetings, reviewed proposals and carried out surveys. They also expressed supervisory opinions independently and objectively, thus performing their supervisory function. During the reporting period, the external supervisor worked for the Bank for more than 15 working days.

The Board of Directors and the Senior Management fully understood, supported and appreciated the work of the Board of Supervisors. They attached great importance to the supervisory reminders of the Board of Supervisors, actively acted upon the rectification opinions, continuously improved working measures, timely eliminated potential risks, and continually improved the level of operation and management.

During the reporting period, the Board of Supervisors held no objection to such matters under its supervision regarding the Bank's operational and legal compliance, financial position, use of raised funds, purchase and sale of assets, connected transactions, internal control and corporate information disclosure.

Significant Events

Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in its regular course of business. In addition, because of the scope and scale of the Bank's international operations, the Bank is from time to time subject to a variety of claims under the laws of various jurisdictions in which the Bank operates. After consulting legal professionals, the Senior Management holds that none of the litigation and arbitration cases will have a significant impact on the financial position or operating results of the Group at the current stage.

Purchase and Sale of Material Assets

BOCHK (as seller) entered into a sale and purchase agreement with Xiamen International Investment Limited and the Committee of Jimei Schools (as buyers) in relation to the proposed disposal of approximately 70.49% of the total issued shares of Chiyu Banking Corporation Limited for a total consideration of HKD7.685 billion on 22 December 2016. The completion of the disposal took place on 27 March 2017 in accordance with the terms and conditions of the sale and purchase agreement. Chiyu Banking Corporation Limited ceased to be a subsidiary of the Bank, BOCHK (Holdings) and BOCHK respectively.

As part of the Group's strategic restructuring plan in the ASEAN region, on 30 June 2016, the Bank (as seller) and BOCHK (as buyer) entered into sale and purchase agreement in relation to sale and purchase of the entire issued share capital of Bank of China (Thai) Public Company Limited. All the conditions precedent set out in the sale and purchase agreement have been satisfied and completion of the transfer took place on 9 January 2017 in accordance with the terms and conditions of the sale and purchase agreement. On 28 February 2017, the Bank (as seller) and BOCHK (as buyer) entered into sale and purchase agreements in relation to sale and purchase of the banking businesses operated by the Bank in Indonesia through Bank of China Limited, Jakarta Branch and its eight

sub-branches and the banking businesses operated by the Bank in Cambodia through Bank of China Limited, Phnom Penh Branch, Cambodia and its sub-branches, respectively. The completion of the transfer of Bank of China Limited, Jakarta Branch and its eight sub-branches and the transfer of Bank of China Limited, Phnom Penh Branch and its sub-branches took place on 10 July 2017 and 6 November 2017 respectively, in accordance with the terms and conditions of the sale and purchase agreements. On 6 November 2017, the Bank (as transferor) and BOCHK (as transferee) entered into agreements in relation to the transfer of the banking businesses operated by the Bank in Vietnam through Bank of China Limited — Hochiminh City Branch and the banking businesses operated by the Bank in the Philippines through Bank of China Limited, Manila Branch respectively. The completion of the transfers took place on 29 January 2018 in accordance with the respective terms and conditions of the agreements.

For details, please refer to relevant announcements of the Bank on the websites of SSE, HKEX and the Bank.

Implementation of Stock Incentive Plan and Employee Stock Ownership Plan

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the Board meeting and the extraordinary shareholders' meeting held in November 2005. To date, the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan have not been implemented.

Significant Connected Transactions

The Bank had no significant connected transactions during the reporting period. For details of the related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.43 of the Consolidated Financial Statements.

Significant Events

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

During the reporting period, the Bank did not take any significant custody of, sub-contract or lease any material business assets from other companies, or allow its material business assets to be subject to such arrangements that are required to be disclosed.

Material Guarantee Business

As approved by PBOC and CBRC, the Bank's guarantee business is an off-balance-sheet item in the ordinary course of its business. The Bank operates its guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in accordance with the risks of the guarantee business and carries out this business accordingly. During the reporting period, save as disclosed above, the Bank did not enter into any material guarantee business that is required to be disclosed.

Other Major Contracts

During the reporting period, the Bank had no other major contract that was required to be disclosed.

Misappropriation of Funds by Controlling Shareholder and Other Related Parties

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes.

Undertakings

Huijin made a "non-competing commitment" when the Bank launched its IPO. As at 31 December 2017, Huijin has strictly observed and has not breached such undertaking.

Disciplinary Actions Imposed on the Bank, its Directors, Supervisors, Senior Management Members and Controlling Shareholder

During the reporting period, neither the Bank nor any of its directors, supervisors, senior management members or controlling shareholder was subject to any investigation, compulsory measures or accusation of criminal responsibilities by relevant authorities or any investigation, administrative punishment or regulatory measures by CSRC, or had material administrative punishment imposed on them by other administrative authorities, or were publicly reprimanded by any stock exchange.

Integrity of the Bank and its Controlling Shareholder

During the reporting period, neither the Bank nor its controlling shareholder failed to perform effective judgment of the court or pay off any due debt in large amount.

Performing Social Responsibility of Poverty Alleviation

For details of the Bank's performance of social responsibility regarding poverty alleviation during the reporting period, please refer to the section "Corporate Social Responsibilities" and the Bank's 2017 Corporate Social Responsibility Report published on the websites of SSE, HKEX and the Bank.

Other Significant Events

For announcements regarding other significant events during the reporting period in accordance with the regulatory requirements, please refer to the websites of SSE, HKEX and the Bank.

Independent Auditor's Report



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the shareholders of Bank of China Limited

(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 139 to 287, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of loans and advances to customers</i></p> <p>The assessment of impairment of loans and advances to customers involves significant judgement. The Group adopts an individual impairment assessment approach for individually significant loans; and a collective impairment assessment approach for loans not individually significant or not individually impaired. Under the collective approach, assessment of future cash flows for loan portfolios is based on historical loss experience of loans with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in the macro-economic environment. The future cash flows of loans without collateral or guarantees, or loans that are not adequately collateralised, are subject to higher uncertainties.</p> <p>Since loan impairment assessment involves judgement and assumptions, and in view of the significance of the amount (as at 31 December 2017, gross loans and advances to customers amounted to RMB10,896,558 million, representing 56% of total assets, and impairment allowance for loans and advances to customers amounted to RMB252,254 million), impairment of loans and advances is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III.1, Note V.18 and Note VI.3 to the consolidated financial statements.</p>	<p>We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan classification, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p>We assessed the collective impairment model and considered management's assumptions on the loss identification period, migration rate, loss ratio and impact of macro-economic changes for various types of loan portfolios. We evaluated the Group's modification of parameters and assumptions used in the collective impairment model, and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends.</p> <p>We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collateral. We compared the assumptions with available external information.</p> <p>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.</p>

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of financial instruments</p> <p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, particularly those require significant unobservable inputs, usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p>As at 31 December 2017, financial assets and financial liabilities measured at fair value amounted to RMB2,145,745 million and RMB504,234 million respectively, representing 11% and 3% of total assets and total liabilities respectively. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2017, 3% of financial assets measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for unlisted equity and fund investments, illiquid asset-backed securities, and over-the-counter derivatives, valuation of financial instruments is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III.2 and Note VI.6 to the consolidated financial statements.</p>	<p>We evaluated and tested the design and operating effectiveness of key controls related to valuation of financial instruments, independent price verification, and independent model validation and approval.</p> <p>We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p> <p>For valuations which used significant unobservable inputs, such as unlisted equity investments and private equity fund investments, we involved our internal valuation specialists in assessing the models used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions.</p> <p>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value.</p>
<p>Structured entities</p> <p>The Group has interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns.</p> <p>The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III.9 and Note V.46 to the consolidated financial statements.</p>	<p>We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity.</p> <p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities.</p> <p>Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.</p>

Independent Auditor's Report

Other Information included in the Annual Report

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Shing Kit.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2018

Consolidated Financial Statements

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Consolidated Income Statement

For the year ended 31 December 2017 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Interest income	V.1	622,616	566,139
Interest expense	V.1	(284,227)	(260,091)
Net interest income		338,389	306,048
Fee and commission income	V.2	100,800	98,319
Fee and commission expense	V.2	(12,109)	(9,655)
Net fee and commission income		88,691	88,664
Net trading gains	V.3	1,686	8,496
Net gains on financial investments	V.4	2,406	12,524
Other operating income	V.5	52,589	69,924
Operating income		483,761	485,656
Operating expenses	V.6	(173,859)	(175,069)
Impairment losses on assets	V.9	(88,161)	(89,072)
Operating profit		221,741	221,515
Share of results of associates and joint ventures	V.20	1,162	897
Profit before income tax		222,903	222,412
Income tax expense	V.10	(37,917)	(38,361)
Profit for the year		184,986	184,051
Attributable to:			
Equity holders of the Bank		172,407	164,578
Non-controlling interests		12,579	19,473
		184,986	184,051
Earnings per share (in RMB)	V.11		
— Basic		0.56	0.54
— Diluted		0.56	0.54

For details of the dividends paid or proposed, please refer to Note V.38.3.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Profit for the year		184,986	184,051
Other comprehensive income:	V.12		
Items that will not be reclassified to profit or loss			
— Actuarial (losses)/gains on defined benefit plans		(59)	259
— Other		7	18
Subtotal		(52)	277
Items that may be reclassified subsequently to profit or loss			
— Net fair value losses on available for sale financial assets		(20,641)	(15,128)
— Share of other comprehensive income of associates and joint ventures accounted for using the equity method		521	(131)
— Exchange differences from the translation of foreign operations		(16,226)	15,480
— Other		324	1,898
Subtotal		(36,022)	2,119
Other comprehensive income for the year, net of tax		(36,074)	2,396
Total comprehensive income for the year		148,912	186,447
Total comprehensive income attributable to:			
Equity holders of the Bank		140,688	163,069
Non-controlling interests		8,224	23,378
		148,912	186,447

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2017	2016
ASSETS			
Cash and due from banks and other financial institutions	V.13	560,463	659,982
Balances with central banks	V.14	2,227,614	2,271,640
Placements with and loans to banks and other financial institutions	V.15	575,399	594,048
Government certificates of indebtedness for bank notes issued	V.27	129,350	117,421
Precious metals		172,763	161,417
Financial assets at fair value through profit or loss	V.16	193,611	124,090
Derivative financial assets	V.17	94,912	130,549
Loans and advances to customers, net	V.18	10,644,304	9,735,646
Financial investments	V.19	4,361,111	3,848,794
— available for sale		1,857,222	1,609,830
— held to maturity		2,089,864	1,843,043
— loans and receivables		414,025	395,921
Investment in associates and joint ventures	V.20	17,180	14,059
Property and equipment	V.21	205,614	194,897
Investment properties	V.22	21,026	21,659
Deferred income tax assets	V.35	46,487	34,341
Assets held for sale		—	50,371
Other assets	V.23	217,590	189,975
Total assets		19,467,424	18,148,889

The accompanying notes form an integral part of these consolidated financial statements.

	Note	As at 31 December	
		2017	2016
LIABILITIES			
Due to banks and other financial institutions	V.25	1,425,262	1,420,527
Due to central banks	V.26	1,035,797	867,094
Bank notes in circulation	V.27	129,671	117,656
Placements from banks and other financial institutions	V.28	500,092	302,792
Derivative financial liabilities	V.17	111,095	107,109
Due to customers	V.29	13,657,924	12,939,748
— at amortised cost		13,285,157	12,589,437
— at fair value		372,767	350,311
Bonds issued	V.30	499,128	362,318
Other borrowings	V.31	30,628	27,152
Current tax liabilities	V.32	34,521	28,055
Retirement benefit obligations	V.33	3,027	3,439
Deferred income tax liabilities	V.35	4,018	4,501
Liabilities classified as held for sale		—	42,488
Other liabilities	V.36	459,582	438,918
Total liabilities		17,890,745	16,661,797
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	294,388	294,388
Other equity instruments	V.37.4	99,714	99,714
Capital reserve	V.37.2	141,880	141,972
Treasury shares	V.37.3	(102)	(53)
Other comprehensive income	V.12	(35,573)	(3,854)
Statutory reserves	V.38.1	141,334	125,714
General and regulatory reserves	V.38.2	207,817	193,462
Undistributed profits	V.38	646,558	560,339
		1,496,016	1,411,682
Non-controlling interests	V.39	80,663	75,410
Total equity		1,576,679	1,487,092
Total equity and liabilities		19,467,424	18,148,889

Approved and authorised for issue by the Board of Directors on 29 March 2018.

The accompanying notes form an integral part of these consolidated financial statements.



CHEN Siqing
Director



REN Deqi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Attributable to equity holders of the Bank								Non-controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares		
As at 1 January 2017		294,388	99,714	141,972	(3,854)	125,714	193,462	560,339	(53)	75,410	1,487,092
Total comprehensive income	V.12	-	-	-	(31,719)	-	-	172,407	-	8,224	148,912
Appropriation to statutory reserves	V.38.1	-	-	-	-	15,808	-	(15,808)	-	-	-
Appropriation to general and regulatory reserves	V.38.2	-	-	-	-	-	14,450	(14,450)	-	-	-
Dividends	V.38.3	-	-	-	-	-	-	(56,211)	-	(4,508)	(60,719)
Net change in treasury shares	V.37.3	-	-	-	-	-	-	-	(49)	-	(49)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	2,152	2,152
Disposal of subsidiaries and other		-	-	(92)	-	(188)	(95)	281	-	(615)	(709)
As at 31 December 2017		294,388	99,714	141,880	(35,573)	141,334	207,817	646,558	(102)	80,663	1,576,679

	Note	Attributable to equity holders of the Bank								Non-controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares		
As at 1 January 2016		294,388	99,714	140,098	(2,345)	111,511	179,485	482,181	(86)	52,659	1,357,605
Total comprehensive income	V.12	-	-	-	(1,509)	-	-	164,578	-	23,378	186,447
Appropriation to statutory reserves	V.38.1	-	-	-	-	14,310	-	(14,310)	-	-	-
Appropriation to general and regulatory reserves	V.38.2	-	-	-	-	-	15,245	(15,245)	-	-	-
Dividends	V.38.3	-	-	-	-	-	-	(58,236)	-	(6,003)	(64,239)
Net change in treasury shares	V.37.3	-	-	-	-	-	-	-	33	-	33
Capital injection by non-controlling shareholders		-	-	1,738	-	-	-	-	-	5,995	7,733
Disposal of subsidiaries and other		-	-	136	-	(107)	(1,268)	1,371	-	(619)	(487)
As at 31 December 2016		294,388	99,714	141,972	(3,854)	125,714	193,462	560,339	(53)	75,410	1,487,092

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities			
Profit before income tax		222,903	222,412
Adjustments:			
Impairment losses on assets		88,161	89,072
Depreciation of property and equipment		13,611	12,898
Amortisation of intangible assets and other assets		3,158	2,793
Net gains on disposal of property and equipment, intangible assets and other long-term assets		(606)	(576)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		(4,333)	(29,083)
Share of results of associates and joint ventures		(1,162)	(897)
Interest income arising from financial investments		(127,360)	(110,993)
Dividends arising from investment securities		(1,353)	(775)
Net gains on financial investments		(2,406)	(12,524)
Interest expense arising from bonds issued		15,799	12,183
Accreted interest on impaired loans		(1,989)	(2,480)
Net changes in operating assets and liabilities:			
Net decrease/(increase) in balances with central banks		27,192	(200,508)
Net decrease/(increase) in due from and placements with and loans to banks and other financial institutions		48,496	(25,240)
Net (increase)/decrease in precious metals		(11,459)	15,256
Net increase in financial assets at fair value through profit or loss		(47,256)	(1,749)
Net increase in loans and advances to customers		(985,177)	(914,251)
Net decrease/(increase) in other assets		123,415	(134,139)
Net increase/(decrease) in due to banks and other financial institutions		4,735	(343,437)
Net increase in due to central banks		168,638	451,386
Net increase/(decrease) in placements from banks and other financial institutions		198,560	(155,290)
Net increase in due to customers		712,389	1,248,709
Net increase/(decrease) in other borrowings		3,476	(3,129)
Net (decrease)/increase in other liabilities		(2,833)	117,732
Cash inflow from operating activities		444,599	237,370
Income tax paid		(38,463)	(55,289)
Net cash inflow from operating activities		406,136	182,081

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		8,736	11,201
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		5,176	27,857
Dividends received		1,750	1,387
Interest income received from financial investments		117,396	109,869
Proceeds from disposal/maturity of financial investments		2,065,668	2,150,079
Increase in investment in subsidiaries, associates and joint ventures		(3,949)	(2,860)
Purchase of property and equipment, intangible assets and other long-term assets		(46,011)	(34,247)
Purchase of financial investments		(2,657,496)	(2,509,672)
Other net cash flows from investing activities		3,640	–
Net cash outflow from investing activities		(505,090)	(246,386)
Cash flows from financing activities			
Proceeds from issuance of bonds		586,789	150,721
Proceeds from non-controlling shareholders investment		2,152	7,733
Repayments of debts issued		(446,896)	(83,560)
Cash payments for interest on bonds issued		(15,693)	(11,654)
Dividend payments to equity holders of the Bank		(56,211)	(58,236)
Dividend payments to non-controlling shareholders		(4,508)	(6,003)
Other net cash flows from financing activities		(49)	(714)
Net cash inflow/(outflow) from financing activities		65,584	(1,713)
Effect of exchange rate changes on cash and cash equivalents		(27,125)	33,187
Net decrease in cash and cash equivalents		(60,495)	(32,831)
Cash and cash equivalents at beginning of year		1,019,247	1,052,078
Cash and cash equivalents at end of year	V.42	958,752	1,019,247

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the “Bank”), formerly known as Bank of China, a State-owned joint stock commercial bank, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People’s Republic of China (the “PRC”) in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the “CBRC”) No. B0003H111000001 and is issued the business license of legal enterprise with unified social credit code No. 911000001000013428 by the State Administration of Industry and Commerce of the PRC. The registered address is No. 1, Fuxingmen Nei Dajie, Beijing, China.

The Bank and its subsidiaries (together the “Group”) provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macau, Taiwan and other major international financial centres.

The Bank’s principal regulator is the CBRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited (“Huijin”), a wholly owned subsidiary of China Investment Corporation (“CIC”), which owned 64.02% of the ordinary shares of the Bank as at 31 December 2017 (31 December 2016: 64.02%).

These consolidated financial statements have been approved by the Board of Directors on 29 March 2018.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRSs. In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets available for sale, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties are measured at their fair values in the consolidated financial statement. Assets that meet the criteria to be classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective in 2017

On 1 January 2017, the Group adopted the following new standards, amendments and interpretations.

IAS 7 Amendments	<i>Statement of Cash Flows</i>
IAS 12 Amendments	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements to IFRSs 2014–2016 Cycle (issued in December 2016):	
IFRS 12	<i>Disclosure of Interests in Other Entities</i>

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Annual Improvements to IFRSs 2014–2016 Cycle:

IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017

		Effective for annual periods beginning on or after
IAS 40 Amendments	<i>Transfers of Investment Property</i>	1 January 2018
IFRS 2 Amendments	<i>Share-based Payment</i>	1 January 2018
IFRS 4 Amendments	<i>Insurance Contracts</i>	1 January 2018
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IFRS 9 Amendments	<i>Prepayment Features with Negative Compensation</i>	1 January 2019
IAS 19 Amendments	<i>Employee Benefits</i>	1 January 2019
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2014–2016 Cycle (issued in December 2016):		
IAS 28	<i>Investments in Associates and Joint Ventures</i>	1 January 2018
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2018
Annual Improvements to IFRSs 2015–2017 Cycle (issued in December 2017)		1 January 2019

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

IFRS 16 *Leases* requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The scope of the new standard includes leases of all assets, with certain exceptions.

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 *Amendments* require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for “significant market fluctuations” in the absence of a plan amendment, curtailment or settlement.

IAS 28 *Amendments* clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* to replace IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

Annual Improvements to IFRSs 2014–2016 Cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. IAS 28 *Investments in Associates and Joint Ventures* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* are effective from annual period beginning on or after 1 January 2018. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

Annual Improvements to IFRSs 2015–2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*. The amendments are effective from annual period beginning on or after 1 January 2019. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

1.2.1 IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. In October 2017, the IASB issued an amendment to IFRS 9 *Financial Instruments*. This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, but early application is permitted. The Group adopted IFRS 9 and its amendments from 1 January 2018.

Classification and Measurement

In IFRS 9, financial assets are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the financial assets and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of "other" business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit loss model" ("ECL model") and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

1.2.1 IFRS 9 Financial Instruments (Continued)

Impairment (Continued)

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage I: The financial instruments without significant increases in credit risk after initial recognition are included in Stage I to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage II: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage II, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage III: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage III, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

1.2.1 IFRS 9 Financial Instruments (Continued)

Impairment (Continued)

Measurement of ECL (Continued)

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

1.2.1 IFRS 9 Financial Instruments (Continued)

Impairment (Continued)

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

1.2.1 IFRS 9 Financial Instruments (Continued)

Impairment (Continued)

Parameters of ECL measurement (Continued)

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group applied experts' judgement in this process, according to the result of experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage I) or life time (stage II and stage III). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The Group chose to adopt the new hedge accounting requirements in IFRS 9 from 1 January 2018.

Impacts

Considering the impact of these standards on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 shareholders' equity at the adoption date, but will not restate comparative periods. The adoption of IFRS 9 is expected to reduce shareholders' equity by approximately 2% as at 1 January 2018. The estimated impact relates primarily to the implementation of the ECL requirements in the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 (Continued)

1.2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains on financial investments which are covered under IFRS 9. According to the current assessment, IFRS 15 has no significant impact on the overall financial statements of the Group.

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation

3.1 *Functional and presentation currency*

The functional currency of the operations in the Chinese mainland is the Renminbi (“RMB”). Items included in the financial statements of each of the Group’s operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The presentation currency of the Group is RMB.

3.2 *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains” in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalents is presented individually in the statement of cash flows.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale investments.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

(1) *Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated as at fair value through profit or loss at inception.

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or
- the financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

(2) *Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated as at fair value through profit or loss or as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) Available for sale investments

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss.

4.2 Initial recognition

A financial asset or financial liability is recognised on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

4.3 Subsequent measurement

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in "Other comprehensive income", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in "Other comprehensive income" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

Financial liabilities are de-recognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

4.6 Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- the disappearance of an active market for that financial asset because of financial difficulties;

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. An impairment is also indicated by a decline in fair value of 20% or more below initial cost for six consecutive months or longer or where fair value is below initial cost by 30% or more over a short period of time (i.e., one month); or
- other objective evidence indicating impairment of the financial asset.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Assets carried at amortised cost

Impairment loss for financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The original effective interest rate is computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) *Assets carried at amortised cost (Continued)*

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised in the income statement.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(2) *Assets classified as available for sale*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Other comprehensive income" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group respectively. They are dependent on expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in “Net trading gains” in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in “Other comprehensive income”. The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(2) Cash flow hedge (Continued)

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

4.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metal market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purpose, they are accounted for as derivative transactions.

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

8 Leases

8.1 Lease classification

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.3 Operating leases

When the Group is the lessee under an operating lease, rental expenses are charged to “Operating expenses” in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group’s assets. Rental income is recognised as “Other operating income” in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset’s fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans’ principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

12 Employee benefits

12.1 Defined contribution plans and Defined benefit plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank (“the Annuity Plan”). The Bank contributes to the Annuity Plan based on certain percentages of the employees’ gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.1 Defined contribution plans and Defined benefit plans (Continued)

Contributions made by the Group to the retirement schemes described above are recognised as “Operating expenses” in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in “Other comprehensive income” immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as “Operating expenses” when they occur.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under “Retirement benefit obligations” in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in “Other comprehensive income” immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as “Operating expenses” when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as “Operating expenses” in the income statement as incurred.

12.4 Cash-settled share-based compensation

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as “Operating expenses” in the income statement for the period and de-recognised when the liability is settled.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Cash-settled share-based compensation (Continued)

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group performs a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.2 Insurance contracts recognition and measurement (Continued)

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (investment-linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Assets and liabilities held for sale

The Group classifies non-current assets or an asset group as held for sale if their carrying amounts are recovered principally through disposal rather than through continuing use. Assets and liabilities classified as held for sale are presented separately on the statement of financial position. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

16 Treasury shares and preference shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

Preference shares issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and preference shares issued are non-derivative instruments that will be settled in the Group's own equity instruments, but includes no contractual obligation for the Group to deliver a variable number of its own equity instruments. The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

17 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date, any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

19 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

20 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

21 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

22 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in Equity. In these cases, tax is also directly recognised in Equity.

22.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

22.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payables.

“Deferred income tax assets” are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

23 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group’s management and internal reporting.

24 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment allowances on loans and advances

The Group reviews its loans and advances to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, all other loans that are not individually significant or for which impairment has not yet been identified by including the loan in a group of loans with similar credit risk characteristics.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

7 Taxes

The Group is subject to income, value-added and other taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and value-added tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

9 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

In accordance with the *Notice concerning the Nationwide Adoption of Value-added Tax in lieu of Business Tax Pilot Tax Collection Policy* (Caishui [2016] No. 36) issued by the Ministry of Finance of the PRC (the “MOF”) and the State Administration of Taxation, the financial services provided by the Group within Chinese mainland shall be subject to value-added tax instead of business tax from 1 May 2016. The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Chinese mainland		
Corporate income tax	Taxable income	25%
Value-added tax	Taxable added value	6%
Business tax	Business income	5%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
Hong Kong		
Hong Kong profits tax	Assessable profits	16.5%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2017	2016
Interest income		
Loans and advances to customers	414,695	391,956
Financial investments and financial assets at fair value through profit or loss ⁽¹⁾	132,167	114,399
Due from and placements with and loans to banks and other financial institutions and central banks	75,754	59,784
Subtotal	622,616	566,139
Interest expense		
Due to customers	(204,794)	(199,915)
Due to and placements from banks and other financial institutions	(62,962)	(46,427)
Bonds issued and other	(16,471)	(13,749)
Subtotal	(284,227)	(260,091)
Net interest income ⁽²⁾	338,389	306,048
Interest income accrued on impaired financial assets (included within interest income)	1,997	2,532

(1) Interest income on “Financial investments and financial assets at fair value through profit or loss” is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within “Interest income” and “Interest expense” are RMB617,586 million (2016: RMB562,518 million) and RMB269,837 million (2016: RMB249,103 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**2 Net fee and commission income**

	Year ended 31 December	
	2017	2016
Bank card fees	25,798	24,054
Agency commissions	23,310	24,178
Credit commitment fees	15,090	15,426
Settlement and clearing fees	12,323	11,113
Spread income from foreign exchange business	8,083	7,149
Consultancy and advisory fees	5,615	5,701
Custodian and other fiduciary service fees	3,527	3,397
Other	7,054	7,301
Fee and commission income	100,800	98,319
Fee and commission expense	(12,109)	(9,655)
Net fee and commission income	88,691	88,664

3 Net trading gains

	Year ended 31 December	
	2017	2016
Net (losses)/gains from foreign exchange and foreign exchange products	(2,334)	6,221
Net gains from interest rate products	1,998	334
Net gains from equity products	1,444	254
Net gains from commodity products	578	1,687
Total ⁽¹⁾	1,686	8,496

(1) Included in "Net trading gains" above for the year ended 31 December 2017 are gains of RMB121 million in relation to financial assets and financial liabilities designated as at fair value through profit or loss (2016: gains of RMB520 million).

4 Net gains on financial investments

	Year ended 31 December	
	2017	2016
Net gains from investment securities available for sale	1,637	7,301
Net gains from debt securities held to maturity	770	4,674
Other	(1)	549
Total	2,406	12,524

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**5 Other operating income**

	Year ended 31 December	
	2017	2016
Insurance premiums ⁽¹⁾	22,249	18,346
Aircraft leasing income	8,651	6,976
Revenue from sale of precious metals products	8,080	6,737
Gains on disposal of subsidiaries, associates and joint ventures ⁽²⁾	4,333	29,083
Dividend income	1,697	1,054
Changes in fair value of investment properties (Note V.22)	771	1,134
Gains on disposal of property and equipment, intangible assets and other assets	720	669
Other ⁽³⁾	6,088	5,925
Total	52,589	69,924

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2017	2016
Life insurance contracts		
Gross earned premiums	23,103	20,727
Less: gross written premiums ceded to reinsurers	(6,209)	(7,495)
Net insurance premium income	16,894	13,232
Non-life insurance contracts		
Gross earned premiums	6,480	5,954
Less: gross written premiums ceded to reinsurers	(1,125)	(840)
Net insurance premium income	5,355	5,114
Total	22,249	18,346

(2) For the year ended 31 December 2017, "Gains on disposal of subsidiaries, associates and joint ventures" mainly represents the gains on disposal of Chiyu Banking Corporation Limited ("Chiyu Bank") and disposal of some subsidiaries of Bank of China Group Investment Limited ("BOCG Investment"). For the year ended 31 December 2016, it mainly represents the gains on disposal of Nanyang Commercial Bank, Limited ("NCB").

(3) For the year ended 31 December 2017, the government subsidy income from operating activities, as part of other operating income, was RMB1,511 million.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**6 Operating expenses**

	Year ended 31 December	
	2017	2016
Staff costs (Note V.7)	82,061	81,080
General operating and administrative expenses ⁽¹⁾	41,235	41,565
Insurance benefits and claims		
— Life insurance contracts	18,946	13,322
— Non-life insurance contracts	3,661	3,482
Depreciation and amortisation	13,667	13,175
Cost of sales of precious metals products	7,306	6,234
Taxes and surcharges	4,676	9,810
Other	2,307	6,401
Total⁽²⁾	173,859	175,069

(1) Included in the "General operating and administrative expenses" is principal auditors' remuneration of RMB215 million for the year ended 31 December 2017 (2016: RMB213 million), of which RMB59 million is for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2016: RMB59 million).

(2) Included in the "Operating expenses" are operating lease expenses of RMB7,472 million and premises and equipment related expenses (mainly comprised of property management and building maintenance expenses and taxes) of RMB12,092 million (2016: RMB7,368 million and RMB11,977 million, respectively).

7 Staff costs

	Year ended 31 December	
	2017	2016
Salary, bonus and subsidy	56,477	55,792
Staff welfare	3,146	2,908
Retirement benefits	2	18
Social insurance		
— Medical	3,404	3,254
— Pension	6,657	6,585
— Annuity	2,060	2,060
— Unemployment	212	325
— Injury at work	90	102
— Maternity insurance	215	203
Housing funds	4,692	5,066
Labour union fee and staff education fee	1,925	1,918
Reimbursement for cancellation of labour contract	7	11
Other	3,174	2,838
Total	82,061	81,080

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**8 Directors', supervisors' and senior management's emoluments**

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2017

	Contributions				
	Fees	Remuneration paid	to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
CHEN Siqing ⁽⁴⁾⁽⁵⁾	– ⁽²⁾	519	118	69	706
REN Deqi ⁽⁴⁾	– ⁽²⁾	467	73	69	609
TIAN Guoli ⁽⁴⁾⁽⁶⁾	– ⁽²⁾	303	67	39	409
GAO Yingxin ⁽⁴⁾⁽⁶⁾	– ⁽²⁾	467	95	69	631
Non-executive directors					
ZHANG Xiangdong ⁽¹⁾	–	–	–	–	–
LI Jucan ⁽¹⁾	–	–	–	–	–
XIAO Lihong ⁽¹⁾⁽⁵⁾	–	–	–	–	–
WANG Xiaoya ⁽¹⁾⁽⁵⁾	–	–	–	–	–
ZHAO Jie ⁽¹⁾⁽⁵⁾	–	–	–	–	–
WANG Wei ⁽¹⁾⁽⁶⁾	–	–	–	–	–
ZHANG Qi ⁽¹⁾⁽⁶⁾	–	–	–	–	–
LIU Xianghui ⁽¹⁾⁽⁶⁾	–	–	–	–	–
Independent directors					
Nout WELLINK	600	–	–	–	600
LU Zhengfei	550	–	–	–	550
LEUNG Cheuk Yan	400	–	–	–	400
WANG Changyun	400	–	–	–	400
Angela CHAO ⁽⁵⁾	397	–	–	–	397
Supervisors					
WANG Xiquan ⁽⁴⁾	–	519	64	69	652
WANG Xueqiang ⁽⁴⁾	–	813	118	253	1,184
LIU Wanming ⁽⁴⁾	–	760	141	244	1,145
DENG Zhiying	50 ⁽³⁾	–	–	–	50
GAO Zhaogang	50 ⁽³⁾	–	–	–	50
XIANG Xi	50 ⁽³⁾	–	–	–	50
CHEN Yuhua	249	–	–	–	249
	2,746	3,848	676	812	8,082

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**8 Directors', supervisors' and senior management's emoluments (Continued)**

For the year ended 31 December 2016

	Remuneration		Contributions	Benefits	Total
	Fees	paid	to pension	in kind	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
TIAN Guoli ⁽⁴⁾	– ⁽²⁾	680	114	63	857
CHEN Siqing ⁽⁴⁾	– ⁽²⁾	680	112	63	855
REN Deqi ⁽⁴⁾	– ⁽²⁾	612	76	63	751
GAO Yingxin ⁽⁴⁾	– ⁽²⁾	609	93	63	765
ZHU Hexin ⁽⁴⁾	– ⁽²⁾	255	35	25	315
Non-executive directors					
ZHANG Xiangdong ⁽¹⁾	–	–	–	–	–
ZHANG Qi ⁽¹⁾	–	–	–	–	–
LIU Xianghui ⁽¹⁾	–	–	–	–	–
LI Jucai ⁽¹⁾	–	–	–	–	–
WANG Yong ⁽¹⁾	–	–	–	–	–
WANG Wei ⁽¹⁾	–	–	–	–	–
Independent directors					
Nout WELLINK	500	–	–	–	500
LU Zhengfei	514	–	–	–	514
LEUNG Cheuk Yan	400	–	–	–	400
WANG Changyun	130	–	–	–	130
CHOW Man Yiu, Paul	300	–	–	–	300
Jackson TAI	267	–	–	–	267
Supervisors					
WANG Xiquan ⁽⁴⁾	–	57	5	5	67
WANG Xueqiang ⁽⁴⁾	–	1,402	128	248	1,778
LIU Wanming ⁽⁴⁾	–	1,312	123	237	1,672
DENG Zhiying	50 ⁽³⁾	–	–	–	50
GAO Zhaogang	38 ⁽³⁾	–	–	–	38
XIANG Xi	50 ⁽³⁾	–	–	–	50
CHEN Yuhua	180	–	–	–	180
LI Jun ⁽⁴⁾	–	623	122	58	803
LIU Xiaozhong	17 ⁽³⁾	–	–	–	17
	2,446	6,230	808	825	10,309

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**8 Directors', supervisors' and senior management's emoluments (Continued)**

- (1) For the years ended 31 December 2017 and 2016, these non-executive directors of the Bank were not remunerated by the Bank.
- (2) For the years ended 31 December 2017 and 2016, these executive directors of the Bank did not receive any fees.
- (3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.
- (4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2017 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's 2017 financial statements. The final compensation for the year ended 31 December 2017 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2016 were restated based on the finalised amounts as disclosed in the Bank's announcement dated 30 August 2017.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

- (5) CHEN Siqing began to serve as Chairman of the Board of Directors of the Bank as of 29 August 2017. ZHAO Jie began to serve as Non-executive Director of the Bank as of 4 August 2017. XIAO Lihong began to serve as Non-executive Director of the Bank as of 31 August 2017. WANG Xiaoya began to serve as Non-executive Director of the Bank as of 31 August 2017. Angela CHAO began to serve as Independent Director of the Bank as of 4 January 2017.
- (6) TIAN Guoli ceased to serve as Chairman of the Board of Directors and Executive Director of the Bank as of 16 August 2017. GAO Yingxin ceased to serve as Executive Director of the Bank as of 24 January 2018. WANG Wei ceased to serve as Non-executive Director of the Bank as of 19 January 2017. ZHANG Qi ceased to serve as Non-executive Director of the Bank as of 30 June 2017. LIU Xianghui ceased to serve as Non-executive Director of the Bank as of 30 June 2017.

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2017 and 2016 respectively are as follows:

	Year ended 31 December	
	2017	2016
Basic salaries and allowances	22	20
Discretionary bonuses	85	81
Contributions to pension schemes and other	3	3
	110	104

Emoluments of the individuals were within the following bands:

Amounts in RMB	Year ended 31 December	
	2017	2016
12,000,001–14,000,000	1	–
14,000,001–16,000,000	–	1
16,000,001–20,000,000	2	3
20,000,001–50,000,000	2	1

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals (Continued)

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2017 and 2016, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Impairment losses on assets

	Year ended 31 December	
	2017	2016
Loans and advances		
— Individually assessed	40,084	30,508
— Collectively assessed	43,941	56,287
Subtotal	84,025	86,795
Financial investments		
— available for sale	326	946
— held to maturity	—	(20)
— loans and receivables	2,910	718
Subtotal	3,236	1,644
Other	900	633
Total ⁽¹⁾	88,161	89,072

(1) Details of new allowances and reversal of impairment losses on loans and advances and financial investments are disclosed in Note V.18 and Note V.24, respectively.

10 Income tax expense

	Year ended 31 December	
	2017	2016
Current income tax		
— Chinese mainland income tax	37,940	38,097
— Hong Kong profits tax	5,297	4,446
— Macau, Taiwan and other countries and regions taxation	5,218	4,275
Adjustments in respect of current income tax of prior years	(3,595)	(1,590)
Subtotal	44,860	45,228
Deferred income tax (Note V.35)	(6,943)	(6,867)
Total	37,917	38,361

The principal tax rates applicable to the Group are set out in Note IV.

Provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Income tax expense (Continued)

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2017	2016
Profit before income tax	222,903	222,412
Tax calculated at the applicable statutory tax rate	55,726	55,603
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	(4,084)	(5,641)
Supplementary PRC tax on overseas income	1,055	3,689
Income not subject to tax ⁽¹⁾	(20,994)	(20,154)
Items not deductible for tax purposes ⁽²⁾	9,316	6,292
Other	(3,102)	(1,428)
Income tax expense	37,917	38,361

- (1) Income not subject to tax mainly comprises of interest income from PRC Treasury bonds and local government bonds, and the tax-free income recognised by the overseas entities in accordance with the local tax law.
- (2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

11 Earnings per share (basic and diluted)

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all potentially dilutive shares for the reporting period by the adjusted weighted average number of ordinary shares in issue. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the year ended 31 December 2017.

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Bank	172,407	164,578
Less: dividends on preference shares declared	(6,754)	(6,718)
Profit attributable to ordinary shareholders of the Bank	165,653	157,860
Weighted average number of ordinary shares in issue (in million shares)	294,365	294,376
Basic and diluted earnings per share (in RMB)	0.56	0.54

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**11 Earnings per share (basic and diluted) (Continued)**

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2017	2016
Issued ordinary shares as at 1 January	294,388	294,388
Less: weighted average number of treasury shares	(23)	(12)
Weighted average number of ordinary shares in issue	294,365	294,376

12 Other comprehensive income

Accrual amount of other comprehensive income:

	Year ended 31 December	
	2017	2016
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on defined benefit plans	(59)	259
Other	7	18
Subtotal	(52)	277
Items that may be reclassified subsequently to profit or loss		
Fair value losses on available for sale financial assets	(24,911)	(12,920)
Less: related income tax impact	5,438	2,823
Amount transferred to the income statement	(1,397)	(6,786)
Less: related income tax impact	229	1,755
	(20,641)	(15,128)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	646	(133)
Less: related income tax impact	(125)	2
	521	(131)
Exchange differences on translation of foreign operations	(16,013)	16,949
Less: net amount transferred to the income statement from other comprehensive income	(213)	(1,469)
	(16,226)	15,480
Other	324	1,898
Subtotal	(36,022)	2,119
Total	(36,074)	2,396

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Other comprehensive income (Continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value gains on available for sale financial assets	Exchange differences on translation of foreign operations	Other	Total
As at 1 January 2016	16,980	(20,048)	723	(2,345)
Changes in amount for the previous year	(14,850)	11,825	1,516	(1,509)
As at 1 January 2017	2,130	(8,223)	2,239	(3,854)
Changes in amount for the year	(20,941)	(11,461)	683	(31,719)
As at 31 December 2017	(18,811)	(19,684)	2,922	(35,573)

13 Cash and due from banks and other financial institutions

	As at 31 December	
	2017	2016
Cash	75,406	77,548
Due from banks in Chinese mainland	423,479	521,567
Due from other financial institutions in Chinese mainland	6,738	6,579
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	54,757	54,201
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	83	87
Total	560,463	659,982

14 Balances with central banks

	As at 31 December	
	2017	2016
Mandatory reserves ⁽¹⁾	1,740,871	1,723,495
Surplus reserves ⁽²⁾	124,331	118,166
Other ⁽³⁾	362,412	429,979
Total	2,227,614	2,271,640

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2017, mandatory reserve funds placed with the PBOC were calculated at 16.5% (31 December 2016: 17.0%) and 5.0% (31 December 2016: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.

(2) This primarily represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland and other funds.

(3) This mainly represented balances other than mandatory reserves and surplus reserves placed with the PBOC and the central banks in Hong Kong, Macau, Taiwan and other countries and regions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Placements with and loans to banks and other financial institutions

	As at 31 December	
	2017	2016
Placements with and loans to:		
Banks in Chinese mainland	133,136	206,246
Other financial institutions in Chinese mainland	355,290	285,122
Banks in Hong Kong, Macau, Taiwan and other countries and regions	74,065	100,291
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	13,082	2,589
Subtotal ⁽¹⁾	575,573	594,248
Allowance for impairment losses	(174)	(200)
Total	575,399	594,048
Impaired placements	157	158
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	0.03%	0.03%

- (1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December	
	2017	2016
Debt securities		
— Governments	50,117	40,853
— Policy banks	9,229	56,696
— Financial institutions	23,242	9,408
— Corporate	6,252	3,162
Total	88,840	110,119

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**16 Financial assets at fair value through profit or loss**

	As at 31 December	
	2017	2016
Trading financial assets		
Debt securities		
Issuers in Chinese mainland		
— Government	3,604	3,399
— Public sectors and quasi-governments	229	49
— Policy banks	12,124	4,525
— Financial institutions	48,503	31,773
— Corporate	39,649	4,044
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	22,214	16,371
— Public sectors and quasi-governments	946	587
— Financial institutions	3,336	4,886
— Corporate	3,504	2,921
	134,109	68,555
Equity securities	4,870	5,567
Fund investments and other	4,115	1,503
Subtotal	143,094	75,625
Financial assets designated as at fair value through profit or loss		
Debt securities		
Issuers in Chinese mainland		
— Government	219	224
— Policy banks	824	136
— Financial institutions	2,314	1,815
— Corporate	6,385	4,213
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	2,311	5,721
— Financial institutions	16,463	20,952
— Corporate	5,774	4,556
	34,290	37,617
Loans ⁽¹⁾	5,493	6,022
Equity securities	3,159	1,980
Fund investments	7,575	2,846
Subtotal	50,517	48,465
Total ⁽²⁾⁽³⁾	193,611	124,090

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial assets at fair value through profit or loss (Continued)

	As at 31 December	
	2017	2016
Analysed as follows:		
Listed in Hong Kong	27,306	25,260
Listed outside Hong Kong ⁽⁴⁾	117,608	64,555
Unlisted	48,697	34,275
Total	193,611	124,090

- (1) There was no significant change during the years ended 31 December 2017 and 2016 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.
- (2) As at 31 December 2017, the Group held bonds issued by the MOF and bills issued by the PBOC included in "Financial assets at fair value through profit or loss". The carrying value and the related coupon rate range on such bonds and bills are as follows:

	As at 31 December	
	2017	2016
Carrying value	3,745	3,613
Coupon rate range	0.00%–4.97%	0.00%–4.67%

- (3) As at 31 December 2017, included in the Group's "Financial assets at fair value through profit or loss" were certificates of deposit held of RMB43,798 million (31 December 2016: RMB28,737 million).
- (4) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

17 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of instruments recognised on 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 market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign currency exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**17 Derivative financial instruments and hedge accounting (Continued)****17.1 Derivative financial instruments**

	As at 31 December 2017			As at 31 December 2016		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps ⁽¹⁾	6,671,858	76,007	(96,630)	5,364,363	109,007	(86,779)
Currency options	321,625	4,248	(1,773)	302,945	2,224	(3,873)
Currency futures	2,376	5	(22)	953	1	(4)
Subtotal	6,995,859	80,260	(98,425)	5,668,261	111,232	(90,656)
Interest rate derivatives						
Interest rate swaps	2,803,583	10,382	(8,302)	1,779,761	10,616	(8,654)
Interest rate options	11,309	12	(8)	9,910	18	(24)
Interest rate futures	15,239	9	(1)	3,304	3	(8)
Subtotal	2,830,131	10,403	(8,311)	1,792,975	10,637	(8,686)
Equity derivatives	19,302	398	(498)	12,168	224	(225)
Commodity derivatives and other	267,139	3,851	(3,861)	405,541	8,456	(7,542)
Total	10,112,431	94,912	(111,095)	7,878,945	130,549	(107,109)

- (1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial instruments and hedge accounting (Continued)

17.2 Hedge accounting

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

	As at 31 December 2017			As at 31 December 2016		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	–	–	–	7,718	–	(1,369)
Interest rate swaps	120,407	1,955	(574)	123,642	2,502	(1,024)
Subtotal ⁽¹⁾	120,407	1,955	(574)	131,360	2,502	(2,393)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	2,211	43	(48)	1,087	66	(79)
Interest rate swaps	5,227	110	–	5,550	122	–
Subtotal ⁽²⁾	7,438	153	(48)	6,637	188	(79)
Total	127,845	2,108	(622)	137,997	2,690	(2,472)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued, debt securities available for sale and loans and borrowings arising from changes in foreign currency exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2017	2016
Net gains/(losses) on		
— hedging instruments	33	1,651
— hedged items	328	(1,117)
Ineffectiveness recognised in net trading gains	361	534

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Derivative financial instruments and hedge accounting (Continued)

17.2 Hedge accounting (Continued)

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rate risk and interest rate risk of placement and loans and borrowings.

For the year ended 31 December 2017, a net loss from cash flow hedges of RMB5 million was recognised in "Other comprehensive income" (2016: net gain of RMB86 million), and there was no ineffectiveness for the years ended 31 December 2017 and 2016.

There were no transactions for which cash flow hedge accounting had to be ceased in the years ended 31 December 2017 and 2016 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investments in foreign operations.

For the year ended 31 December 2017, a net gain from the hedging instrument of RMB860 million was recognised in "Other comprehensive income" on net investment hedges (2016: net loss of RMB1,357 million), and there was no ineffectiveness in the years ended 31 December 2017 and 2016.

18 Loans and advances to customers

18.1 Analysis of loans and advances to customers

	As at 31 December	
	2017	2016
Corporate loans and advances		
— Loans and advances	6,792,502	6,270,728
— Discounted bills	180,199	298,241
Subtotal	6,972,701	6,568,969
Personal loans		
— Mortgages	3,061,553	2,635,960
— Credit cards	374,297	302,302
— Other	488,007	466,131
Subtotal	3,923,857	3,404,393
Total loans and advances	10,896,558	9,973,362
Less: allowance for impairment losses		
— Individually assessed	(79,316)	(70,093)
— Collectively assessed	(172,938)	(167,623)
Total allowance for impairment losses	(252,254)	(237,716)
Loans and advances to customers, net	10,644,304	9,735,646

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Loans and advances to customers (Continued)

18.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI.3.5.

18.3 Analysis of loans and advances to customers by collective and individual allowance assessments

	Loans and advances for which allowance is collectively assessed ⁽¹⁾	Identified impaired loans and advances ⁽²⁾			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
As at 31 December 2017							
Total loans and advances	10,738,676	42,986	114,896	157,882	10,896,558	1.45%	
Allowance for impairment losses	(144,372)	(28,566)	(79,316)	(107,882)	(252,254)		
Loans and advances to customers, net	10,594,304	14,420	35,580	50,000	10,644,304		
As at 31 December 2016							
Total loans and advances	9,828,051	44,225	101,086	145,311	9,973,362	1.46%	
Allowance for impairment losses	(139,957)	(27,666)	(70,093)	(97,759)	(237,716)		
Loans and advances to customers, net	9,688,094	16,559	30,993	47,552	9,735,646		

- (1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:
- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
 - collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**18 Loans and advances to customers (Continued)**

18.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2017			2016		
	Individually assessed allowance	Collectively assessed allowance	Total	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January	70,093	167,623	237,716	60,791	139,874	200,665
Impairment losses for the year	50,369	76,314	126,683	40,589	86,847	127,436
Reversal	(10,285)	(32,373)	(42,658)	(10,081)	(30,560)	(40,641)
Write-off and transfer out	(32,932)	(37,412)	(70,344)	(23,611)	(28,865)	(52,476)
Transfer in						
— Recovery of loans and advances written off	3,379	167	3,546	3,106	237	3,343
— Unwind of discount on allowance	(1,184)	(805)	(1,989)	(1,261)	(1,219)	(2,480)
— Exchange differences	(124)	(1,394)	(1,518)	560	1,309	1,869
Acquisition of subsidiaries	—	818	818	—	—	—
As at 31 December	79,316	172,938	252,254	70,093	167,623	237,716

18.5 Reconciliation of allowance for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2017			2016		
	Corporate	Personal	Total	Corporate	Personal	Total
As at 1 January	185,828	51,888	237,716	160,380	40,285	200,665
Impairment losses for the year	117,565	9,118	126,683	105,936	21,500	127,436
Reversal	(42,498)	(160)	(42,658)	(40,551)	(90)	(40,641)
Write-off and transfer out	(59,849)	(10,495)	(70,344)	(42,962)	(9,514)	(52,476)
Transfer in						
— Recovery of loans and advances written off	3,435	111	3,546	3,279	64	3,343
— Unwind of discount on allowance	(1,618)	(371)	(1,989)	(2,027)	(453)	(2,480)
— Exchange differences	(1,390)	(128)	(1,518)	1,773	96	1,869
Acquisition of subsidiaries	816	2	818	—	—	—
As at 31 December	202,289	49,965	252,254	185,828	51,888	237,716

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**19 Financial investments**

	As at 31 December	
	2017	2016
Investment securities available for sale		
Debt securities		
Issuers in Chinese mainland		
— Government	590,988	505,537
— Public sectors and quasi-governments	27,457	21,919
— Policy banks	278,504	152,188
— Financial institutions	182,759	174,998
— Corporate	112,069	133,362
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	308,985	272,531
— Public sectors and quasi-governments	43,914	33,682
— Financial institutions	145,003	160,399
— Corporate	80,079	81,347
	1,769,758	1,535,963
Equity securities	38,694	33,936
Fund investments and other	48,770	39,931
	1,857,222	1,609,830
Debt securities held to maturity		
Issuers in Chinese mainland		
— Government	1,609,204	1,336,609
— Public sectors and quasi-governments	36,330	30,047
— Policy banks	226,293	231,425
— Financial institutions	58,033	51,696
— Corporate	25,226	42,111
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	43,034	47,728
— Public sectors and quasi-governments	40,766	41,878
— Financial institutions	26,517	31,185
— Corporate	24,500	30,408
	2,089,903	1,843,087
Allowance for impairment losses	(39)	(44)
Total debt securities held to maturity⁽²⁾	2,089,864	1,843,043

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

	As at 31 December	
	2017	2016
Financial investments classified as loans and receivables		
Debt securities		
Issuers in Chinese mainland		
— Government ⁽³⁾⁽⁴⁾	199,521	158,958
— Policy banks	1,500	1,500
— Financial institutions	31,218	32,579
— Corporate	5,538	6,548
— China Orient ⁽⁵⁾	158,806	160,000
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	652	347
— Public sectors and quasi-governments	6,624	13,995
— Financial institutions	2	135
— Corporate	1,313	1,394
	405,174	375,456
Investment trusts, asset management plans and other	14,234	22,938
Allowance for impairment losses	(5,383)	(2,473)
Total financial investments classified as loans and receivables	414,025	395,921
Total financial investments⁽⁶⁾⁽⁷⁾	4,361,111	3,848,794
Analysed as follows:		
Investment securities available for sale		
Debt securities		
— Listed in Hong Kong	119,454	81,136
— Listed outside Hong Kong	1,267,426	1,070,542
— Unlisted	382,878	384,285
Equity, fund and other		
— Listed in Hong Kong	6,912	7,102
— Listed outside Hong Kong	969	1,188
— Unlisted	79,583	65,577
Debt securities held to maturity		
— Listed in Hong Kong	31,414	36,990
— Listed outside Hong Kong	1,963,925	1,701,213
— Unlisted	94,525	104,840
Financial investments classified as loans and receivables		
— Unlisted	414,025	395,921
Total	4,361,111	3,848,794
Listed in Hong Kong	157,780	125,228
Listed outside Hong Kong	3,232,320	2,772,943
Unlisted	971,011	950,623
Total	4,361,111	3,848,794

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Financial investments (Continued)

	As at 31 December			
	2017		2016	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	31,414	31,668	36,990	37,196
— Listed outside Hong Kong	1,963,925	1,914,595	1,701,213	1,711,302

- (1) The Group's accumulated impairment charge on the above available for sale debt securities, equity instruments and other as at 31 December 2017 amounted to RMB1,029 million and RMB5,639 million, respectively (31 December 2016: RMB1,295 million and RMB5,808 million, respectively).
- (2) In 2017, the Group reclassified certain debt securities with a total carrying value of RMB5,097 million from "Investment securities available for sale" to "Investment securities held to maturity" (2016: RMB1,635 million). The Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification. In 2017, the Group reclassified certain debt securities with amortised cost of RMB364 million from "Investment securities held to maturity" to "Investment securities available for sale" due to management's change of investment intention (2016: RMB4,243 million).
- (3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.
- (4) The Bank underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Bank as at 31 December 2017 amounted to RMB2,140 million (31 December 2016: RMB1,891 million).
- (5) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 *Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank*. As at 31 December 2017, the Bank received early repayments amounting to RMB1,194 million accumulated.
- (6) As at 31 December 2017, the Group held bonds issued by the MOF and bills issued by the PBOC included in financial investments. The carrying value and the related coupon rate range on such bonds and bills are as follows:

	As at 31 December	
	2017	2016
Carrying value	982,753	900,817
Coupon rate range	0.00%–5.41%	0.00%–5.41%

- (7) Included in the Group's financial investments were certificates of deposit held amounting to RMB116,982 million as at 31 December 2017 (31 December 2016: RMB76,152 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**20 Investment in associates and joint ventures**

	Year ended 31 December	
	2017	2016
As at 1 January	14,059	10,843
Additions	3,079	3,277
Disposals	(692)	(666)
Share of results, net of tax	1,162	897
Dividends received	(396)	(612)
Exchange differences and other	(32)	320
As at 31 December	17,180	14,059

Investment in associates and joint ventures of the Group comprise of ordinary shares of unlisted companies. The carrying amount by principal investees was as follows. Further details are disclosed in Note V.43.4.

	As at 31 December	
	2017	2016
BOC International (China) Co., Ltd.	4,318	3,983
BOC & Cinda (Wuhu) Investment Limited Partnership	2,976	2,734
CGN Phase I Private Equity Fund Company Limited	1,349	1,186
Graceful Field Worldwide Limited	1,311	1,409
Zhongxinboda (Wuhu) Investment Limited Partnership	1,285	–
Hong Kong Bora Holdings Limited	827	501
Wkland Investments II Limited	793	–
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	735	759
Zhejiang Zheshang Investment Fund Limited Partnership	537	488
Other	3,049	2,999
Total	17,180	14,059

As at 31 December 2017, the ability of associates and joint ventures to transfer funds to the Group is not restricted.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment

	Year ended 31 December 2017				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	111,323	69,621	26,160	82,876	289,980
Additions	365	6,172	12,029	21,419	39,985
Transfer from investment properties (Note V.22)	177	-	-	-	177
Construction in progress transfer in/(out)	3,890	638	(14,412)	9,884	-
Deductions	(688)	(3,835)	(365)	(8,851)	(13,739)
Exchange differences	(1,154)	(500)	(890)	(4,777)	(7,321)
As at 31 December	113,913	72,096	22,522	100,551	309,082
Accumulated depreciation					
As at 1 January	(31,771)	(53,889)	-	(8,358)	(94,018)
Additions	(3,636)	(6,873)	-	(4,550)	(15,059)
Deductions	369	3,711	-	1,381	5,461
Transfer to investment properties (Note V.22)	45	-	-	-	45
Exchange differences	261	368	-	573	1,202
As at 31 December	(34,732)	(56,683)	-	(10,954)	(102,369)
Allowance for impairment losses					
As at 1 January	(768)	-	(221)	(76)	(1,065)
Additions	(31)	-	-	(130)	(161)
Deductions	9	-	4	109	122
Exchange differences	1	-	-	4	5
As at 31 December	(789)	-	(217)	(93)	(1,099)
Net book value					
As at 1 January	78,784	15,732	25,939	74,442	194,897
As at 31 December	78,392	15,413	22,305	89,504	205,614

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment (Continued)

	Year ended 31 December 2016				Total
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	
Cost					
As at 1 January	102,447	66,288	29,100	71,303	269,138
Additions	404	5,152	5,349	18,476	29,381
Transfer from investment properties (Note V.22)	1,495	–	–	–	1,495
Construction in progress transfer in/(out)	7,279	639	(9,184)	1,266	–
Deductions	(1,341)	(2,903)	(133)	(13,047)	(17,424)
Exchange differences	1,039	445	1,028	4,878	7,390
As at 31 December	111,323	69,621	26,160	82,876	289,980
Accumulated depreciation					
As at 1 January	(28,658)	(49,468)	–	(7,555)	(85,681)
Additions	(3,504)	(6,878)	–	(2,516)	(12,898)
Deductions	462	2,773	–	2,337	5,572
Transfer to investment properties (Note V.22)	174	–	–	–	174
Exchange differences	(245)	(316)	–	(624)	(1,185)
As at 31 December	(31,771)	(53,889)	–	(8,358)	(94,018)
Allowance for impairment losses					
As at 1 January	(768)	–	(221)	(437)	(1,426)
Additions	–	–	–	(32)	(32)
Deductions	–	–	–	424	424
Exchange differences	–	–	–	(31)	(31)
As at 31 December	(768)	–	(221)	(76)	(1,065)
Net book value					
As at 1 January	73,021	16,820	28,879	63,311	182,031
As at 31 December	78,784	15,732	25,939	74,442	194,897

As at 31 December 2017, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, acquired under finance lease arrangements was RMB608 million (31 December 2016: RMB673 million).

As at 31 December 2017, the net book amount of aircraft leased out by BOC Aviation Limited, a subsidiary of the Group, under operating leases was RMB89,300 million (31 December 2016: RMB74,140 million).

As at 31 December 2017, the net book amount of aircraft owned by BOC Aviation Limited, a subsidiary of the Group, that has been pledged for loan facilities was RMB25,930 million (31 December 2016: RMB31,904 million) (Note V.31).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment (Continued)

According to the relevant the PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2017, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2017	2016
Held in Hong Kong		
on long-term lease (over 50 years)	3,039	3,030
on medium-term lease (10–50 years)	7,301	7,914
on short-term lease (less than 10 years)	–	13
Subtotal	10,340	10,957
Held outside Hong Kong		
on long-term lease (over 50 years)	4,199	4,323
on medium-term lease (10–50 years)	58,407	59,365
on short-term lease (less than 10 years)	5,446	4,139
Subtotal	68,052	67,827
Total	78,392	78,784

22 Investment properties

	Year ended 31 December	
	2017	2016
As at 1 January	21,659	23,281
Additions	1,051	2,932
Transfer to property and equipment, net (Note V.21)	(222)	(1,669)
Deductions	(970)	(5,292)
Fair value changes (Note V.5)	771	1,134
Exchange differences	(1,263)	1,273
As at 31 December	21,026	21,659

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market.

Investment properties are mainly held by Bank of China Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and BOCG Investment, subsidiaries of the Group. The carrying value of investment properties held by BOCHK (Holdings) and BOCG Investment as at 31 December 2017 amounted to RMB12,859 million and RMB6,104 million, respectively (31 December 2016: RMB12,597 million and RMB6,883 million). The valuation of these investment properties as at 31 December 2017 were principally performed by Knight Frank Petty Limited based on open market price and other related information.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2017	2016
Held in Hong Kong		
on long-term lease (over 50 years)	2,994	3,774
on medium-term lease (10–50 years)	9,688	9,514
Subtotal	12,682	13,288
Held outside Hong Kong		
on long-term lease (over 50 years)	3,922	3,337
on medium-term lease (10–50 years)	3,690	3,965
on short-term lease (less than 10 years)	732	1,069
Subtotal	8,344	8,371
Total	21,026	21,659

23 Other assets

	As at 31 December	
	2017	2016
Interest receivable ⁽¹⁾	96,919	79,836
Accounts receivable and prepayments ⁽²⁾	86,243	81,489
Intangible assets ⁽³⁾	11,605	6,863
Land use rights ⁽⁴⁾	7,230	7,679
Long-term deferred expense	3,105	3,235
Repossessed assets ⁽⁵⁾	2,675	2,775
Goodwill ⁽⁶⁾	2,481	2,473
Other	7,332	5,625
Total	217,590	189,975

(1) Interest receivable

	As at 31 December	
	2017	2016
Financial investments and financial assets at fair value through profit or loss	57,509	47,121
Loans and advances to customers	29,035	25,531
Due from and placements with and loans to banks, other financial institutions and central banks	10,375	7,184
Total	96,919	79,836

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Other assets (Continued)

(1) Interest receivable (Continued)

The movements of interest receivable are as follows:

	Year ended 31 December	
	2017	2016
As at 1 January	79,836	77,354
Accrued during the year	615,966	561,670
Received during the year	(598,883)	(559,188)
As at 31 December	96,919	79,836

(2) Accounts receivable and prepayments

	As at 31 December	
	2017	2016
Accounts receivable and prepayments	91,080	85,886
Impairment allowance	(4,837)	(4,397)
Net value	86,243	81,489

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

	As at 31 December			
	2017		2016	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	81,458	(587)	77,782	(379)
From 1 year to 3 years	5,631	(1,569)	3,048	(2,062)
Over 3 years	3,991	(2,681)	5,056	(1,956)
Total	91,080	(4,837)	85,886	(4,397)

(3) Intangible assets

	Year ended 31 December	
	2017	2016
Cost		
As at 1 January	13,861	11,629
Additions	6,358	2,291
Deductions	(160)	(117)
Exchange differences	(64)	58
As at 31 December	19,995	13,861
Accumulated amortisation		
As at 1 January	(6,998)	(5,879)
Additions	(1,498)	(1,130)
Deductions	55	55
Exchange differences	51	(44)
As at 31 December	(8,390)	(6,998)
Net book value		
As at 1 January	6,863	5,750
As at 31 December	11,605	6,863

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**23 Other assets (Continued)**

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December	
	2017	2016
Held outside Hong Kong		
on long-term lease (over 50 years)	112	123
on medium-term lease (10–50 years)	6,260	6,657
on short-term lease (less than 10 years)	858	899
Total	7,230	7,679

(5) Repossessed assets

The Group obtained repossessed assets by taking possession of collateral held as security due to default. Such repossessed assets are as follows:

	As at 31 December	
	2017	2016
Commercial properties	2,123	1,913
Residential properties	643	691
Other	566	821
Subtotal	3,332	3,425
Allowance for impairment	(657)	(650)
Repossessed assets, net	2,675	2,775

The total book value of repossessed assets disposed of during the year ended 31 December 2017 amounted to RMB543 million (2016: RMB257 million). The Group plans to dispose of the repossessed assets held at 31 December 2017 by auction, bidding or transfer.

(6) Goodwill

	Year ended 31 December	
	2017	2016
As at 1 January	2,473	2,449
Addition through acquisition of subsidiaries	137	147
Deductions	–	(262)
Exchange differences	(129)	139
As at 31 December	2,481	2,473

The goodwill mainly arose from the acquisition of BOC Aviation Limited in 2006 amounting to USD241 million (equivalent to RMB1,574 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**24 Impairment allowance**

	As at	Additions	Decrease		Exchange differences and other	As at
	1 January 2017		Reversal	Write-off and transfer out		31 December 2017
Impairment allowance						
Placements with and loans to banks and other financial institutions	200	15	(40)	–	(1)	174
Loans and advances to customers ⁽¹⁾	237,716	126,683	(42,658)	(68,787)	(700)	252,254
Financial investments						
— available for sale (Note V.19)	7,103	387	(61)	(288)	(473)	6,668
— held to maturity	44	–	–	(3)	(2)	39
— loans and receivables	2,473	2,961	(51)	–	–	5,383
Property and equipment	1,065	161	–	(122)	(5)	1,099
Repossessed assets	650	36	(6)	(17)	(6)	657
Land use rights	15	–	–	–	–	15
Accounts receivable and prepayments	4,397	1,393	(794)	(47)	(112)	4,837
Other	1,466	671	(536)	(163)	(54)	1,384
Total	255,129	132,307	(44,146)	(69,427)	(1,353)	272,510

	As at	Additions	Decrease		Exchange differences and other	As at
	1 January 2016		Reversal	Write-off and transfer out		31 December 2016
Impairment allowance						
Placements with and loans to banks and other financial institutions	192	13	(7)	–	2	200
Loans and advances to customers ⁽¹⁾	200,665	127,436	(40,641)	(51,613)	1,869	237,716
Financial investments						
— available for sale (Note V.19)	6,274	1,012	(66)	(508)	391	7,103
— held to maturity	194	–	(20)	(140)	10	44
— loans and receivables	1,754	1,114	(396)	–	1	2,473
Property and equipment	1,426	32	–	(424)	31	1,065
Repossessed assets	647	54	(10)	(58)	17	650
Land use rights	15	–	–	–	–	15
Accounts receivable and prepayments	3,854	1,137	(609)	(80)	95	4,397
Other	1,449	94	(71)	(57)	51	1,466
Total	216,470	130,892	(41,820)	(52,880)	2,467	255,129

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances write-off, transfer out, recovery of loans and advances written off and unwind of discount on allowance.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**25 Due to banks and other financial institutions**

	As at 31 December	
	2017	2016
Due to:		
Banks in Chinese mainland	318,660	377,882
Other financial institutions in Chinese mainland	895,225	847,818
Banks in Hong Kong, Macau, Taiwan and other countries and regions	157,582	144,915
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	53,795	49,912
Total	1,425,262	1,420,527

26 Due to central banks

	As at 31 December	
	2017	2016
Foreign exchange deposits	205,607	206,210
Other	830,190	660,884
Total	1,035,797	867,094

27 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited (“BOCHK”) and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macau Branch.

28 Placements from banks and other financial institutions

	As at 31 December	
	2017	2016
Placements from:		
Banks in Chinese mainland	289,541	134,754
Other financial institutions in Chinese mainland	26,463	43,353
Banks in Hong Kong, Macau, Taiwan and other countries and regions	180,554	116,723
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	3,534	7,962
Total⁽¹⁾	500,092	302,792

(1) Included in “Placements from banks and other financial institutions” are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December	
	2017	2016
Repurchase debt securities ⁽ⁱ⁾	258,400	116,375

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.41.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**29 Due to customers**

	As at 31 December	
	2017	2016
At amortised cost		
Demand deposits		
— Corporate deposits	3,955,206	3,620,945
— Personal deposits	2,613,409	2,490,309
Subtotal	6,568,615	6,111,254
Time deposits		
— Corporate deposits	3,213,375	3,100,383
— Personal deposits	3,060,245	2,992,051
Subtotal	6,273,620	6,092,434
Certificates of deposit	377,460	327,908
Other deposits ⁽¹⁾	65,462	57,841
Total due to customers at amortised cost	13,285,157	12,589,437
At fair value		
Structured deposits		
— Corporate deposits	215,193	271,885
— Personal deposits	157,574	78,426
Total due to customers at fair value ⁽²⁾	372,767	350,311
Total due to customers ⁽³⁾	13,657,924	12,939,748

- (1) Included in other deposits are special purpose fundings, which represent long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Group is obliged to repay these fundings when they fall due.

As at 31 December 2017, the remaining maturity of special purpose fundings ranges from 31 days to 36 years. The interest-bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.92% (31 December 2016: 0.03% to 7.92%). These terms are consistent with those related development loans granted to customers.

- (2) Due to customers measured at fair value are structured deposits designated as at fair value through profit or loss at inception.

There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for the above-mentioned structured deposits during the years ended 31 December 2017 and 2016.

- (3) Due to customers included margin deposits for security received by the Group as at 31 December 2017 of RMB311,202 million (31 December 2016: RMB339,216 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December	
				2017	2016
Subordinated bonds issued					
2009 RMB Debt Securities First Tranche ⁽¹⁾	6 July 2009	8 July 2024	4.00%	24,000	24,000
2010 RMB Debt Securities ⁽²⁾	9 March 2010	11 March 2025	4.68%	24,930	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	15,461	16,634
2011 RMB Debt Securities ⁽³⁾	17 May 2011	19 May 2026	5.30%	32,000	32,000
2012 RMB Debt Securities First Tranche ⁽⁴⁾	27 November 2012	29 November 2022	4.70%	–	5,000
2012 RMB Debt Securities Second Tranche ⁽⁴⁾	27 November 2012	29 November 2027	4.99%	18,000	18,000
Subtotal ⁽⁹⁾				114,391	120,564
Tier 2 capital bonds issued					
2014 RMB Debt Securities ⁽⁵⁾	8 August 2014	11 August 2024	5.80%	29,972	29,972
2014 US Dollar Debt Securities ⁽⁶⁾	13 November 2014	13 November 2024	5.00%	19,424	20,700
2017 RMB Debt Securities First Tranche ⁽⁷⁾	26 September 2017	28 September 2027	4.45%	29,960	–
2017 RMB Debt Securities Second Tranche ⁽⁸⁾	31 October 2017	2 November 2027	4.45%	29,962	–
Subtotal ⁽⁹⁾				109,318	50,672
Other bonds issued					
US Dollar Debt Securities ⁽¹⁰⁾				173,517	100,021
RMB Debt Securities ⁽¹¹⁾				22,869	17,754
Other ⁽¹²⁾				68,607	22,219
Subtotal				264,993	139,994
Interbank negotiable certificates of deposit⁽¹³⁾					
				10,426	51,088
Total bonds issued ⁽¹⁴⁾				499,128	362,318

- (1) The fixed rate portion of the first tranche of the subordinated bonds issued on 6 July 2009 has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Group has the option to early redeem all of the bonds at face value on 8 July 2019. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

- (2) The subordinated bonds issued on 9 March 2010, have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Group has the option to redeem all of the bonds at face value on 11 March 2020. If the Group does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.
- (3) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Group is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.
- (4) Two subordinated bonds issued on 27 November 2012 in the domestic interbank bond market. The first subordinated bond has a maturity of 10 years, with a fixed coupon rate of 4.70%, paid annually. The Group is entitled to redeem these bonds on the fifth anniversary. The Group has early redeemed all of the bonds at face value on 29 November 2017. The second subordinated bond has a maturity of 15 years, with a fixed coupon rate of 4.99%, paid annually. The Group is entitled to redeem all these bonds on the tenth anniversary. If the Group does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.
- (5) Pursuant to the approval by the CBRC and the PBOC, the Group issued tier 2 capital bonds in an amount of RMB30 billion in the domestic interbank bond market on 8 August 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.80%. The Group is entitled to redeem the bonds at the end of the fifth year.
- (6) Pursuant to the approval by the CBRC, the PBOC and the National Development and Reform Commission, the Group issued tier 2 capital bonds in an amount of USD3 billion in offshore markets on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.
- (7) Upon the approval by CBRC and PBOC, the Bank issued tier 2 capital bond in an amount of RMB30 billion in the domestic interbank bond market on 26 September 2017. The bond was issued with a 10-year maturity and a fixed coupon rate of 4.45%. The Bank is entitled to redeeming the bond at the end of the fifth year.
- (8) Upon the approval by CBRC and PBOC, the Bank issued tier 2 capital bond in an amount of RMB30 billion in the domestic interbank bond market on 31 October 2017. The bonds was issued with a 10-year maturity and a fixed coupon rate of 4.45%. The Bank is entitled to redeeming the bond at the end of the fifth year.
- (9) Subordinated bonds and tier 2 capital bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders.
- (10) US Dollar Debt Securities are issued in Hong Kong, Macau, Europe and other Asia-Pacific regions between 2013 and 2017 by the Group, which due dates ranges from 2018 to 2027.
- (11) RMB Debt Securities are issued in Mainland China, Hong Kong, Taiwan, Europe, Africa, North America and other Asia-Pacific regions between 2013 and 2017 by the Group, which due dates ranges from 2018 to 2030.
- (12) Other Debt Securities excluding RMB and US dollar are issued in Hong Kong, Macau, Europe, Africa and other Asia-Pacific regions between 2013 and 2017 by the Group. The due dates ranges from 2018 to 2027.
- (13) The RMB interbank negotiable certificates of deposit issued by the Group in 2016 matured in 2017. For the year ended 31 December 2017, the Group issued 16 tranches of RMB interbank negotiable certificates of deposit at discount in the domestic interbank bond market, with face value of RMB100 per certificate of deposit. The outstanding balance will mature in 2018.
- (14) During the years ended 31 December 2017 and 2016, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**31 Other borrowings**

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Limited, a subsidiary of the Group. These other borrowings are secured by its aircraft (Note V.21).

As at 31 December 2017, these other borrowings had a maturity ranging from 3 days to 8 years and bore floating and fixed interest rates ranging from 1.41% to 3.10% (31 December 2016: 0.90% to 2.95%).

During the years ended 31 December 2017 and 2016, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

32 Current tax liabilities

	As at 31 December	
	2017	2016
Corporate Income Tax	27,722	22,023
Value-added Tax	5,453	4,832
City Construction and Maintenance Tax	411	355
Education Surcharges	285	252
Other	650	593
Total	34,521	28,055

33 Retirement benefit obligations

As at 31 December 2017, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,205 million (31 December 2016: RMB2,261 million) and RMB822 million (31 December 2016: RMB1,178 million) respectively, using the projected unit credit method.

The movements of the net liabilities recognised are as follows:

	Year ended 31 December	
	2017	2016
As at 1 January	3,439	4,255
Interest cost	94	109
Net actuarial gain recognised	(33)	(350)
Benefits paid	(473)	(575)
As at 31 December	3,027	3,439

Primary assumptions used:

	As at 31 December	
	2017	2016
Discount rate		
— Normal retiree	3.92%	3.00%
— Early retiree	3.82%	2.80%
Pension benefit inflation rate		
— Normal retiree	3.0%	5.0%–3.0%
— Early retiree	6.0%–3.0%	7.0%–3.0%
Medical benefit inflation rate	8.0%	8.0%
Retiring age		
— Male	60	60
— Female	50/55	50/55

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations (Continued)

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2017 and 2016, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

34 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

35 Deferred income taxes

35.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and related temporary differences.

	As at 31 December			
	2017		2016	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	179,004	46,487	129,323	34,341
Deferred income tax liabilities	(24,669)	(4,018)	(25,998)	(4,501)
Net	154,335	42,469	103,325	29,840

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**35 Deferred income taxes (Continued)**

35.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 31 December			
	2017		2016	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	155,379	38,707	150,865	37,952
Pension, retirement benefits and salary payables	18,716	4,673	19,504	4,871
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	104,486	26,090	89,688	22,339
Fair value changes of available for sale investment securities credited to other comprehensive income	30,551	7,464	7,318	1,617
Other temporary differences	16,932	3,351	14,004	2,924
Subtotal	326,064	80,285	281,379	69,703
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(86,856)	(21,688)	(100,862)	(25,216)
Fair value changes of available for sale investment securities charged to other comprehensive income	(8,835)	(2,097)	(7,690)	(1,792)
Depreciation of property and equipment	(19,131)	(3,261)	(18,671)	(3,207)
Revaluation of property and investment properties	(6,968)	(1,335)	(8,351)	(1,555)
Other temporary differences	(49,939)	(9,435)	(42,480)	(8,093)
Subtotal	(171,729)	(37,816)	(178,054)	(39,863)
Net	154,335	42,469	103,325	29,840

As at 31 December 2017, deferred tax liabilities relating to temporary differences of RMB111,841 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2016: RMB100,428 million). Refer to Note II.22.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December	
	2017	2016
As at 1 January	29,840	17,955
Credited to the income statement (Note V.10)	6,943	6,867
Credited to other comprehensive income	5,542	4,580
Other	144	438
As at 31 December	42,469	29,840

35.4 The deferred income tax credit/charge in the income statement comprises the following temporary differences:

	Year ended 31 December	
	2017	2016
Asset impairment allowances	755	7,515
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	7,279	(395)
Pension, retirement benefits and salary payables	(198)	90
Other temporary differences	(893)	(343)
Total	6,943	6,867

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**36 Other liabilities**

	As at 31 December	
	2017	2016
Interest payable ⁽¹⁾	190,226	183,516
Insurance liabilities		
— Life insurance contracts	91,618	82,166
— Non-life insurance contracts	9,098	8,725
Items in the process of clearance and settlement	41,621	51,838
Salary and welfare payables ⁽²⁾	28,883	27,817
Short position in debt securities	17,219	9,990
Deferred income	8,680	8,000
Provision ⁽³⁾	2,941	6,065
Bonds issued at fair value ⁽⁴⁾	1,907	–
Due to and placements from banks and other financial institutions at fair value ⁽⁴⁾	1,246	1,968
Other ⁽⁵⁾	66,143	58,833
Total	459,582	438,918

(1) Interest payable

	As at 31 December	
	2017	2016
Due to customers	167,328	163,878
Due to and placements from banks and other financial institutions	8,539	9,476
Bonds issued and other	14,359	10,162
Total	190,226	183,516

The movements of interest payable are as follows:

	Year ended 31 December	
	2017	2016
As at 1 January	183,516	174,256
Accrued during the year	284,227	260,091
Paid during the year	(277,517)	(250,831)
As at 31 December	190,226	183,516

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(2) Salary and welfare payables

	As at 1 January 2017	Accrual	Payment	As at 31 December 2017
Salary, bonus and subsidy	22,322	56,477	(56,102)	22,697
Staff welfare	–	3,146	(3,146)	–
Social insurance				
— Medical	985	3,404	(3,360)	1,029
— Pension	170	6,657	(6,656)	171
— Annuity	23	2,060	(2,060)	23
— Unemployment	7	212	(212)	7
— Injury at work	2	90	(90)	2
— Maternity insurance	3	215	(215)	3
Housing funds	32	4,692	(4,693)	31
Labour union fee and staff education fee	3,885	1,925	(1,442)	4,368
Reimbursement for cancellation of labour contract	15	7	(6)	16
Other	373	3,174	(3,011)	536
Total⁽ⁱ⁾	27,817	82,059	(80,993)	28,883

	As at 1 January 2016	Accrual	Payment	As at 31 December 2016
Salary, bonus and subsidy	21,916	55,792	(55,386)	22,322
Staff welfare	–	2,908	(2,908)	–
Social insurance				
— Medical	888	3,254	(3,157)	985
— Pension	158	6,585	(6,573)	170
— Annuity	22	2,060	(2,059)	23
— Unemployment	7	325	(325)	7
— Injury at work	1	102	(101)	2
— Maternity insurance	2	203	(202)	3
Housing funds	50	5,066	(5,084)	32
Labour union fee and staff education fee	3,369	1,918	(1,402)	3,885
Reimbursement for cancellation of labour contract	13	11	(9)	15
Other	285	2,838	(2,750)	373
Total⁽ⁱ⁾	26,711	81,062	(79,956)	27,817

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2017 and 2016.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**36 Other liabilities (Continued)**

(3) Provision

	As at 31 December	
	2017	2016
Allowance for litigation losses (Note V.41.1)	995	727
Other	1,946	5,338
Total	2,941	6,065

The movement of the provision was as follows:

	Year ended 31 December	
	2017	2016
As at 1 January	6,065	3,362
(Reversal)/provision for the year, net	(2,995)	2,992
Utilised during the year	(129)	(289)
As at 31 December	2,941	6,065

(4) Due to and placements from banks and other financial institutions and bonds issued at fair value

Certain financial liabilities related to due to and placements from banks and other financial institutions and bonds issued have been matched with derivatives as part of a documented risk management strategy to mitigate market risk. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the income statement. As at 31 December 2017, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders. There were no significant changes in the Group's credit risk and therefore the amounts of changes in fair value of the above-mentioned due to and placements from banks and other financial institutions and bonds issued that were attributable to changes in credit risk were considered not significant during the years ended 31 December 2017 and 2016.

(5) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Limited under finance lease.

	As at 31 December	
	2017	2016
Within 1 year (inclusive)	229	82
1 year to 2 years (inclusive)	22	243
2 years to 3 years (inclusive)	21	23
Over 3 years	139	169
Total minimum rental payments	411	517
Unrecognised finance charge	(28)	(43)
Finance lease payments, net	383	474

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**37 Share capital, capital reserve, treasury shares and other equity instruments****37.1 Share capital**

The Bank's share capital are as follows:

Unit: Share

	As at 31 December	
	2017	2016
Domestic listed A shares, par value RMB 1.00 per share	210,765,514,846	210,765,514,846
Overseas listed H shares, par value RMB 1.00 per share	83,622,276,395	83,622,276,395
Total	294,387,791,241	294,387,791,241

All A and H shares rank pari passu with the same rights and benefits.

37.2 Capital reserve

	As at 31 December	
	2017	2016
Share premium	139,921	139,921
Other capital reserve	1,959	2,051
Total	141,880	141,972

37.3 Treasury shares

A wholly-owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2017 was approximately 31.85 million (31 December 2016: approximately 17.23 million).

37.4 Other equity instruments

For the year ended 31 December 2017, the movements of the Bank's other equity instruments were as follows:

	As at		Increase/(Decrease)		As at	
	1 January 2017				31 December 2017	
	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount	Quantity (million shares)	Carrying amount
Preference Shares						
2014 Offshore Preference Shares ⁽¹⁾	399.4	39,782	-	-	399.4	39,782
2014 Domestic Preference Shares ⁽²⁾	320.0	31,963	-	-	320.0	31,963
2015 Domestic Preference Shares ⁽³⁾	280.0	27,969	-	-	280.0	27,969
Total	999.4	99,714	-	-	999.4	99,714

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

- (1) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares in the aggregate par value of RMB39.94 billion on 23 October 2014. Each Offshore Preference Share has a par value of RMB100 and 399.4 million Offshore Preference Shares were issued in total. The initial annual dividend rate is 6.75% and is subsequently subject to reset per agreement, but in no case shall exceed 18.07%. Dividends are calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

The Offshore Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, all or part of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 23 October 2019 or on any dividend payment date thereafter at the redemption price which is the sum of the par value of the Offshore Preference Shares and the dividends declared but not yet distributed, as calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

- (2) Pursuant to the approvals by relevant authorities in China, the Bank issued 6.0% non-cumulative Domestic Preference Shares on 21 November 2014, in the aggregate par value of RMB32 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 320 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, the Bank may redeem all or part of the Domestic Preference Shares on 21 November 2019 or any dividend payment date thereafter of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

- (3) Pursuant to the approvals by relevant authorities in China, the Bank issued 5.5% non-cumulative Domestic Preference Shares on 13 March 2015, in the aggregate par value of RMB28 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 280 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, the Bank may redeem all or part of the Domestic Preference Shares on 13 March 2020 or any dividend payment date thereafter of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not be deemed a default. However, the Bank shall not distribute profits to the holders of ordinary shares until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall report to the CBRC for review and determination and the Bank will convert the preference shares into ordinary shares in whole or in part.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to non-distributable statutory surplus reserves. The appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 29 March 2018, the Bank appropriated 10% of the net profit for the year ended 31 December 2017 to the statutory surplus reserves, amounting to RMB15,147 million (2016: RMB13,688 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

38.2 General and regulatory reserves

Pursuant to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* (the "Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve as a distribution of profits, being part of the owner's rights and interests, should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 29 March 2018 and on the basis of the Bank's profit for the year ended 31 December 2017, the Board of Directors of the Bank approved the appropriation of RMB13,282 million (2016: RMB14,505 million) to the general reserve for the year ended 31 December 2017.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2017 and 2016, the reserve amounts set aside by BOCHK Group were RMB6,433 million and RMB5,712 million, respectively.

38.3 Dividends

Dividends for Ordinary Shares

An ordinary share dividend of RMB49,457 million in respect of the profit for the year ended 31 December 2016 was approved by the equity holders of the Bank at the Annual General Meeting held on 29 June 2017 and was distributed during the year.

An ordinary share dividend of RMB0.176 per share in respect of the profit for the year ended 31 December 2017 (2016: RMB0.168 per share), amounting to a total dividend of RMB51,812 million based on the number of shares issued as at 31 December 2017 will be proposed for approval at the Annual General Meeting to be held on 28 June 2018. The dividend payable is not reflected in liabilities of the financial statements.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)****38.3 Dividends (Continued)***Dividends for Preference Shares*

The dividend distribution of Domestic Preference Shares (Second Tranche) amounting to RMB1,540 million was approved by the Board of Directors of the Bank at the Board Meeting held on 23 January 2017 and the dividend was distributed on 13 March 2017.

The dividend distribution of Offshore Preference Shares and Domestic Preference Shares (First Tranche) was approved by the Board of Directors of the Bank at the Board Meeting held on 30 August 2017. The dividend of Offshore Preference Shares amounting to USD487 million before tax was distributed on 23 October 2017. The dividend of Domestic Preference Shares (First Tranche) amounting to RMB1,920 million was distributed on 21 November 2017.

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2017	2016
BOC Hong Kong (Group) Limited	60,084	60,476
Bank of China Group Investment Limited	8,265	6,335
Tai Fung Bank Limited	8,173	5,640
Other	4,141	2,959
Total	80,663	75,410

40 Changes in the consolidation**40.1 Disposal of investment in subsidiaries**

On 22 December 2016, BOCHK, a subsidiary directly wholly owned by BOCHK (Holdings), entered into a Sale and Purchase Agreement with Xiamen International Investment Limited and the Committee of Jimei Schools in relation to the sale and purchase of approximately 70.49% of the total issued shares of Chiyu Bank. The sale was completed in accordance with the terms and conditions of the Sale and Purchase Agreement on 27 March 2017. Upon completion, Chiyu Bank ceased to be a subsidiary of the Bank and BOCHK (Holdings).

Gain on disposal of Chiyu Bank:

	Year ended 31 December 2017
Total consideration	6,599
Net assets disposed	(3,693)
Transaction costs	(143)
Cumulative other comprehensive income reclassified to the income statement	(13)
Gain on disposal	2,750

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Changes in the consolidation (Continued)

40.1 Disposal of investment in subsidiaries (Continued)

Net assets of Chiyu Bank at the date of disposal:

	At the date of disposal
Cash and due from banks and other financial institutions	1,236
Balances with central banks	267
Placements with and loans to banks and other financial institutions	5,569
Loans and advances to customers, net	26,918
Financial investments	12,415
Other assets	1,608
Due to banks and other financial institutions	(587)
Placements from banks and other financial institutions	(1,778)
Due to customers	(39,812)
Other liabilities	(601)
Total	5,235
Non-controlling interests	(1,542)
Net assets disposed	3,693

Net cash inflow from disposal of Chiyu Bank:

	Year ended 31 December 2017
Cash received from disposal of Chiyu Bank	6,599
Transaction costs	(143)
Cash and cash equivalents held by Chiyu Bank at the date of disposal	(5,169)
Net cash inflow from disposal of Chiyu Bank	1,287

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**40 Changes in the consolidation (Continued)****40.2 Business combinations not under the common control**

On 20 December 2017, BOC purchased the shares of 13 village banks from China Development Bank, Kreditanstalt Fur Wiederaufbau and International Finance Corporation. The total consideration was RMB875 million, and the shares acquired for each bank are between 40.5% and 67.5% of the total shares.

The details of the identifiable assets and liabilities acquired are as follows:

	Acquisition Date	
	Fair value	Carrying amount
Cash and due from banks and other financial institutions	4,412	4,412
Balances with central banks	694	694
Loans and advances to customers, net	3,611	3,611
Property and equipment	44	24
Intangible assets	6	5
Deferred income tax assets	74	74
Other assets	50	50
Placements from banks and other financial institutions	(300)	(300)
Due to customers	(6,531)	(6,531)
Deferred income tax liabilities	(7)	(2)
Other liabilities	(151)	(151)
Total	1,902	1,886
Non-controlling interests	(984)	(975)
Identifiable net assets	918	
Goodwill arising on acquisition	42	
Other operating income	(85)	
Total consideration	875	

The financial performance and cash flows of the village banks from the date of acquisition until 31 December 2017 are as follows:

	Period from acquisition date to 31 December 2017
Operating income	55
Profit for the period	44
Net cash flows for the period	286

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Changes in the consolidation (Continued)

40.2 Business combinations not under the common control (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the village banks is as follows:

	Year ended 31 December 2017
Cash and cash equivalents held by the village banks as at the acquisition date	3,640
Cash consideration paid on acquisition of the village banks	(875)
Net cash inflow on acquisition of the village banks	2,765

40.3 Newly set-up subsidiary

On 16 November 2017, the Bank set up a wholly-owned subsidiary, BOC Financial Asset Investment Co., Ltd. ("BOC Asset Investment"), which mainly engage in debt-to-equity swaps and other supporting businesses. As at 31 December 2017, the Bank held 100% of the total capital of BOC Asset Investment.

41 Contingent liabilities and commitments

41.1 Legal proceedings and arbitrations

As at 31 December 2017, the Group was involved in certain litigation and arbitration cases in the regular course of its business. In addition, in terms of the range and scale of its international operations, the Group may face a variety of legal proceedings within different jurisdictions. As at 31 December 2017, provisions of RMB995 million (31 December 2016: RMB727 million) were made based on court judgements or the advice of counsel (Note V.36). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

41.2 Assets pledged

Assets pledged by the Group as collateral mainly for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December	
	2017	2016
Debt securities	1,119,921	804,425
Bills	751	656
Total	1,120,672	805,081

41.3 Collateral accepted

The Group accepts securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase and derivative agreements with banks and other financial institutions. As at 31 December 2017, the fair value of collateral received from banks and other financial institutions accepted by the Group amounted to RMB32,052 million (31 December 2016: RMB11,468 million). As at 31 December 2017, the fair value of the collateral that the Group had sold or re-pledged, but was obligated to return, was RMB3,067 million (31 December 2016: RMB1,098 million). These transactions are conducted under standard terms in the normal course of business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.4 Capital commitments

	As at 31 December	
	2017	2016
Property and equipment		
— Contracted but not provided for	52,839	61,237
— Authorised but not contracted for	1,804	1,967
Intangible assets		
— Contracted but not provided for	709	860
— Authorised but not contracted for	47	15
Investment properties		
— Contracted but not provided for	9	13
— Authorised but not contracted for	—	1
Total	55,408	64,093

41.5 Operating leases

(1) Operating lease commitments — As lessee

Under irrevocable operating lease contracts, the future minimum lease payments that should be paid by the Group are summarised as follows:

	As at 31 December	
	2017	2016
Within 1 year	6,570	6,446
Between 1 and 2 years	4,952	5,049
Between 2 and 3 years	3,597	3,711
Over 3 years	6,667	7,157
Total	21,786	22,363

(2) Operating lease commitments — As lessor

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Limited. Under irrevocable operating lease contracts, as at 31 December 2017, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB10,319 million not later than one year (31 December 2016: RMB9,212 million), RMB42,237 million later than one year and not later than five years (31 December 2016: RMB37,767 million) and RMB47,490 million later than five years (31 December 2016: RMB38,589 million).

41.6 Treasury bonds redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2017, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB49,855 million (31 December 2016: RMB46,737 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.7 Credit commitments

	As at 31 December	
	2017	2016
Loan commitments ⁽¹⁾		
— with an original maturity of less than 1 year	188,198	179,110
— with an original maturity of 1 year or over	1,147,484	992,264
Undrawn credit card limits	840,078	673,669
Letters of guarantee issued ⁽²⁾	1,079,178	1,097,448
Bank bill acceptance	295,991	331,138
Letters of credit issued	139,298	151,155
Accepted bills of exchange under letters of credit	90,175	119,490
Other	90,230	45,334
Total⁽³⁾	3,870,632	3,589,608

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 31 December 2017, the unconditionally revocable loan commitments of the Group amounted to RMB240,303 million (31 December 2016: RMB255,527 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC under the advanced capital measurement approaches. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors.

	As at 31 December	
	2017	2016
Credit commitments	1,067,636	1,057,647

41.8 Underwriting obligations

As at 31 December 2017, the firm commitment in underwriting securities of the Group amounted to RMB570 million (31 December 2016: Nil).

42 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

	As at 31 December	
	2017	2016
Cash and due from banks and other financial institutions	279,651	293,410
Balances with central banks	438,711	456,304
Placements with and loans to banks and other financial institutions	177,129	236,846
Financial investments	63,261	32,687
Total	958,752	1,019,247

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions

43.1 CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business at commercial terms.

43.2 Transactions with Huijin and companies under Huijin

(1) *General information of Huijin*

Central Huijin Investment Ltd.

Legal representative	DING Xuedong
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	64.02%
Voting rights in the Bank	64.02%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council
Unified social credit code	911000007109329615

(2) *Transactions with Huijin*

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

Due to Huijin

	Year ended 31 December	
	2017	2016
As at 1 January	13,349	17,944
Received during the year	33,436	52,762
Repaid during the year	(34,739)	(57,357)
As at 31 December	12,046	13,349

Bonds issued by Huijin

As at 31 December 2017, the Group held government backed bonds issued by Huijin in the carrying value of RMB8,560 million (31 December 2016: RMB6,430 million) which were classified as held to maturity and available for sale. These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

(3) *Transactions with companies under Huijin*

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin (Continued)

The Group's outstanding balances and related interest rate ranges with these companies were as follows:

	As at 31 December	
	2017	2016
Due from banks and other financial institutions	31,663	117,584
Placements with and loans to banks and other financial institutions	76,983	106,948
Financial assets at fair value through profit or loss and financial investments	326,238	229,305
Derivative financial assets	4,795	7,606
Loans and advances to customers	10,825	12,868
Due to customers, banks and other financial institutions	(143,803)	(184,894)
Placements from banks and other financial institutions	(117,432)	(71,632)
Derivative financial liabilities	(8,620)	(4,022)
Credit commitments	8,683	4,599

	As at 31 December	
	2017	2016
Interest rate ranges		
Due from banks and other financial institutions	0.00%–5.50%	0.00%–5.50%
Placements with and loans to banks and other financial institutions	-0.25%–8.50%	0.00%–8.30%
Financial assets at fair value through profit or loss and financial investments	0.00%–6.20%	0.00%–6.74%
Loans and advances to customers	1.04%–5.51%	1.23%–4.75%
Due to customers, banks and other financial institutions	0.00%–6.10%	0.00%–6.10%
Placements from banks and other financial institutions	0.00%–9.50%	0.00%–9.50%

43.3 Transactions with government authorities, agencies, affiliates and other State-controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The main outstanding balances with associates and joint ventures are stated below:

	As at 31 December	
	2017	2016
Loans and advances to customers	2,823	2,464
Due to customers, banks and other financial institutions	(9,326)	(8,270)
Credit commitments	957	16,845

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	Unified social credit code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
BOC International (China) Co., Ltd.	PRC	91310000736650364G	37.14	37.14	RMB2,500	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products; management of publicly raised securities investment funds
BOC & Cinda (Wuhu) Investment Limited Partnership	PRC	91340202MA2MU5438W	49.00	49.00	NA	Asset management; Investment consulting
CGN Phase I Private Equity Fund Company Limited	PRC	91110000717827478Q	20.00	20.00	RMB100	Investment in nuclear power projects and related industries; Asset management; Investment consulting
Graceful Field Worldwide Limited	BVI	NA	80.00	Note (1)	USD0.0025	Investment
Zhongxinboda (Wuhu) Investment Limited Partnership	PRC	91340202MA2N9TTA6R	25.50	25.50	NA	Asset management; Investment consulting
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
Wkland Investments II Limited	BVI	NA	50.00	50.00	USD0.00002	Investment holding
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	91440000564568961E	40.00	40.00	RMB1,578	Investment
Zhejiang Zhesang Investment Fund Limited Partnership	PRC	91330000559679480L	38.96	38.96	NA	Industrial investment; Investment consulting

(1) In accordance with the respective articles of association, the Group has significant influence or joint control over these companies.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2017 and 2016.

43.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2017 and 2016, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2017 and 2016 comprises:

	Year ended 31 December	
	2017	2016
Compensation for short-term employment benefits ⁽¹⁾	9	11
Compensation for post-employment benefits	1	1
Total	10	12

(1) The total compensation package for these key management personnel for the year ended 31 December 2017 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's 2017 financial statements. The final compensation will be disclosed in a separate announcement when determined.

43.7 Transactions with Connected Natural Persons

As at 31 December 2017, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* of the CBRC and the *Administrative Measures for the Disclosure of Information of Listed Companies* of the China Security Regulatory Commission totalled RMB138 million (31 December 2016: RMB109 million) and RMB5 million (31 December 2016: RMB11 million) respectively.

43.8 Balances with subsidiaries

Mainly included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2017	2016
Due from banks and other financial institutions	30,932	47,406
Placements with and loans to banks and other financial institutions	90,913	71,543
Due to banks and other financial institutions	(112,859)	(27,300)
Placements from banks and other financial institutions	(86,316)	(98,073)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.8 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held⁽¹⁾						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited ⁽³⁾	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB4,535	100.00	100.00	Insurance services
BOC Financial Asset Investment Company Limited	Beijing	16 November 2017	RMB10,000	100.00	100.00	Debt-to-equity swaps and other supporting businesses, etc.
Indirectly held						
BOC Hong Kong (Holdings) Limited ⁽²⁾	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited ⁽³⁾	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited ⁽³⁾	Hong Kong	1 December 1997	HKD200	77.60	100.00	Provision of trustee services
BOC Aviation Limited	Singapore	25 November 1993	USD1,158	70.00	70.00	Aircraft leasing

- (1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.
- (2) BOCHK (Holdings) is listed on the Stock Exchange of Hong Kong Limited.
- (3) BOCHK and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06% and 100% of their equity interests, respectively, hold 66% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland; Hong Kong, Macau and Taiwan; and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation. The Group regularly examines the transfer price and adjusts the price to reflect current situation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign exchange, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest-bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other — Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**44 Segment reporting (Continued)**

As at and for the year ended 31 December 2017

	Chinese mainland	Hong Kong, Macau and Taiwan			Other countries and regions	Elimination	Total
		BOCHK Group	Other	Subtotal			
Interest income	540,129	43,236	30,242	73,478	37,780	(28,771)	622,616
Interest expense	(255,199)	(12,791)	(22,942)	(35,733)	(22,066)	28,771	(284,227)
Net interest income	284,930	30,445	7,300	37,745	15,714	-	338,389
Fee and commission income	77,928	12,994	6,967	19,961	6,161	(3,250)	100,800
Fee and commission expense	(7,200)	(3,356)	(1,532)	(4,888)	(1,825)	1,804	(12,109)
Net fee and commission income	70,728	9,638	5,435	15,073	4,336	(1,446)	88,691
Net trading (losses)/gains	(4,820)	2,419	1,704	4,123	2,383	-	1,686
Net gains on financial investments	821	980	597	1,577	8	-	2,406
Other operating income ⁽¹⁾	19,045	17,820	18,808	36,628	129	(3,213)	52,589
Operating income	370,704	61,302	33,844	95,146	22,570	(4,659)	483,761
Operating expenses ⁽¹⁾	(126,351)	(26,649)	(16,523)	(43,172)	(6,265)	1,929	(173,859)
Impairment losses on assets	(85,286)	(926)	(796)	(1,722)	(1,153)	-	(88,161)
Operating profit	159,067	33,727	16,525	50,252	15,152	(2,730)	221,741
Share of results of associates and joint ventures	-	14	1,148	1,162	-	-	1,162
Profit before income tax	159,067	33,741	17,673	51,414	15,152	(2,730)	222,903
Income tax expense							(37,917)
Profit for the year							184,986
Segment assets	15,503,377	2,181,757	1,335,266	3,517,023	1,911,087	(1,481,243)	19,450,244
Investment in associates and joint ventures	159	168	16,853	17,021	-	-	17,180
Total assets	15,503,536	2,181,925	1,352,119	3,534,044	1,911,087	(1,481,243)	19,467,424
Include: non-current assets ⁽²⁾	100,449	25,340	121,829	147,169	5,590	(161)	253,047
Segment liabilities	14,285,717	2,001,454	1,234,264	3,235,718	1,850,392	(1,481,082)	17,890,745
Other segment items:							
Intersegment net interest (expense)/income	(9,245)	1,657	11,820	13,477	(4,232)	-	-
Intersegment net fee and commission income/(expense)	261	34	1,529	1,563	(378)	(1,446)	-
Capital expenditure	14,084	1,281	30,090	31,371	467	-	45,922
Depreciation and amortisation	11,467	1,059	3,907	4,966	336	-	16,769
Credit commitments	3,412,867	293,376	124,563	417,939	461,310	(421,484)	3,870,632

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2016

	Chinese mainland	Hong Kong, Macau and Taiwan			Other countries and regions	Elimination	Total
		BOCHK Group	Other	Subtotal			
Interest income	494,913	35,293	21,393	56,686	30,231	(15,691)	566,139
Interest expense	(231,271)	(10,663)	(16,681)	(27,344)	(17,167)	15,691	(260,091)
Net interest income	263,642	24,630	4,712	29,342	13,064	-	306,048
Fee and commission income	75,253	12,783	6,529	19,312	5,820	(2,066)	98,319
Fee and commission expense	(4,550)	(3,636)	(1,190)	(4,826)	(1,535)	1,256	(9,655)
Net fee and commission income	70,703	9,147	5,339	14,486	4,285	(810)	88,664
Net trading gains	2,496	3,567	787	4,354	1,646	-	8,496
Net gains on financial investments	11,078	929	495	1,424	22	-	12,524
Other operating income ⁽¹⁾	20,155	39,585	12,450	52,035	198	(2,464)	69,924
Operating income	368,074	77,858	23,783	101,641	19,215	(3,274)	485,656
Operating expenses ⁽¹⁾	(138,639)	(20,632)	(11,099)	(31,731)	(5,987)	1,288	(175,069)
Impairment losses on assets	(86,427)	(864)	(939)	(1,803)	(842)	-	(89,072)
Operating profit	143,008	56,362	11,745	68,107	12,386	(1,986)	221,515
Share of results of associates and joint ventures	-	(1)	898	897	-	-	897
Profit before income tax	143,008	56,361	12,643	69,004	12,386	(1,986)	222,412
Income tax expense							(38,361)
Profit for the year							184,051
Segment assets	14,341,792	2,048,841	1,193,626	3,242,467	1,812,521	(1,261,950)	18,134,830
Investment in associates and joint ventures	-	170	13,889	14,059	-	-	14,059
Total assets	14,341,792	2,049,011	1,207,515	3,256,526	1,812,521	(1,261,950)	18,148,889
Include: non-current assets ⁽²⁾	98,685	25,544	109,091	134,635	5,522	(161)	238,681
Segment liabilities	13,198,402	1,870,712	1,096,909	2,967,621	1,757,564	(1,261,790)	16,661,797
Other segment items:							
Intersegment net interest (expense)/income	(3,251)	985	6,363	7,348	(4,097)	-	-
Intersegment net fee and commission income/(expense)	349	26	1,230	1,256	(795)	(810)	-
Capital expenditure	10,909	1,325	21,058	22,383	815	-	34,107
Depreciation and amortisation	11,346	864	3,245	4,109	236	-	15,691
Credit commitments	3,062,802	267,190	128,792	395,982	481,663	(350,839)	3,589,608

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**44 Segment reporting (Continued)**

As at and for the year ended 31 December 2017

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	308,532	200,836	190,248	1,216	3,064	818	(82,098)	622,616
Interest expense	(143,490)	(90,434)	(128,679)	(328)	(64)	(3,330)	82,098	(284,227)
Net interest income/(expense)	165,042	110,402	61,569	888	3,000	(2,512)	-	338,389
Fee and commission income	38,737	44,549	13,865	4,495	-	1,210	(2,056)	100,800
Fee and commission expense	(2,790)	(5,262)	(1,760)	(1,095)	(2,863)	(66)	1,727	(12,109)
Net fee and commission income/(expense)	35,947	39,287	12,105	3,400	(2,863)	1,144	(329)	88,691
Net trading gains/(losses)	1,563	946	(3,487)	373	1,872	346	73	1,686
Net gains on financial investments	18	3	1,235	122	671	357	-	2,406
Other operating income	1,939	8,559	1,123	235	23,924	19,483	(2,674)	52,589
Operating income	204,509	159,197	72,545	5,018	26,604	18,818	(2,930)	483,761
Operating expenses	(55,405)	(69,065)	(16,605)	(2,374)	(24,900)	(8,440)	2,930	(173,859)
Impairment losses on assets	(75,093)	(9,147)	(3,064)	(4)	(7)	(846)	-	(88,161)
Operating profit	74,011	80,985	52,876	2,640	1,697	9,532	-	221,741
Share of results of associates and joint ventures	-	-	-	465	(34)	784	(53)	1,162
Profit before income tax	74,011	80,985	52,876	3,105	1,663	10,316	(53)	222,903
Income tax expense								(37,917)
Profit for the year								184,986
Segment assets	7,139,973	3,954,150	7,908,168	66,050	139,945	325,825	(83,867)	19,450,244
Investment in associates and joint ventures	-	-	-	4,449	-	12,799	(68)	17,180
Total assets	7,139,973	3,954,150	7,908,168	70,499	139,945	338,624	(83,935)	19,467,424
Segment liabilities	8,846,697	5,826,209	2,960,947	53,067	125,765	161,766	(83,706)	17,890,745
Other segment items:								
Intersegment net interest income/(expense)	27,889	53,019	(80,159)	-	54	(803)	-	-
Intersegment net fee and commission income/(expense)	203	810	105	(385)	(1,274)	870	(329)	-
Capital expenditure	4,266	4,719	226	129	141	36,441	-	45,922
Depreciation and amortisation	4,894	6,225	1,525	94	113	3,918	-	16,769
Credit commitments	2,869,323	1,001,309	-	-	-	-	-	3,870,632

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2016

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	301,759	194,421	152,986	942	2,714	833	(87,516)	566,139
Interest expense	(130,312)	(89,877)	(124,623)	(174)	(28)	(2,593)	87,516	(260,091)
Net interest income/(expense)	171,447	104,544	28,363	768	2,686	(1,760)	-	306,048
Fee and commission income	39,751	41,435	13,680	4,351	-	953	(1,851)	98,319
Fee and commission expense	(3,180)	(3,507)	(1,022)	(901)	(2,484)	(59)	1,498	(9,655)
Net fee and commission income/(expense)	36,571	37,928	12,658	3,450	(2,484)	894	(353)	88,664
Net trading gains/(losses)	1,610	867	5,102	136	(255)	1,007	29	8,496
Net gains on financial investments	31	6	11,677	33	366	411	-	12,524
Other operating income	1,586	7,264	844	238	19,696	41,784	(1,488)	69,924
Operating income	211,245	150,609	58,644	4,625	20,009	42,336	(1,812)	485,656
Operating expenses	(65,248)	(68,278)	(16,502)	(2,181)	(18,887)	(5,785)	1,812	(175,069)
Impairment losses on assets	(65,651)	(21,308)	(828)	10	(25)	(1,270)	-	(89,072)
Operating profit	80,346	61,023	41,314	2,454	1,097	35,281	-	221,515
Share of results of associates and joint ventures	-	-	-	413	(13)	538	(41)	897
Profit before income tax	80,346	61,023	41,314	2,867	1,084	35,819	(41)	222,412
Income tax expense								(38,361)
Profit for the year								184,051
Segment assets	7,039,052	3,475,983	7,219,165	61,634	126,461	297,078	(84,543)	18,134,830
Investment in associates and joint ventures	-	-	-	4,114	-	10,013	(68)	14,059
Total assets	7,039,052	3,475,983	7,219,165	65,748	126,461	307,091	(84,611)	18,148,889
Segment liabilities	8,378,306	5,675,800	2,366,627	49,998	112,474	162,974	(84,382)	16,661,797
Other segment items:								
Intersegment net interest income/(expense)	21,591	65,132	(86,117)	88	53	(747)	-	-
Intersegment net fee and commission income/(expense)	102	1,411	17	(162)	(1,324)	309	(353)	-
Capital expenditure	3,442	3,812	182	131	116	26,424	-	34,107
Depreciation and amortisation	4,891	6,000	1,274	73	160	3,293	-	15,691
Credit commitments	2,803,340	786,268	-	-	-	-	-	3,589,608

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or re-pledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December 2017		As at 31 December 2016	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	59,494	58,333	45,558	44,695

Credit assets transfers

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB1,717 million as at 31 December 2017 (31 December 2016: RMB1,719 million), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB35,769 million for this year (2016: RMB22,721 million) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB5,768 million as at 31 December 2017 (31 December 2016: RMB3,370 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Interests in the structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

46.1 Interests in the unconsolidated structured entities

The interests held by the Group in the unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

In conducting asset management business in Chinese mainland, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives, including non-guaranteed wealth management products, publicly offered funds and asset management plans, and earned management fee, commission and custodian fees in return.

As at 31 December 2017, the balance of the unconsolidated bank wealth management products sponsored by the Group amounted to RMB1,157,736 million (31 December 2016: RMB1,176,824 million). The balance of unconsolidated publicly offered funds and asset management plans sponsored by the Group amounted to RMB802,405 million (31 December 2016: RMB908,950 million).

For the year ended 31 December 2017, the above-mentioned management fee, commission and custodian fee amounted to RMB11,247 million (2016: RMB11,353 million).

As at 31 December 2017, the balance of interest and commission receivable held by the Group in above-mentioned structured entities are not material. For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the year ended 31 December 2017, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB31,049 million (2016: RMB26,000 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 31 December 2017, the balance of above transactions was RMB31,049 million (31 December 2016: Nil). The maximum exposure to loss of those placements approximated to the carrying amount.

In addition, the total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB15,874 million for the year ended 31 December 2017 (2016: RMB31,866 million). For description of the portion of asset-backed securities issued by above structured entities and held by the Group, refer to Note V.45.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**46 Interests in the structured entities (Continued)****46.1 Interests in the unconsolidated structured entities (Continued)**

Structured entities sponsored by other financial institutions

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

Structured entity type	Financial assets at fair value through profit or loss	Investment securities available for sale	Debt securities held to maturity	Financial investments classified as loans and receivables	Total	Maximum exposure to loss
As at 31 December 2017						
Fund	8,408	26,439	–	–	34,847	34,847
Wealth management plans	–	15,000	–	–	15,000	15,000
Investment trusts and asset management plans	316	–	–	7,134	7,450	7,450
Asset-backed securitisations	2,014	35,525	33,469	1,307	72,315	72,315
As at 31 December 2016						
Fund	3,409	17,148	–	–	20,557	20,557
Wealth management plans	–	15,000	–	–	15,000	15,000
Investment trusts and asset management plans	–	–	–	15,852	15,852	15,852
Asset-backed securitisations	–	21,572	31,838	1,387	54,797	54,797

46.2 Consolidated structured entities

The Group's consolidated structured entities mainly consist of open-end funds, private equity funds, trusts for asset-backed securities, and special-purpose companies. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns. Except for providing financial guarantees for the companies established solely for financing purpose, the Group does not provide financial or other support to the other consolidated structured entities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		Net amount
				Financial instruments*	Cash collateral received	
As at 31 December 2017						
Derivatives	35,854	–	35,854	(24,687)	(3,726)	7,441
Reverse repo agreements	9,616	–	9,616	(9,616)	–	–
Other assets	14,572	(8,814)	5,758	–	–	5,758
Total	60,042	(8,814)	51,228	(34,303)	(3,726)	13,199
As at 31 December 2016						
Derivatives	66,258	–	66,258	(40,962)	(6,082)	19,214
Reverse repo agreements	6,212	–	6,212	(6,212)	–	–
Other assets	14,251	(8,090)	6,161	–	–	6,161
Total	86,721	(8,090)	78,631	(47,174)	(6,082)	25,375

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		Net amount
				Financial instruments*	Cash collateral pledged	
As at 31 December 2017						
Derivatives	32,508	–	32,508	(24,439)	(619)	7,450
Repurchase agreements	12,086	–	12,086	(12,086)	–	–
Other liabilities	9,416	(8,814)	602	–	–	602
Total	54,010	(8,814)	45,196	(36,525)	(619)	8,052
As at 31 December 2016						
Derivatives	65,167	–	65,167	(44,764)	(4,127)	16,276
Repurchase agreements	17,211	–	17,211	(17,211)	–	–
Other liabilities	8,671	(8,090)	581	–	–	581
Total	91,049	(8,090)	82,959	(61,975)	(4,127)	16,857

* Including non-cash collateral.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously (“the offset criteria”).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**47 Offsetting financial assets and financial liabilities (Continued)**

Derivatives and reverse repo/repurchase agreements included in amounts are not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral have been received/pledged in respect of the transactions described above.

48 The Bank's statement of financial position and changes in equity**48.1 The Bank's statement of financial position**

	As at 31 December	
	2017	2016
ASSETS		
Cash and due from banks and other financial institutions	513,836	656,003
Balances with central banks	2,129,262	2,188,722
Placements with and loans to banks and other financial institutions	585,638	553,551
Government certificates of indebtedness for bank notes issued	7,141	7,048
Precious metals	166,687	156,155
Financial assets at fair value through profit or loss	109,022	59,144
Derivative financial assets	72,055	85,604
Loans and advances to customers, net	9,443,898	8,683,440
Financial investments	3,624,294	3,178,695
— available for sale	1,193,010	1,026,700
— held to maturity	2,028,333	1,773,569
— loans and receivables	402,951	378,426
Investment in subsidiaries	106,404	96,892
Investment in associates and joint ventures	226	68
Consolidated structured entities	140,000	93,000
Property and equipment	83,439	84,962
Investment properties	2,025	2,144
Deferred income tax assets	47,933	35,892
Other assets	134,019	106,665
Total assets	17,165,879	15,987,985

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 The Bank's statement of financial position and changes in equity (Continued)

48.1 The Bank's statement of financial position (Continued)

	As at 31 December	
	2017	2016
LIABILITIES		
Due to banks and other financial institutions	1,476,244	1,401,155
Due to central banks	973,120	813,197
Bank notes in circulation	7,462	7,284
Placements from banks and other financial institutions	537,448	364,149
Derivative financial liabilities	89,647	74,549
Due to customers	11,981,597	11,428,022
— at amortised cost	11,622,731	11,093,065
— at fair value	358,866	334,957
Bonds issued	423,485	309,616
Current tax liabilities	28,413	23,712
Retirement benefit obligations	3,027	3,439
Deferred income tax liabilities	113	109
Other liabilities	287,893	283,743
Total liabilities	15,808,449	14,708,975
EQUITY		
Share capital	294,388	294,388
Other equity instruments	99,714	99,714
Capital reserve	138,832	138,832
Other comprehensive income	(21,282)	(4,441)
Statutory reserves	138,275	122,975
General and regulatory reserves	200,022	186,640
Undistributed profits	507,481	440,902
Total equity	1,357,430	1,279,010
Total equity and liabilities	17,165,879	15,987,985

Approved and authorised for issue by the Board of Directors on 29 March 2018.



CHEN Siqing
Director



REN Deqi
Director

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**48 The Bank's statement of financial position and changes in equity (Continued)****48.2 The Bank's statement of changes in equity**

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2017	294,388	99,714	138,832	(4,441)	122,975	186,640	440,902	1,279,010
Total comprehensive income	-	-	-	(16,841)	-	-	151,472	134,631
Appropriation to statutory reserves	-	-	-	-	15,300	-	(15,300)	-
Appropriation to general and regulatory reserves	-	-	-	-	-	13,382	(13,382)	-
Dividends	-	-	-	-	-	-	(56,211)	(56,211)
As at 31 December 2017	294,388	99,714	138,832	(21,282)	138,275	200,022	507,481	1,357,430

	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Total
As at 1 January 2016	294,388	99,714	138,832	7,104	109,215	172,029	390,626	1,211,908
Total comprehensive income	-	-	-	(11,545)	-	-	136,883	125,338
Appropriation to statutory reserves	-	-	-	-	13,760	-	(13,760)	-
Appropriation to general and regulatory reserves	-	-	-	-	-	14,611	(14,611)	-
Dividends	-	-	-	-	-	-	(58,236)	(58,236)
As at 31 December 2016	294,388	99,714	138,832	(4,441)	122,975	186,640	440,902	1,279,010

49 Events after the financial reporting date***Dividend distribution plan of Domestic Preference Shares (Second Tranche)***

The dividend distribution of Domestic Preference Shares (Second Tranche) was approved by the Board of Directors of the Bank at the Board meeting held on 19 January 2018. The dividend of RMB1,540 million was paid at a rate of 5.5% on 13 March 2018. The dividend payable was not reflected in liabilities of the financial statements.

Issuance of overseas bonds

On 26 February 2018, the Bank issued RMB4 billion notes, which was then listed on 6 March 2018 on the Stock Exchange of Hong Kong Limited, as part of the Bank's USD30 billion Medium Term Note Programme. The issuance details had been set out in the Bank's announcement dated 5 March 2018.

On 1 March 2018, the Bank issued USD2.25 billion notes, which was then listed on 9 March 2018 on the Stock Exchange of Hong Kong Limited, as part of the Bank's USD30 billion Medium Term Note Programme. The issuance details had been set out in the Bank's announcement dated 8 March 2018.

Strategic restructuring plan in the ASAEN region

As part of the Group's strategic restructuring plan in the ASAEN region, on 6 November 2017, the Bank (as seller) and BOCHK (as buyer) entered into sale and purchase agreements in relation to sale and purchase of the banking businesses operated by the Bank in the Philippines through Bank of China Limited, Manila Branch; and the banking businesses operated by the Bank in Vietnam through Bank of China Limited, Hochiminh City Branch. The equity transfer was completed on 29 January 2018.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, bill acceptance, letters of guarantee and letters of credit.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement

(1) *Loans and advances and off-balance sheet commitments*

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Credit Management Department, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the “probability of default” by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the “Guideline”) issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) *Loans and advances and off-balance sheet commitments (Continued)*

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) *Loans and advances and off-balance sheet commitments (Continued)*

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) *Due from, placements with and loans to banks and other financial institutions*

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) *Debt securities and derivatives*

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) *Credit risk limits and controls*

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Department at Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier 1 branches level in Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and the securities, and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Management Department. The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Deposit receipt	95%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Construction land use rights	70%
Real estate	70%
Automobiles	40%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependent on the nature of the loan.

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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(i) Collateral and guarantees (Continued)

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3.3 Impairment and provisioning policies

Relevant policies are included in Note II.4.6.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December	
	2017	2016
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Due from banks and other financial institutions	485,057	582,434
Balances with central banks	2,227,614	2,271,640
Placements with and loans to banks and other financial institutions	575,399	594,048
Government certificates of indebtedness for bank notes issued	129,350	117,421
Financial assets at fair value through profit or loss	173,892	112,194
Derivative financial assets	94,912	130,549
Loans and advances to customers, net	10,644,304	9,735,646
Financial investments		
— available for sale	1,788,517	1,554,675
— held to maturity	2,089,864	1,843,043
— loans and receivables	414,025	395,921
Other assets	189,328	144,039
Subtotal	18,812,262	17,481,610
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	1,079,178	1,097,448
Loan commitments and other credit commitments	2,791,454	2,492,160
Subtotal	3,870,632	3,589,608
Total	22,682,894	21,071,218

The table above represents a worst case scenario of credit risk exposure of the Group as at 31 December 2017 and 2016, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2017, 46.93% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2016: 46.20%) and 19.58% represents investments in debt securities (31 December 2016: 18.42%).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Chinese mainland	8,583,185	78.77%	7,818,508	78.40%
Hong Kong, Macau and Taiwan	1,339,149	12.29%	1,220,962	12.24%
Other countries and regions	974,224	8.94%	933,892	9.36%
Total loans and advances to customers	10,896,558	100.00%	9,973,362	100.00%

Chinese mainland

	As at 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Northern China	1,364,869	15.90%	1,254,192	16.04%
Northeastern China	517,581	6.03%	494,595	6.33%
Eastern China	3,362,753	39.18%	3,096,019	39.60%
Central and Southern China	2,242,985	26.13%	1,979,793	25.32%
Western China	1,094,997	12.76%	993,909	12.71%
Total loans and advances to customers	8,583,185	100.00%	7,818,508	100.00%

(ii) Analysis of loans and advances to customers by customer type

	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
As at 31 December 2017				
Corporate loans and advances				
— Trade bills	652,115	107,817	104,817	864,749
— Other	4,448,138	828,592	831,222	6,107,952
Personal loans	3,482,932	402,740	38,185	3,923,857
Total loans and advances to customers	8,583,185	1,339,149	974,224	10,896,558
As at 31 December 2016				
Corporate loans and advances				
— Trade bills	687,283	86,887	166,922	941,092
— Other	4,145,899	745,297	736,681	5,627,877
Personal loans	2,985,326	388,778	30,289	3,404,393
Total loans and advances to customers	7,818,508	1,220,962	933,892	9,973,362

VI FINANCIAL RISK MANAGEMENT (Continued)**3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,685,179	15.46%	1,632,912	16.37%
Commerce and services	1,557,095	14.29%	1,313,693	13.17%
Transportation, storage and postal services	1,056,755	9.70%	988,773	9.91%
Real estate	820,922	7.53%	751,035	7.53%
Production and supply of electricity, heating, gas and water	599,896	5.51%	519,161	5.21%
Mining	338,316	3.10%	352,706	3.54%
Financial services	285,598	2.62%	426,023	4.27%
Construction	207,201	1.90%	193,318	1.94%
Water, environment and public utility management	160,941	1.48%	159,660	1.60%
Public utilities	117,419	1.08%	107,372	1.08%
Other	143,379	1.32%	124,316	1.25%
Subtotal	6,972,701	63.99%	6,568,969	65.87%
Personal loans				
Mortgages	3,061,553	28.10%	2,635,960	26.43%
Credit cards	374,297	3.43%	302,302	3.03%
Other	488,007	4.48%	466,131	4.67%
Subtotal	3,923,857	36.01%	3,404,393	34.13%
Total loans and advances to customers	10,896,558	100.00%	9,973,362	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)**3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,371,246	15.98%	1,361,631	17.42%
Commerce and services	1,140,012	13.28%	890,841	11.40%
Transportation, storage and postal services	918,214	10.70%	846,349	10.83%
Real estate	402,693	4.69%	394,156	5.04%
Production and supply of electricity, heating, gas and water	487,941	5.68%	414,180	5.30%
Mining	172,973	2.01%	201,186	2.57%
Financial services	145,652	1.70%	291,587	3.73%
Construction	173,373	2.02%	157,465	2.01%
Water, environment and public utility management	149,964	1.75%	147,995	1.89%
Public utilities	105,675	1.23%	98,654	1.26%
Other	32,510	0.38%	29,138	0.37%
Subtotal	5,100,253	59.42%	4,833,182	61.82%
Personal loans				
Mortgages	2,750,946	32.05%	2,335,210	29.87%
Credit cards	360,699	4.20%	288,788	3.69%
Other	371,287	4.33%	361,328	4.62%
Subtotal	3,482,932	40.58%	2,985,326	38.18%
Total loans and advances to customers	8,583,185	100.00%	7,818,508	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)**3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Unsecured loans	3,447,319	31.64%	2,913,913	29.22%
Guaranteed loans	1,971,535	18.09%	2,025,819	20.31%
Collateralised and other secured loans				
— Loans secured by property and other immovable assets	4,410,349	40.47%	3,991,922	40.03%
— Other pledged loans	1,067,355	9.80%	1,041,708	10.44%
Total loans and advances to customers	10,896,558	100.00%	9,973,362	100.00%

Chinese mainland

	As at 31 December			
	2017		2016	
	Amount	% of total	Amount	% of total
Unsecured loans	2,418,477	28.18%	2,005,701	25.65%
Guaranteed loans	1,619,202	18.86%	1,667,546	21.33%
Collateralised and other secured loans				
— Loans secured by property and other immovable assets	3,755,618	43.76%	3,363,869	43.03%
— Other pledged loans	789,888	9.20%	781,392	9.99%
Total loans and advances to customers	8,583,185	100.00%	7,818,508	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December			
	Group		Chinese mainland	
	2017	2016	2017	2016
Corporate loans and advances				
— Neither past due nor impaired	6,811,112	6,401,135	4,945,580	4,670,792
— Past due but not impaired	31,630	51,520	28,085	49,627
— Impaired	129,959	116,314	126,588	112,763
Subtotal	6,972,701	6,568,969	5,100,253	4,833,182
Personal loans				
— Neither past due nor impaired	3,870,737	3,350,369	3,433,749	2,935,352
— Past due but not impaired	25,197	25,027	21,563	21,279
— Impaired	27,923	28,997	27,620	28,695
Subtotal	3,923,857	3,404,393	3,482,932	2,985,326
Total	10,896,558	9,973,362	8,583,185	7,818,508

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the Guideline issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December					
	2017			2016		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	6,549,415	261,697	6,811,112	6,164,951	236,184	6,401,135
Personal loans	3,868,720	2,017	3,870,737	3,349,132	1,237	3,350,369
Total	10,418,135	263,714	10,681,849	9,514,083	237,421	9,751,504

Chinese mainland

	As at 31 December					
	2017			2016		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	4,705,978	239,602	4,945,580	4,449,893	220,899	4,670,792
Personal loans	3,433,452	297	3,433,749	2,935,191	161	2,935,352
Total	8,139,430	239,899	8,379,329	7,385,084	221,060	7,606,144

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(ii) Loans and advances past due but not impaired

The total amount of loans and advances that were past due but not impaired is as follows:

Group

	Within 1 month	1-3 months	More than 3 months	Total
As at 31 December 2017				
Corporate loans and advances	21,934	9,572	124	31,630
Personal loans	14,727	10,457	13	25,197
Total	36,661	20,029	137	56,827
As at 31 December 2016				
Corporate loans and advances	28,912	22,607	1	51,520
Personal loans	14,330	10,657	40	25,027
Total	43,242	33,264	41	76,547

Chinese mainland

	Within 1 month	1-3 months	More than 3 months	Total
As at 31 December 2017				
Corporate loans and advances	18,715	9,370	–	28,085
Personal loans	11,941	9,622	–	21,563
Total	30,656	18,992	–	49,648
As at 31 December 2016				
Corporate loans and advances	27,471	22,156	–	49,627
Personal loans	11,132	10,147	–	21,279
Total	38,603	32,303	–	70,906

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipment and cash deposits.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2017			2016		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	154,208	97.67%	1.80%	141,458	97.35%	1.81%
Hong Kong, Macau and Taiwan	1,813	1.15%	0.14%	1,630	1.12%	0.13%
Other countries and regions	1,861	1.18%	0.19%	2,223	1.53%	0.24%
Total	157,882	100.00%	1.45%	145,311	100.00%	1.46%

Chinese mainland

	As at 31 December					
	2017			2016		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	28,244	18.31%	2.07%	15,863	11.22%	1.26%
Northeastern China	32,565	21.12%	6.29%	26,342	18.62%	5.33%
Eastern China	55,365	35.90%	1.65%	54,521	38.54%	1.76%
Central and Southern China	24,948	16.18%	1.11%	28,774	20.34%	1.45%
Western China	13,086	8.49%	1.20%	15,958	11.28%	1.61%
Total	154,208	100.00%	1.80%	141,458	100.00%	1.81%

(b) Impaired loans and advances by customer type

Group

	As at 31 December					
	2017			2016		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	129,959	82.31%	1.86%	116,314	80.04%	1.77%
Personal loans	27,923	17.69%	0.71%	28,997	19.96%	0.85%
Total	157,882	100.00%	1.45%	145,311	100.00%	1.46%

Chinese mainland

	As at 31 December					
	2017			2016		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	126,588	82.09%	2.48%	112,763	79.71%	2.33%
Personal loans	27,620	17.91%	0.79%	28,695	20.29%	0.96%
Total	154,208	100.00%	1.80%	141,458	100.00%	1.81%

VI FINANCIAL RISK MANAGEMENT (Continued)**3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geographical area and industry

	As at 31 December					
	2017			2016		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	66,281	41.98%	4.83%	58,433	40.22%	4.29%
Commerce and services	30,957	19.61%	2.72%	33,918	23.34%	3.81%
Transportation, storage and postal services	8,518	5.40%	0.93%	5,395	3.71%	0.64%
Real estate	5,624	3.56%	1.40%	3,411	2.35%	0.87%
Production and supply of electricity, heating, gas and water	1,833	1.16%	0.38%	3,018	2.08%	0.73%
Mining	6,065	3.84%	3.51%	4,232	2.91%	2.10%
Financial services	196	0.12%	0.13%	2	–	–
Construction	2,872	1.82%	1.66%	2,832	1.95%	1.80%
Water, environment and public utility management	329	0.21%	0.22%	295	0.20%	0.20%
Public utilities	242	0.15%	0.23%	221	0.15%	0.22%
Other	3,671	2.33%	11.29%	1,006	0.69%	3.45%
Subtotal	126,588	80.18%	2.48%	112,763	77.60%	2.33%
Personal loans						
Mortgages	9,700	6.14%	0.35%	9,675	6.66%	0.41%
Credit cards	9,154	5.80%	2.54%	9,954	6.85%	3.45%
Other	8,766	5.55%	2.36%	9,066	6.24%	2.51%
Subtotal	27,620	17.49%	0.79%	28,695	19.75%	0.96%
Total for Chinese mainland	154,208	97.67%	1.80%	141,458	97.35%	1.81%
Hong Kong, Macau, Taiwan and other countries and regions	3,674	2.33%	0.16%	3,853	2.65%	0.18%
Total	157,882	100.00%	1.45%	145,311	100.00%	1.46%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
As at 31 December 2017				
Chinese mainland	154,208	(77,295)	(28,387)	48,526
Hong Kong, Macau and Taiwan	1,813	(900)	(91)	822
Other countries and regions	1,861	(1,121)	(88)	652
Total	157,882	(79,316)	(28,566)	50,000
As at 31 December 2016				
Chinese mainland	141,458	(67,915)	(27,472)	46,071
Hong Kong, Macau and Taiwan	1,630	(773)	(82)	775
Other countries and regions	2,223	(1,405)	(112)	706
Total	145,311	(70,093)	(27,666)	47,552

For description of allowances on identified impaired loans and advances, refer to Note V.18.3.

(e) Within impaired corporate loans and advances, the portions covered and not covered by collateral held are as follows:

	Group		Chinese mainland	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Portion covered	78,987	73,121	77,719	71,794
Portion not covered	50,972	43,193	48,869	40,969
Total	129,959	116,314	126,588	112,763
Fair value of collateral held	37,501	29,304	35,975	28,471

Collateral of corporate loans and advances includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

Rescheduled loans are generally subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans within surveillance period are determined to be impaired as at 31 December 2017 and 2016.

As at 31 December 2017 and 2016, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
As at 31 December 2017					
Unsecured loans	11,986	11,716	6,678	2,087	32,467
Guaranteed loans	28,988	26,042	31,416	4,674	91,118
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	28,583	19,443	19,300	6,986	74,312
— Other pledged loans	1,799	956	1,549	639	4,943
Total	71,356	58,157	58,943	14,386	202,842
As at 31 December 2016					
Unsecured loans	11,036	15,530	5,197	788	32,551
Guaranteed loans	48,645	19,293	21,585	4,595	94,118
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	34,906	21,952	15,217	5,406	77,481
— Other pledged loans	7,694	1,292	1,105	350	10,441
Total	102,281	58,067	43,104	11,139	214,591

Chinese mainland

	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
As at 31 December 2017					
Unsecured loans	9,277	11,220	6,570	2,083	29,150
Guaranteed loans	28,540	25,985	30,836	4,656	90,017
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	24,922	19,153	19,140	6,978	70,193
— Other pledged loans	1,150	748	1,231	589	3,718
Total	63,889	57,106	57,777	14,306	193,078
As at 31 December 2016					
Unsecured loans	9,815	15,351	5,096	659	30,921
Guaranteed loans	48,492	18,691	21,306	4,144	92,633
Collateralised and other secured loans					
— Loans secured by property and other immovable assets	30,431	21,685	15,019	5,357	72,492
— Other pledged loans	7,405	1,082	1,060	350	9,897
Total	96,143	56,809	42,481	10,510	205,943

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2017	2016
Chinese mainland	193,078	205,943
Hong Kong, Macau and Taiwan	5,773	6,032
Other countries and regions	3,991	2,616
Subtotal	202,842	214,591
Percentage	1.86%	2.15%
Less: total loans and advances to customers which have been overdue for less than 3 months	(71,356)	(102,281)
Total loans and advances to customers which have been overdue for more than 3 months	131,486	112,310
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	(66,449)	(51,834)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2017, the majority of the balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large-sized and medium-sized commercial banks (Note V.13 and Note V.15). As at 31 December 2017, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic.

	Unrated	A to AAA	Lower than A	Total
As at 31 December 2017				
Issuers in Chinese mainland				
— Government	–	2,403,536	–	2,403,536
— Public sectors and quasi-governments	64,016	–	–	64,016
— Policy banks	–	519,245	–	519,245
— Financial institutions	86,721	142,150	93,956	322,827
— Corporate	62,149	106,092	20,570	188,811
— China Orient	158,806	–	–	158,806
Subtotal	371,692	3,171,023	114,526	3,657,241
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	–	370,423	6,773	377,196
— Public sectors and quasi-governments	39,951	52,064	196	92,211
— Financial institutions	3,910	147,742	39,669	191,321
— Corporate	10,661	84,541	19,962	115,164
Subtotal	54,522	654,770	66,600	775,892
Total ⁽¹⁾	426,214	3,825,793	181,126	4,433,133
As at 31 December 2016				
Issuers in Chinese mainland				
— Government	–	2,004,727	–	2,004,727
— Public sectors and quasi-governments	52,015	–	–	52,015
— Policy banks	–	389,774	–	389,774
— Financial institutions	86,434	130,083	76,344	292,861
— Corporate	72,278	103,279	14,665	190,222
— China Orient	160,000	–	–	160,000
Subtotal	370,727	2,627,863	91,009	3,089,599
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	–	337,857	4,841	342,698
— Public sectors and quasi-governments	31,785	58,316	–	90,101
— Financial institutions	6,396	168,075	43,083	217,554
— Corporate	13,769	90,034	16,817	120,620
Subtotal	51,950	654,282	64,741	770,973
Total ⁽¹⁾	422,677	3,282,145	155,750	3,860,572

- (1) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities as at 31 December 2017 amounted to RMB1,029 million and RMB39 million, respectively (31 December 2016: RMB1,295 million and RMB44 million). The carrying values of the available for sale and held to maturity debt securities considered impaired as at 31 December 2017 were RMB574 million and nil, respectively (31 December 2016: RMB507 million and RMB4 million).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.8 Derivatives

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment (“CVA”) and the risk-weighted assets for central counterparties (“CCPs”).

The risk-weighted assets for the CCR of derivatives are as follows:

	As at 31 December	
	2017	2016
Risk-weighted assets for default risk		
Currency derivatives	70,498	81,344
Interest rate derivatives	4,228	3,431
Equity derivatives	314	298
Commodity derivatives and other	3,343	3,674
	78,383	88,747
Risk-weighted assets for CVA	92,338	75,387
Risk-weighted assets for CCPs	1,573	594
Total	172,294	164,728

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.23.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk

4.1 Overview

The Group is exposed to market risks from on-balance and off-balance businesses, that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore statistical probability of 1% that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

Accuracy and reliability of the VaR model is verified by daily back-testing of the VaR result on trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2017 and 2016:

Unit: USD million

	Year ended 31 December					
	2017			2016		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	14.54	17.58	9.61	10.24	16.45	6.59
Foreign exchange risk	10.67	17.70	6.12	5.24	9.75	2.62
Volatility risk	0.35	1.21	0.11	0.69	1.55	0.29
Commodity risk	1.25	3.92	0.14	0.93	1.56	0.01
Total of the Bank's trading VaR	17.44	23.89	12.43	10.31	17.45	6.75

The Bank's VaR for the years ended 31 December 2017 and 2016 were calculated on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI.

The reporting of risk in relation to bullion is included in foreign exchange risk above.

Unit: USD million

	Year ended 31 December					
	2017			2016		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	5.70	10.61	2.47	3.71	7.37	1.97
Foreign exchange risk	4.00	6.97	1.60	4.62	8.05	3.13
Equity risk	0.33	0.75	0.09	0.27	0.74	0.00
Commodity risk	0.16	0.26	0.07	0.03	0.18	0.00
Total BOCHK (Holdings)'s trading VaR	6.39	10.43	3.47	5.92	9.09	3.79
BOCI's trading VaR⁽ⁱ⁾						
Equity derivatives unit	0.94	1.48	0.50	1.33	2.68	0.71
Fixed income unit	1.17	2.40	0.63	0.84	1.57	0.42
Global commodity unit	0.32	0.65	0.08	0.11	0.33	0.04
Total BOCI's trading VaR	2.43	3.58	1.53	2.28	3.44	1.63

(i) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position.

The Group assesses interest rate risk in the banking book primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes impact of the off-balance sheet business into consideration when calculating the indications of sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk, etc. into consideration. The Group makes timely adjustment to the structure of assets and liabilities based on changes in the market situation, and controls the fluctuation of net interest income within an acceptable level.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in net interest income	
	As at 31 December	
	2017	2016
+ 25 basis points parallel move in all yield curves	(4,193)	(3,001)
- 25 basis points parallel move in all yield curves	4,193	3,001

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB12,279 million (2016: RMB12,367 million) for every 25 basis points upwards or downwards parallel shift, respectively.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

The tables below summarise the Group's exposure to interest rate risk. It includes the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	As at 31 December 2017						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	
Assets							
Cash and due from banks and other financial institutions	259,468	74,565	147,376	1,880	–	77,174	560,463
Balances with central banks	2,047,762	457	1,586	–	–	177,809	2,227,614
Placements with and loans to banks and other financial institutions	196,566	95,641	207,146	76,046	–	–	575,399
Financial assets at fair value through profit or loss	19,498	44,177	57,501	19,681	33,035	19,719	193,611
Derivative financial assets	–	–	–	–	–	94,912	94,912
Loans and advances to customers, net	2,869,571	2,142,963	5,139,321	84,639	48,280	359,530	10,644,304
Financial investments							
— available for sale	111,201	174,862	306,200	774,190	418,807	71,962	1,857,222
— held to maturity	28,562	57,433	196,795	1,234,167	572,907	–	2,089,864
— loans and receivables	4,708	3,827	12,448	253,350	137,293	2,399	414,025
Other	4,108	1,444	123	–	1,145	803,190	810,010
Total assets	5,541,444	2,595,369	6,068,496	2,443,953	1,211,467	1,606,695	19,467,424
Liabilities							
Due to banks and other financial institutions	839,840	205,871	149,615	68,320	–	161,616	1,425,262
Due to central banks	385,348	131,064	510,280	9,087	–	18	1,035,797
Placements from banks and other financial institutions	375,004	74,776	49,871	441	–	–	500,092
Derivative financial liabilities	–	–	–	–	–	111,095	111,095
Due to customers	7,947,067	1,332,278	2,443,803	1,711,282	37,795	185,699	13,657,924
Bonds issued	67,225	72,688	40,302	284,818	34,095	–	499,128
Other	21,734	19,221	8,002	5,163	1,807	605,520	661,447
Total liabilities	9,636,218	1,835,898	3,201,873	2,079,111	73,697	1,063,948	17,890,745
Total interest repricing gap	(4,094,774)	759,471	2,866,623	364,842	1,137,770	542,747	1,576,679

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

	As at 31 December 2016						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	
Assets							
Cash and due from banks and other financial institutions	176,032	223,847	178,222	2,020	–	79,861	659,982
Balances with central banks	2,064,238	1,431	1,364	781	–	203,826	2,271,640
Placements with and loans to banks and other financial institutions	231,961	110,994	224,351	26,742	–	–	594,048
Financial assets at fair value through profit or loss	9,184	19,636	29,709	23,198	30,467	11,896	124,090
Derivative financial assets	–	–	–	–	–	130,549	130,549
Loans and advances to customers, net	2,641,864	2,056,767	4,581,188	104,586	54,745	296,496	9,735,646
Financial investments							
— available for sale	73,205	175,806	245,619	662,649	394,030	58,521	1,609,830
— held to maturity	17,739	63,545	216,412	966,564	578,783	–	1,843,043
— loans and receivables	4,341	15,611	16,767	234,036	123,788	1,378	395,921
Assets held for sale	27,428	5,973	5,630	4,285	3	7,052	50,371
Other	3,536	578	3,413	–	–	726,242	733,769
Total assets	5,249,528	2,674,188	5,502,675	2,024,861	1,181,816	1,515,821	18,148,889
Liabilities							
Due to banks and other financial institutions	921,705	97,435	180,102	73,590	–	147,695	1,420,527
Due to central banks	343,246	131,312	380,647	11,862	–	27	867,094
Placements from banks and other financial institutions	178,931	62,562	61,150	149	–	–	302,792
Derivative financial liabilities	–	–	–	–	–	107,109	107,109
Due to customers	7,405,926	1,341,350	2,391,472	1,611,515	13,319	176,166	12,939,748
Bonds issued	27,287	27,661	56,063	198,432	52,875	–	362,318
Liabilities classified as held for sale	25,716	6,645	6,392	60	–	3,675	42,488
Other	15,558	20,804	4,522	2,144	605	576,088	619,721
Total liabilities	8,918,369	1,687,769	3,080,348	1,897,752	66,799	1,010,760	16,661,797
Total interest repricing gap	(3,668,841)	986,419	2,422,327	127,109	1,115,017	505,061	1,487,092

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD. The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives.

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

Currency	Change in currency rate	Effect on profit before tax		Effect on equity*	
		As at	As at	As at	As at
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
USD	+1%	536	631	351	325
HKD	+1%	(410)	(247)	2,067	2,012

* Effect on other comprehensive income (irrespective of income tax effect).

While the table above indicates the effect on profit before tax and equity of 1% appreciation of USD and HKD, there will be an opposite effect with the same amounts if the currencies depreciate by the same percentage.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2017 and 2016. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

	As at 31 December 2017							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Assets								
Cash and due from banks and other financial institutions	368,772	142,024	13,599	7,326	5,961	6,074	16,707	560,463
Balances with central banks	1,810,377	248,995	4,357	31,240	49,485	50,286	32,874	2,227,614
Placements with and loans to banks and other financial institutions	388,211	114,812	23,750	9,034	2,462	90	37,040	575,399
Financial assets at fair value through profit or loss	109,406	55,073	26,513	1,133	1,043	429	14	193,611
Derivative financial assets	44,950	8,065	31,285	749	40	4,895	4,928	94,912
Loans and advances to customers, net	8,101,830	1,157,714	794,625	217,660	7,962	50,856	313,657	10,644,304
Financial investments								
— available for sale	1,080,354	449,628	154,809	33,545	63,946	5,944	68,996	1,857,222
— held to maturity	1,935,833	138,678	3,627	1,693	696	1,196	8,141	2,089,864
— loans and receivables	405,080	1,960	419	—	—	—	6,566	414,025
Other	298,863	135,600	175,535	1,354	1,102	1,546	196,010	810,010
Total assets	14,543,676	2,452,549	1,228,519	303,734	132,697	121,316	684,933	19,467,424
Liabilities								
Due to banks and other financial institutions	855,661	329,466	30,276	35,616	12,779	7,301	154,163	1,425,262
Due to central banks	779,483	231,585	16,865	4,514	—	571	2,779	1,035,797
Placements from banks and other financial institutions	290,531	150,748	6,974	10,720	17,110	16,789	7,220	500,092
Derivative financial liabilities	70,458	1,690	30,131	800	35	4,932	3,049	111,095
Due to customers	10,236,329	1,614,422	1,079,702	192,313	64,989	55,956	414,213	13,657,924
Bonds issued	222,119	208,402	786	38,006	—	20,318	9,497	499,128
Other	347,577	82,908	213,516	1,497	445	1,261	14,243	661,447
Total liabilities	12,802,158	2,619,221	1,378,250	283,466	95,358	107,128	605,164	17,890,745
Net on-balance sheet position	1,741,518	(166,672)	(149,731)	20,268	37,339	14,188	79,769	1,576,679
Net off-balance sheet position	(420,313)	195,069	319,073	(11,672)	(36,371)	(12,165)	(40,135)	(6,514)
Credit commitments	2,556,398	811,938	245,575	107,154	10,050	44,472	95,045	3,870,632

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

	As at 31 December 2016							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Assets								
Cash and due from banks and other financial institutions	498,095	107,735	14,324	6,477	15,944	1,700	15,707	659,982
Balances with central banks	1,807,526	340,513	4,510	32,245	21,640	33,772	31,434	2,271,640
Placements with and loans to banks and other financial institutions	379,735	123,994	36,454	2,286	3,886	255	47,438	594,048
Financial assets at fair value through profit or loss	50,702	47,475	23,527	1,540	360	475	11	124,090
Derivative financial assets	56,291	4,507	52,945	695	286	12,085	3,740	130,549
Loans and advances to customers, net	7,399,294	1,167,127	722,240	190,822	11,866	31,372	212,925	9,735,646
Financial investments								
— available for sale	894,034	416,315	125,060	22,604	87,159	7,609	57,049	1,609,830
— held to maturity	1,676,845	153,896	4,035	1,941	720	516	5,090	1,843,043
— loans and receivables	379,354	1,734	838	—	—	—	13,995	395,921
Assets held for sale	10,556	8,860	29,185	229	78	224	1,239	50,371
Other	263,114	125,563	160,709	2,472	1,213	1,415	179,283	733,769
Total assets	13,415,546	2,497,719	1,173,827	261,311	143,152	89,423	567,911	18,148,889
Liabilities								
Due to banks and other financial institutions	785,818	394,408	31,258	41,011	15,053	6,685	146,294	1,420,527
Due to central banks	610,339	242,546	9,931	2,448	—	1,830	—	867,094
Placements from banks and other financial institutions	115,806	146,285	3,816	21,877	4,815	7,215	2,978	302,792
Derivative financial liabilities	33,338	3,299	50,653	771	204	12,118	6,726	107,109
Due to customers	9,744,207	1,538,408	1,000,075	178,965	56,706	60,916	360,471	12,939,748
Bonds issued	202,744	137,355	1,287	14,709	—	2,034	4,189	362,318
Liabilities classified as held for sale	5,044	7,278	28,398	253	76	215	1,224	42,488
Other	341,041	71,241	186,466	2,482	1,398	1,415	15,678	619,721
Total liabilities	11,838,337	2,540,820	1,311,884	262,516	78,252	92,428	537,560	16,661,797
Net on-balance sheet position	1,577,209	(43,101)	(138,057)	(1,205)	64,900	(3,005)	30,351	1,487,092
Net off-balance sheet position	(313,211)	84,443	298,500	10,334	(64,129)	4,699	2,668	23,304
Credit commitments	2,249,059	861,382	255,971	94,639	7,432	39,121	82,004	3,589,608

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.5 Price risk

The Group is exposed to equity price risk on its available for sale listed equity securities. As at 31 December 2017, a 5 percentage variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB394 million (31 December 2016: RMB415 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

5 Liquidity risk

The liquidity risk means the risk that a commercial bank fails to acquire adequate funds in a timely manner and at a reasonable cost to deal with repayment of debts at maturity, perform other payment obligations and meet other fund needs for normal business operation.

5.1 Liquidity risk management policy and process

The Bank continued to develop and improve its liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the institution and group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration of various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions, inter-bank borrowings and improves the diversity and stability of financing sources.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net", etc. In the normal course of business, a proportion of short-term loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase transactions, and by selling securities and accessing additional funding sources.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

	As at 31 December 2017							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	21	167,943	168,678	74,565	147,376	1,880	–	560,463
Balances with central banks	1,754,965	429,424	15,003	6,735	21,487	–	–	2,227,614
Placements with and loans to banks and other financial institutions	–	–	186,151	90,770	213,567	84,854	57	575,399
Financial assets at fair value through profit or loss	19,853	–	18,738	42,528	54,336	25,002	33,154	193,611
Derivative financial assets	–	8,791	16,222	19,854	36,575	10,449	3,021	94,912
Loans and advances to customers, net	75,194	109,153	356,974	1,042,606	2,569,551	2,797,082	3,693,744	10,644,304
Financial investments								
— available for sale	85,346	–	74,857	117,797	314,233	839,773	425,216	1,857,222
— held to maturity	–	–	26,361	43,894	189,622	1,242,694	587,293	2,089,864
— loans and receivables	2,399	–	4,659	2,981	10,749	252,602	140,635	414,025
Other	276,194	301,560	46,920	42,772	65,593	58,666	18,305	810,010
Total assets	2,213,972	1,016,871	914,563	1,484,502	3,623,089	5,313,002	4,901,425	19,467,424
Liabilities								
Due to banks and other financial institutions	–	804,976	188,365	204,621	156,040	71,260	–	1,425,262
Due to central banks	–	180,088	205,278	131,064	510,280	9,087	–	1,035,797
Placements from banks and other financial institutions	–	–	375,004	74,776	49,871	441	–	500,092
Derivative financial liabilities	–	5,574	19,442	25,130	49,274	9,323	2,352	111,095
Due to customers	–	6,664,703	1,413,948	1,287,316	2,493,635	1,758,935	39,387	13,657,924
Bonds issued	–	–	45,773	41,671	42,755	333,211	35,718	499,128
Other	–	241,472	95,985	32,134	157,326	79,793	54,737	661,447
Total liabilities	–	7,896,813	2,343,795	1,796,712	3,459,181	2,262,050	132,194	17,890,745
Net liquidity gap	2,213,972	(6,879,942)	(1,429,232)	(312,210)	163,908	3,050,952	4,769,231	1,576,679

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

	As at 31 December 2016							Total
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	
Assets								
Cash and due from banks and other financial institutions	22	171,837	84,034	223,847	178,222	2,020	–	659,982
Balances with central banks	1,743,459	448,607	16,841	15,383	46,569	781	–	2,271,640
Placements with and loans to banks and other financial institutions	–	–	229,651	106,802	229,002	28,593	–	594,048
Financial assets at fair value through profit or loss	11,896	–	8,783	18,065	28,217	25,495	31,634	124,090
Derivative financial assets	–	13,239	15,745	23,369	62,855	12,310	3,031	130,549
Loans and advances to customers, net	52,413	82,783	410,546	1,002,740	2,208,527	2,555,287	3,423,350	9,735,646
Financial investments								
— available for sale	56,897	–	45,239	131,697	256,484	718,220	401,293	1,609,830
— held to maturity	–	–	10,623	45,020	212,939	983,275	591,186	1,843,043
— loans and receivables	1,378	–	4,291	14,221	14,073	234,830	127,128	395,921
Assets held for sale	6,652	4,144	5,432	4,143	8,722	16,193	5,085	50,371
Other	259,332	301,848	36,294	30,690	45,714	42,247	17,644	733,769
Total assets	2,132,049	1,022,458	867,479	1,615,977	3,291,324	4,619,251	4,600,351	18,148,889
Liabilities								
Due to banks and other financial institutions	–	891,046	166,691	96,552	180,941	85,297	–	1,420,527
Due to central banks	–	170,646	172,626	131,312	380,647	11,863	–	867,094
Placements from banks and other financial institutions	–	–	178,624	62,562	61,150	149	307	302,792
Derivative financial liabilities	–	9,443	11,081	21,432	49,358	12,953	2,842	107,109
Due to customers	–	6,208,198	1,355,804	1,319,746	2,380,204	1,652,646	23,150	12,939,748
Bonds issued	–	–	19,669	16,851	57,014	214,169	54,615	362,318
Liabilities classified as held for sale	–	21,680	6,882	6,679	6,428	819	–	42,488
Other	–	223,724	87,018	34,244	136,457	80,010	58,268	619,721
Total liabilities	–	7,524,737	1,998,395	1,689,378	3,252,199	2,057,906	139,182	16,661,797
Net liquidity gap	2,132,049	(6,502,279)	(1,130,916)	(73,401)	39,125	2,561,345	4,461,169	1,487,092

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

	As at 31 December 2017							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	21	168,986	171,430	76,774	151,510	2,066	–	570,787
Balances with central banks	1,754,965	429,447	15,013	6,737	21,487	–	–	2,227,649
Placements with and loans to banks and other financial institutions	–	–	186,941	95,728	219,492	89,453	57	591,671
Financial assets at fair value through profit or loss	19,853	–	19,669	44,803	58,605	31,468	43,157	217,555
Loans and advances to customers, net	76,835	109,160	386,278	1,128,147	2,843,559	3,683,179	5,188,628	13,415,786
Financial investments								
— available for sale	85,441	–	76,924	124,877	358,881	974,366	496,165	2,116,654
— held to maturity	–	–	30,419	52,093	252,884	1,427,553	681,592	2,444,541
— loans and receivables	2,515	20	5,650	4,778	21,524	286,238	157,883	478,608
Other financial assets	3,189	132,283	16,818	2,432	4,004	480	2,254	161,460
Total financial assets	1,942,819	839,896	909,142	1,536,369	3,931,946	6,494,803	6,569,736	22,224,711
Due to banks and other financial institutions	–	805,036	194,129	206,113	158,269	76,111	–	1,439,658
Due to central banks	–	180,336	205,979	132,329	523,492	9,733	–	1,051,869
Placements from banks and other financial institutions	–	–	375,607	75,416	50,727	479	–	502,229
Due to customers	–	6,665,373	1,468,636	1,315,115	2,580,018	1,910,944	41,272	13,981,358
Bonds issued	–	–	46,187	43,512	55,235	369,592	38,245	552,771
Other financial liabilities	–	188,633	23,186	3,057	10,635	28,951	9,466	263,928
Total financial liabilities	–	7,839,378	2,313,724	1,775,542	3,378,376	2,395,810	88,983	17,791,813
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,172	(2,690)	(5,403)	(18,442)	907	501	(21,955)
Derivative financial instruments settled on a gross basis								
Total inflow	–	78,712	2,022,405	1,432,624	2,712,400	319,113	9,986	6,575,240
Total outflow	–	(77,976)	(2,022,972)	(1,430,796)	(2,705,044)	(318,204)	(9,990)	(6,564,982)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

	As at 31 December 2016							Total
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	
Non-derivative cash flow								
Cash and due from banks and other financial institutions	22	172,950	84,820	226,525	182,202	2,188	–	668,707
Balances with central banks	1,743,459	448,631	16,847	15,383	46,574	781	–	2,271,675
Placements with and loans to banks and other financial institutions	–	–	230,363	109,093	233,774	29,622	–	602,852
Financial assets at fair value through profit or loss	11,896	–	9,113	18,601	30,266	31,095	41,800	142,771
Loans and advances to customers, net	54,286	82,785	433,586	1,070,564	2,428,493	3,255,189	4,470,367	11,795,270
Financial investments								
— available for sale	56,903	–	49,509	147,292	302,474	830,459	447,665	1,834,302
— held to maturity	–	–	13,889	52,801	267,465	1,144,917	685,195	2,164,267
— loans and receivables	1,455	–	4,330	16,266	24,228	268,263	144,179	458,721
Assets held for sale	340	4,006	5,465	4,234	9,104	17,095	5,750	45,994
Other financial assets	3,800	124,632	17,565	2,946	7,676	549	1,145	158,313
Total financial assets	1,872,161	833,004	865,487	1,663,705	3,532,256	5,580,158	5,796,101	20,142,872
Due to banks and other financial institutions	–	891,758	171,650	97,787	183,745	90,885	–	1,435,825
Due to central banks	–	170,717	173,318	132,379	388,036	12,777	–	877,227
Placements from banks and other financial institutions	–	–	179,072	62,893	62,544	236	352	305,097
Due to customers	–	6,215,933	1,407,034	1,348,339	2,458,734	1,808,556	23,900	13,262,496
Bonds issued	–	–	20,088	18,543	67,294	247,772	60,864	414,561
Liabilities classified as held for sale	–	21,670	6,881	6,660	6,477	62	–	41,750
Other financial liabilities	–	171,126	23,466	6,629	9,970	25,523	14,098	250,812
Total financial liabilities	–	7,471,204	1,981,509	1,673,230	3,176,800	2,185,811	99,214	16,587,768
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,675	(30)	872	15,639	409	399	20,964
Derivative financial instruments settled on a gross basis								
Total inflow	–	73,950	1,540,606	1,258,275	2,420,131	258,759	5,649	5,557,370
Total outflow	–	(72,307)	(1,534,915)	(1,256,284)	(2,421,057)	(257,888)	(5,664)	(5,548,115)

VI FINANCIAL RISK MANAGEMENT (Continued)**5 Liquidity risk (Continued)****5.4 Off-balance sheet items**

The Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group is the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.41.5, are summarised in the table below.

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2017				
Loan commitments ⁽¹⁾	1,588,385	462,722	124,653	2,175,760
Guarantees, acceptances and other financial facilities	1,107,630	363,227	224,015	1,694,872
Subtotal	2,696,015	825,949	348,668	3,870,632
Operating lease commitments	6,570	12,496	2,720	21,786
Capital commitments	15,127	40,279	2	55,408
Total	2,717,712	878,724	351,390	3,947,826
As at 31 December 2016				
Loan commitments ⁽¹⁾	1,357,703	387,117	100,223	1,845,043
Guarantees, acceptances and other financial facilities	1,088,797	384,629	271,139	1,744,565
Subtotal	2,446,500	771,746	371,362	3,589,608
Operating lease commitments	6,446	13,165	2,752	22,363
Capital commitments	23,554	40,537	2	64,093
Total	2,476,500	825,448	374,116	3,676,064

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits, refer to Note V.41.7.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value

6.1 *Assets and liabilities measured at fair value*

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchange or debt instrument issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, loans designated as at fair value through profit or loss, and issued structured deposits.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), over-the-counter structured derivatives transactions, unlisted funds and part of investment properties held by the Group, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, rental growth, etc. As at 31 December 2017, fair value changes resulting from changes in the unobservable inputs were not significant. Management determines whether to make necessary adjustments to the fair value for the Group's level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

VI FINANCIAL RISK MANAGEMENT (Continued)**6 Fair value (Continued)****6.1 Assets and liabilities measured at fair value (Continued)**

	As at 31 December 2017			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities	4,263	161,542	2,594	168,399
— Loans	—	5,493	—	5,493
— Equity securities	8,029	—	—	8,029
— Fund investments and other	9,203	2,058	429	11,690
Derivative financial assets	9,808	85,104	—	94,912
Investment securities available for sale				
— Debt securities	173,783	1,595,125	850	1,769,758
— Equity securities	7,202	3,592	27,900	38,694
— Fund investments and other	4,246	17,054	27,470	48,770
Investment properties	—	2,429	18,597	21,026
Liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	—	(1,246)	—	(1,246)
Due to customers at fair value	—	(372,767)	—	(372,767)
Bonds issued at fair value	—	(1,907)	—	(1,907)
Short position in debt securities	(3,028)	(14,191)	—	(17,219)
Derivative financial liabilities	(6,754)	(104,341)	—	(111,095)

	As at 31 December 2016			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities	5,257	98,206	2,709	106,172
— Loans	—	6,022	—	6,022
— Equity securities	7,547	—	—	7,547
— Fund investments and other	4,349	—	—	4,349
Derivative financial assets	14,914	115,635	—	130,549
Investment securities available for sale				
— Debt securities	196,730	1,337,577	1,656	1,535,963
— Equity securities	7,744	2,830	23,362	33,936
— Fund investments and other	4,883	15,895	19,153	39,931
Investment properties	—	2,592	19,067	21,659
Liabilities measured at fair value				
Due to and placements from banks and other financial institutions at fair value	—	(1,968)	—	(1,968)
Due to customers at fair value	—	(350,311)	—	(350,311)
Short position in debt securities	(840)	(9,150)	—	(9,990)
Derivative financial liabilities	(11,235)	(95,874)	—	(107,109)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Reconciliation of Level 3 items

	Financial assets at fair value through profit or loss		Investment securities available for sale			
	Debt securities	Fund	Debt securities	Equity securities	Fund investments and other	Investment properties
As at 1 January 2017	2,709	–	1,656	23,362	19,153	19,067
Total gains and losses						
— profit/(loss)	196	36	14	(359)	194	592
— other comprehensive income	–	–	28	(951)	(2,037)	–
Sales	(307)	–	(357)	(439)	(3,395)	(968)
Purchases	–	393	–	5,535	13,555	668
Settlements	–	–	–	–	–	–
Transfers out of Level 3, net	(4)	–	(198)	–	–	(3)
Other changes	–	–	(293)	752	–	(759)
As at 31 December 2017	2,594	429	850	27,900	27,470	18,597
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2017	196	36	–	(371)	–	592
As at 1 January 2016	1,531	–	954	22,269	13,955	21,111
Total gains and losses						
— profit/(loss)	12	–	2	(177)	(448)	1,054
— other comprehensive income	–	–	(35)	1,069	1,974	–
Sales	–	–	(10)	(195)	(1,613)	–
Purchases	1,166	–	1,184	401	5,285	1,530
Settlements	–	–	–	–	–	–
Transfers into/(out of) Level 3, net	–	–	77	–	–	(175)
Other changes	–	–	(516)	(5)	–	(4,453)
As at 31 December 2016	2,709	–	1,656	23,362	19,153	19,067
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2016	12	–	2	(181)	(848)	1,054

Total gains or losses for the years ended 31 December 2017 and 2016 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held as at 31 December 2017 and 2016 are presented in “Net trading gains”, “Net gains on financial investments” or “Impairment losses on assets” depending on the nature or category of the related financial instruments.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Gains or losses on Level 3 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Total gains for the year	220	453	673	404	39	443

The assets and liabilities measured at fair value have been no significant transfers between Level 1 and Level 2 during the year ended 31 December 2017.

6.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", "Financial investments" classified as held to maturity and loans and receivables, "Due to central banks", "Due to banks and other financial institutions", "Placements from banks and other financial institutions", and "Due to customers" measured at amortised cost, and "Bonds issued".

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as held to maturity and loans and receivables, and "Bonds issued" not presented at fair value on the statement of financial position.

	As at 31 December 2017		As at 31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Debt securities ⁽¹⁾				
— Held to maturity	2,089,864	2,039,533	1,843,043	1,853,050
— Loans and receivables	405,112	397,269	375,394	374,161
Financial liabilities				
Bonds issued ⁽²⁾	499,128	499,039	362,318	369,686

(1) Debt securities classified as held to maturity and loans and receivables

The China Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

The tables below summarise the fair values of three levels of “Debt securities” classified as held to maturity and loans and receivables (excluding the China Orient Bond and Special Purpose Treasury Bond), and “Bonds issued” not presented at fair value on the statement of financial position.

	As at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
— Held to maturity	38,194	2,001,046	293	2,039,533
— Loans and receivables	–	193,250	2,713	195,963
Financial liabilities				
Bonds issued	–	499,039	–	499,039

	As at 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
— Held to maturity	45,967	1,807,083	–	1,853,050
— Loans and receivables	–	170,041	1,620	171,661
Financial liabilities				
Bonds issued	–	369,686	–	369,686

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position is insignificant. Fair value is measured using a discounted cash flow model.

7 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Implement the Scientific Outlook on Development thoroughly; follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.
- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritising the asset businesses with low capital occupancy and high comprehensive income, to steadily improve the efficiency and return of capital, achieving the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The Group's capital adequacy ratios are calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC. With the approval of the CBRC, the Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

As a Systemically Important Bank, the Group's capital adequacy ratios are required to meet the lowest requirements of the CBRC by the end of 2018, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio⁽¹⁾ calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC.

	As at 31 December 2017	As at 31 December 2016
Common equity tier 1 capital adequacy ratio	11.15%	11.37%
Tier 1 capital adequacy ratio	12.02%	12.28%
Capital adequacy ratio	14.19%	14.28%
Composition of the Group's capital base		
Common equity tier 1 capital	1,377,408	1,297,421
Common shares	294,388	294,388
Capital reserve	140,176	139,443
Surplus reserve	140,692	125,109
General reserve	207,693	193,338
Undistributed profits	606,765	526,804
Eligible portion of minority interests	26,280	30,051
Other ⁽²⁾	(38,586)	(11,712)
Regulatory deductions	(21,320)	(16,580)
Goodwill	(138)	(96)
Other intangible assets (except land use rights)	(11,259)	(6,498)
Direct or indirect investments in own shares	(102)	(53)
Reserve relating to cash-flow hedge items not measured at fair value	4	20
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	(9,825)	(9,953)
Net common equity tier 1 capital	1,356,088	1,280,841
Additional tier 1 capital	105,002	103,523
Preference shares and related premium	99,714	99,714
Eligible portion of minority interests	5,288	3,809
Net tier 1 capital	1,461,090	1,384,364
Tier 2 capital	264,652	225,173
Tier 2 capital instruments issued and related premium	191,596	149,406
Excess loan loss provisions	63,672	64,572
Eligible portion of minority interests	9,384	11,195
Regulatory deductions	(412)	–
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	(412)	–
Net capital	1,725,330	1,609,537
Risk-weighted assets	12,157,771	11,269,592

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

- (1) When calculating the capital adequacy ratios, BOCG Investment, Bank of China Insurance Company Limited (“BOC Insurance”), Bank of China Group Insurance Company Limited (“BOCG Insurance”) and Bank of China Group Life Assurance Company Limited (“BOCG Life”) were excluded from the scope of consolidation in accordance with requirements of the CBRC.
- (2) This mainly represented exchange differences from the translation of foreign operations and fair value gains/(losses) on available for sale financial assets.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

Supplementary Information

(Amount in millions of Renminbi, unless otherwise stated)

I DIFFERENCES BETWEEN IFRS AND CAS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2017 and 2016 or total equity as at 31 December 2017 and 2016 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

II UNAUDITED SUPPLEMENTARY INFORMATION

1 Liquidity ratios and liquidity coverage ratio

	As at 31 December	
	2017	2016
RMB current assets to RMB current liabilities	47.09%	45.60%
Foreign currency current assets to foreign currency current liabilities	56.93%	52.73%

The liquidity ratios are calculated in accordance with the relevant provisions of the CBRC.

Liquidity coverage ratio

According to the *Measures for the Information Disclosure of Liquidity Coverage Ratio of Commercial Banks* issued by the CBRC, the Group disclosed the information of liquidity coverage ratio ("LCR")⁽¹⁾ as follows.

Regulatory requirements of liquidity coverage ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks (Provisional)*, the commercial banks' LCR should reach 100% by the end of 2018. During the transition period, the LCR should reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

The Group's liquidity coverage ratio

Since 2017, the Group measured the LCR on a day-to-day consolidated basis⁽²⁾. In the fourth quarter of 2017, the Group measured 92-day LCR on this basis, with average ratio standing at 117.41%⁽³⁾, representing an increase of 2.28 percentage points over the previous quarter, which was primarily due to the decrease of net cash outflows under the stress scenario resulting from the decrease of non-operational deposits.

The Group's high-quality liquid assets is comprised of cash, central bank reserves which are able to be drawn down under stress scenarios, and debt securities that meet the qualifying criteria for Level 1 or Level 2 assets pursuant to the *Liquidity Risk Management of Commercial Banks (Provisional)*.

	2017			
	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31 December	30 September	30 June	31 March
Average value of LCR	117.41%	115.13%	117.22%	119.54%

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

2 Currency concentrations

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of RMB			Total
	USD	HKD	Other	
As at 31 December 2017				
Spot assets	1,158,457	20,384	450,791	1,629,632
Spot liabilities	(1,354,531)	(378,404)	(378,637)	(2,111,572)
Forward purchases	4,826,149	655,260	1,174,088	6,655,497
Forward sales	(4,524,308)	(338,715)	(1,250,349)	(6,113,372)
Net options position*	(52,215)	463	(12,922)	(64,674)
Net long/(short) position	53,552	(41,012)	(17,029)	(4,489)
Structural position	35,084	206,661	67,696	309,441
As at 31 December 2016				
Spot assets	1,312,715	22,870	353,621	1,689,206
Spot liabilities	(1,382,623)	(361,995)	(321,029)	(2,065,647)
Forward purchases	4,624,107	569,469	1,023,746	6,217,322
Forward sales	(4,439,207)	(254,529)	(1,073,565)	(5,767,301)
Net options position*	(51,861)	(515)	(141)	(52,517)
Net long/(short) position	63,131	(24,700)	(17,368)	21,063
Structural position	32,534	201,228	54,047	287,809

* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

3 International claims

The Group discloses international claims according to *Banking (Disclosure) Rules* (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include "Balances with central banks", "Due from and placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Financial assets at fair value through profit or loss", "Loans and advances to customers" and "Financial investments".

International claims have been disclosed by major countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

3 International claims (Continued)

	Banks	Official sector	Non-bank private sector	Total
As at 31 December 2017				
Asia Pacific				
Chinese mainland	695,126	188,160	775,963	1,659,249
Hong Kong	14,442	–	461,546	475,988
Other Asia Pacific locations	80,331	84,812	307,773	472,916
Subtotal	789,899	272,972	1,545,282	2,608,153
North and South America	46,815	172,661	167,913	387,389
Other	70,518	51,318	183,639	305,475
Total	907,232	496,951	1,896,834	3,301,017
As at 31 December 2016				
Asia Pacific				
Chinese mainland	601,461	200,367	709,491	1,511,319
Hong Kong	15,532	3,188	423,094	441,814
Other Asia Pacific locations	125,198	102,622	343,365	571,185
Subtotal	742,191	306,177	1,475,950	2,524,318
North and South America	64,201	190,282	148,600	403,083
Other	70,327	51,652	145,130	267,109
Total	876,719	548,111	1,769,680	3,194,510

4 Overdue assets

For the purpose of the table below, the entire outstanding balance of “Loans and advances to customers” and “Placements with and loans to banks and other financial institutions” are considered overdue if either principal or interest payment is overdue.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

4 Overdue assets (Continued)

4.1 Total amount of overdue loans and advances to customers

	As at 31 December	
	2017	2016
Total loans and advances to customers which have been overdue		
within 3 months	71,356	102,281
between 3 and 6 months	20,202	20,203
between 6 and 12 months	37,955	37,864
over 12 months	73,329	54,243
Total	202,842	214,591
Percentage		
within 3 months	0.65%	1.03%
between 3 and 6 months	0.19%	0.20%
between 6 and 12 months	0.35%	0.38%
over 12 months	0.67%	0.54%
Total	1.86%	2.15%

4.2 Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2017 and 2016 is not considered material.

5 Leverage ratio

The leverage ratios of the Group calculated in accordance with the *Administrative Measures for the Leverage Ratio of Commercial Banks (Revised)* and the *Capital Rules for Commercial Banks (Provisional)* are as follows⁽¹⁾:

	2017			
	As at 31 December	As at 30 September	As at 30 June	As at 31 March
Net tier 1 capital	1,461,090	1,450,534	1,415,758	1,416,373
Adjusted on- and off-balance sheet assets	20,927,313	20,877,586	20,915,888	20,397,353
Leverage ratio	6.98%	6.95%	6.77%	6.94%

No.	Items	As at 31 December 2017
1	Total consolidated assets	19,467,424
2	Adjustments that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(9,825)
3	Adjustments for fiduciary assets	–
4	Adjustments for derivative financial instruments	108,028
5	Adjustments for securities financing transactions	75,068
6	Adjustments for off-balance sheet exposures	1,579,038
7	Other adjustments	(292,420)
8	Adjusted on- and off-balance sheet assets	20,927,313

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

5 Leverage ratio (Continued)

No.	Items	As at 31 December 2017
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	19,002,747
2	Less: Tier 1 capital deductions	(21,320)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	18,981,427
4	Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	94,734
5	Add-on amounts for potential future exposure associated with all derivative transactions	108,206
6	Gross-up for derivative collateral provided where deducted from the balance sheet assets	–
7	Less: Deductions of receivable assets for cash variation margin provided in derivative transactions	–
8	Less: Exempted CCP leg of client-cleared trade exposures	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Less: Deductible amounts for written credit derivatives	–
11	Total derivative exposures	202,940
12	Accounting balance for securities financing transaction assets	87,990
13	Less: Deducted amounts for securities financing transaction assets	–
14	Counterparty credit risk exposure for securities financing transaction assets	75,918
15	Agent transaction exposures	–
16	Balance of assets in securities financing transactions	163,908
17	Off-balance sheet items	4,199,277
18	Less: Adjustments for conversion to credit equivalent amounts	(2,620,239)
19	Adjusted off-balance sheet exposures	1,579,038
20	Net tier 1 capital	1,461,090
21	Adjusted on- and off-balance sheet exposures	20,927,313
22	Leverage ratio	6.98%

- (1) When calculating the consolidated leverage ratio, BOCG Investment, BOC Insurance, BOCG Insurance and BOCG Life were excluded from the scope of consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

II UNAUDITED SUPPLEMENTARY INFORMATION (Continued)

6 Global systemically importance assessment indicators of commercial banks

The following global systemically importance assessment indicators of commercial banks are disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks* (Yin Jian Fa, [2014] No. 1) promulgated by the CBRC.

No.	Indicators ⁽¹⁾	2017 value
1	Adjusted on-balance and off-balance sheet assets	20,927,313
2	Intra-financial system assets	1,726,022
3	Intra-financial system liabilities	1,562,337
4	Securities and other financing instruments	2,814,744
5	Payments settled via payment systems or correspondent banks	504,254,853
6	Assets under custody	9,534,188
7	Underwritten transactions in debt and equity markets	1,369,652
8	Notional amount of over-the-counter derivatives	10,189,345
9	Trading and available for sale securities	761,568
10	Level 3 assets	8,964
11	Cross-jurisdictional claims	3,126,005
12	Cross-jurisdictional liabilities	4,041,460

- (1) The above indicators are calculated and disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks*, which are unaudited and inconsistent with the disclosures in the financial report.

Reference for Shareholders

Financial Calendar for 2018

2017 Annual Results	To be announced on 29 March 2018
2017 Annual Report	To be printed and dispatched to H-Share Holders in late April 2018
2017 Annual General Meeting	To be held on 28 June 2018
2018 Interim Results	To be announced no later than 30 August 2018

Annual General Meeting

The Bank's 2017 Annual General Meeting is scheduled to be held in Beijing and Hong Kong, China at 9:30 a.m. on Thursday, 28 June 2018.

Dividends on Ordinary Shares

The Board of Directors recommended a final dividend on ordinary shares of RMB0.176 per share (before tax), subject to the approval of shareholders at the 2017 Annual General Meeting.

Securities Information

Listing and Trading

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively.

The Bank's Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 24 October 2014. The Domestic Preference Shares (First Tranche) were traded on the Comprehensive Business Platform of SSE on 8 December 2014. The Domestic Preference Shares (Second Tranche) were traded on the Comprehensive Business Platform of SSE on 31 March 2015.

Ordinary Shares

Issued shares: 294,387,791,241 shares (as at 31 December 2017)

Including:

A Share: 210,765,514,846 shares

H Share: 83,622,276,395 shares

Preference Shares

Issued shares: 999,400,000 shares (as at 31 December 2017)

Including:

Domestic Preference Share: 600,000,000 shares

Offshore Preference Share: 399,400,000 shares

Market Capitalisation

As at the last trading day in 2017 (29 December for both A Shares and H Shares), the Bank's market capitalisation was RMB1,105.158 billion (based on the closing price of A Shares and H Shares on 29 December 2017, and the exchange rate of HKD100 = RMB83.591 as published by the SAFE on 29 December 2017).

Reference for Shareholders

Securities Price

	Closing price on 29 December 2017	Highest trading price in the year	Lowest trading price in the year
A Share	RMB3.97	RMB4.37	RMB3.42
H Share	HKD3.84	HKD4.18	HKD3.40

Securities Code

A Share

Stock Name	中國銀行
Shanghai Stock Exchange	601988
Reuters	601988.SS
Bloomberg	601988 CH

H Share

Stock Name	Bank of China
Hong Kong Stock Exchange	3988
Reuters	3988.HK
Bloomberg	3988 HK

Domestic Preference Share (First Tranche)

Stock Name	中行優1
Shanghai Stock Exchange	360002
Bloomberg	EK6323670

Domestic Preference Share (Second Tranche)

Stock Name	中行優2
Shanghai Stock Exchange	360010
Bloomberg	EK8196546

Offshore Preference Share

Stock Name	BOC 2014 PREF
Hong Kong Stock Exchange	4601
Reuters	4601.HK
Bloomberg	EK5371647

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the following address:

A Share

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
3/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

H Share

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

Domestic Preference Share

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
3/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

Credit Rating (Long Term, Foreign Currency)

Standard & Poor's Ratings Services:	A
Moody's Investors Service:	A1
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong Global Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

Hang Seng Index	Dow Jones Index Series
Hang Seng China H-Financial Index	S&P Index Series
Hang Seng China Enterprises Index	Bloomberg Index Series
Hang Seng Composite Index (HSCI) Series	FTSE Index Series
Hang Seng Corporate Sustainability Index Series	Shanghai Stock Exchange Index Series
MSCI Index Series	CSI Index Series

Investor Enquiry

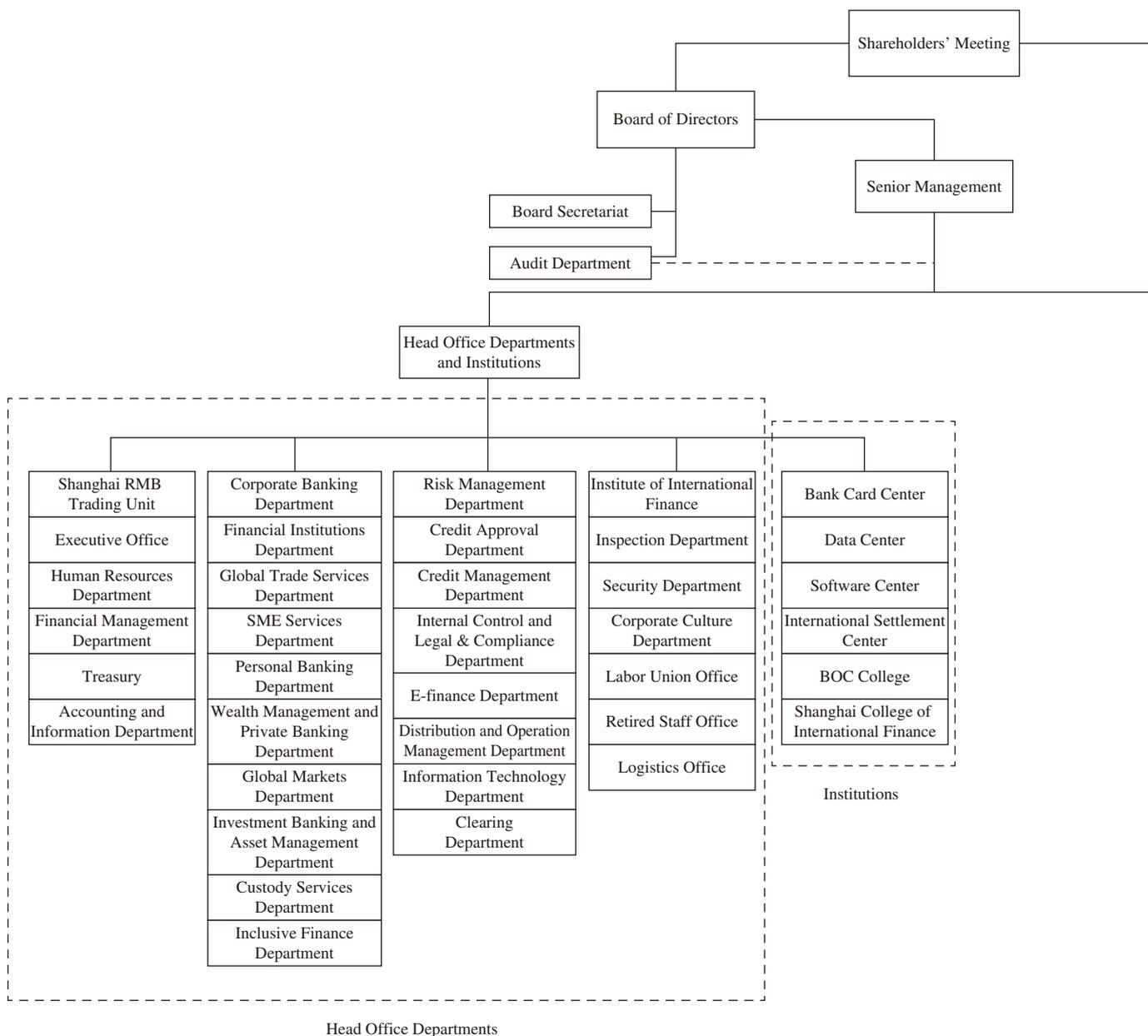
Investor Relations Team, Board Secretariat, Bank of China Limited
8/F, Bank of China Building, No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

Other Information

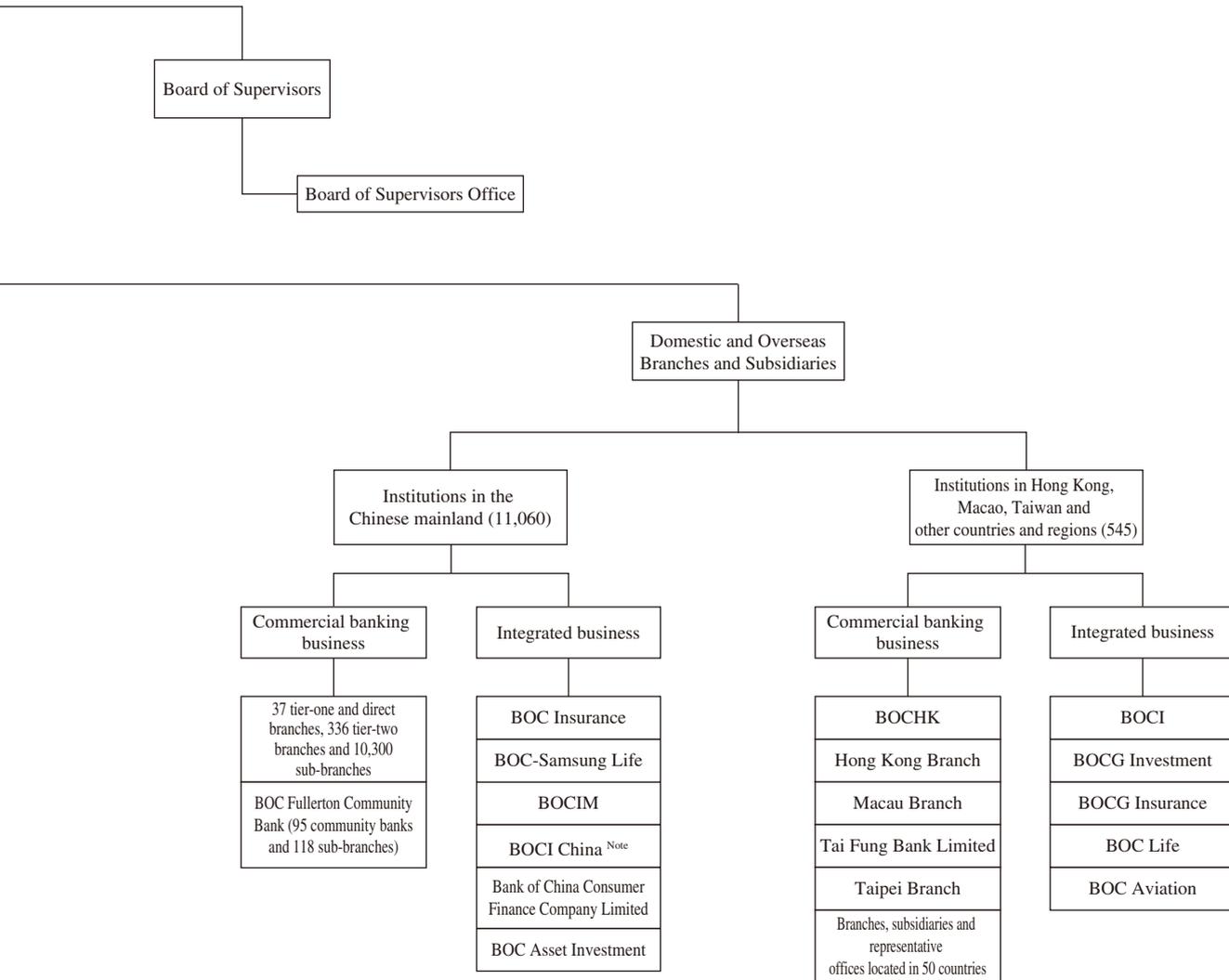
You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's office address for copies prepared under CAS. The Chinese and/or English versions of the annual report are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please call the Bank's H-Share Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

Organisational Chart



Organisational Chart



Note: The Bank holds 37.14% of the equity interest of BOCI China by its wholly-owned subsidiary BOCI.

List of Major Branches and Subsidiaries

MAJOR BRANCHES AND SUBSIDIARIES IN THE CHINESE MAINLAND

HEAD OFFICE

1 FUXINGMEN NEI DAJIE, BEIJING,
CHINA
SWIFT: BKCHCNBJ
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
WEBSITE: www.boc.cn

BEIJING BRANCH

A,C,E KAIHENG CENTER,
2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT, BEIJING,
CHINA
SWIFT: BKCHCNBJ110
TEL: (86) 010-85122288
FAX: (86) 010-85121739
POST CODE: 100010

TIANJIN BRANCH

8 YOUYI NORTH ROAD,
HEXI DISTRICT, TIANJIN,
CHINA
SWIFT: BKCHCNBJ200
TEL: (86) 022-27108001
FAX: (86) 022-23312805
POST CODE: 300204

HEBEI BRANCH

28 ZIJIANG ROAD,
SHIJIAZHUANG, HEBEI PROV.,
CHINA
SWIFT: BKCHCNBJ220
TEL: (86) 0311-69696681
FAX: (86) 0311-69696692
POST CODE: 050000

SHANXI BRANCH

186 PINGYANG ROAD,
XIAODIAN DISTRICT,
TAIYUAN, SHANXI PROV.,
CHINA
SWIFT: BKCHCNBJ680
TEL: (86) 0351-8266016
FAX: (86) 0351-8266021
POST CODE: 030006

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XIN CHENG DISTRICT, HUHHOT,
INNER MONGOLIA AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ880
TEL: (86) 0471-4690052
FAX: (86) 0471-4690001
POST CODE: 010010

LIAONING BRANCH

253 SHIFU ROAD, SHENHE DISTRICT,
SHENYANG, LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ810
TEL: (86) 024-22810827
FAX: (86) 024-22857333
POST CODE: 110013

JILIN BRANCH

699 XI AN DA LU, CHANGCHUN, JILIN PROV.,
CHINA
SWIFT: BKCHCNBJ840
TEL: (86) 0431-88408888
FAX: (86) 0431-88408901
POST CODE: 130061

HEILONGJIANG BRANCH

19 HONGJUN STREET, NANGANG DISTRICT,
HARBIN, HEILONGJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ860
TEL: (86) 0451-53636890
FAX: (86) 0451-53624147
POST CODE: 150001

SHANGHAI BRANCH

200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT, SHANGHAI,
CHINA
SWIFT: BKCHCNBJ300
TLX: 33062BOCSHCN
TEL: (86) 021-50375566
FAX: (86) 021-50372911
POST CODE: 200120

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING, JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ940
TLX: 34116BOCJSCN
TEL: (86) 025-84207888
FAX: (86) 025-84206082
POST CODE: 210005

ZHEJIANG BRANCH

321 FENG QI ROAD,
HANGZHOU, ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ910
TEL: (86) 0571-85011888
FAX: (86) 0571-87074837
POST CODE: 310003

ANHUI BRANCH

NO. 1688, YUNGU ROAD,
BINHU NEW DISTRICT, HEFEI, ANHUI PROV.,
CHINA
SWIFT: BKCHCNBJ780
TEL: (86) 0551-62926995
FAX: (86) 0551-62926993
POST CODE: 230091

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU, FUJIAN PROV.,
CHINA
SWIFT: BKCHCNBJ720
TLX: 92109BOCFJCN
TEL: (86) 0591-87090999
FAX: (86) 0591-87090111
POST CODE: 350003

JIANGXI BRANCH

10, LVYIN ROAD, HONGGUTAN NEW DISTRICT,
NANCHANG, JIANGXI PROV.,
CHINA
SWIFT: BKCHCNBJ550
TEL: (86) 0791-86471503
FAX: (86) 0791-86471505
POST CODE: 330038

SHANDONG BRANCH

22 LUOYUAN STREET,
JINAN, SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ500
TEL: (86) 0531-58522000
FAX: (86) 0531-58522001
POST CODE: 250000

HENAN BRANCH

3-1 BUSINESS OUTER RING ROAD,
ZHENGDONG NEW DISTRICT,
ZHENGZHOU, HENAN PROV.,
CHINA
SWIFT: BKCHCNBJ530
TEL: (86) 0371-87008888
FAX: (86) 0371-87007888
POST CODE: 450018

HUBEI BRANCH

677 JIANSHE ROAD, WUHAN, HUBEI PROV.,
CHINA
SWIFT: BKCHCNBJ600
TEL: (86) 027-85562866
(86) 027-85562766
FAX: (86) 027-85562955
POST CODE: 430022

HUNAN BRANCH

593 MID. FURONG ROAD (1 DUAN),
CHANGSHA, HUNAN PROV.,
CHINA
SWIFT: BKCHCNBJ970
TEL: (86) 0731-82588888
FAX: (86) 0731-82580707
POST CODE: 410005

GUANGDONG BRANCH

197-199 DONGFENG XI LU,
GUANGZHOU, GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ400
TEL: (86) 020-83398888
FAX: (86) 020-83344066
POST CODE: 510180

GUANGXI BRANCH

39 GUCHENG ROAD, NANNING,
GUANGXI ZHUANG AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ480
TEL: (86) 0771-2879316
FAX: (86) 0771-2813844
POST CODE: 530022

HAINAN BRANCH

29, 31 DATONG ROAD, LONGHUA DISTRICT,
HAIKOU, HAINAN PROV.,
CHINA
SWIFT: BKCHCNBJ740
TEL: (86) 0898-66562038
FAX: (86) 0898-66562026
POST CODE: 570102

SICHUAN BRANCH

35 MID. RENMIN ROAD (2 DUAN),
CHENGDU, SICHUAN PROV.,
CHINA
SWIFT: BKCHCNBJ570
TEL: (86) 028-86741950
FAX: (86) 028-86403346
POST CODE: 610031

GUIZHOU BRANCH

BOC BLDG., 347 RUIJIN SOUTH ROAD,
GUIYANG, GUIZHOU PROV.,
CHINA
SWIFT: BKCHCNBJ240
TEL: (86) 0851-85822419
FAX: (86) 0851-85825770
POST CODE: 550002

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING, YUNNAN PROV.,
CHINA
SWIFT: BKCHCNBJ640
TEL: (86) 0871-63106335
FAX: (86) 0871-63107516
POST CODE: 650051

TIBET BRANCH

113 JINZHU XI LU, LHASA,
TIBET AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ900
TEL: (86) 0891-6599394
FAX: (86) 0891-6599394
POST CODE: 850000

SHAANXI BRANCH

18 TANGYAN ROAD BEIDUAN,
LIANHU DISTRICT, XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCHCNBJ620
TEL: (86) 029-89593000
FAX: (86) 029-89592128
POST CODE: 710077

List of Major Branches and Subsidiaries

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
CHENGGUAN DISTRICT
LANZHOU, GANSU PROV.,
CHINA
SWIFT: BKCHCNBJ660
TEL: (86) 0931-7825003
FAX: (86) 0931-7825004
POST CODE: 730000

QINGHAI BRANCH

218 DONGGUAN STREET,
CHENG DONG DISTRICT, XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCHCNBJ280
TEL: (86) 0971-8178888
FAX: (86) 0971-8174971
POST CODE: 810000

NINGXIA BRANCH

39 XINCHANG EAST ROAD,
JINFENG DISTRICT, YINCHUAN,
NINGXIA HUI AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ260
TEL: (86) 0951-5681501
FAX: (86) 0951-5681509
POST CODE: 750002

XINJIANG BRANCH

1 DONGFENG ROAD, URUMQI,
XINJIANG UYGUR AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ760
TEL: (86) 0991-2328888
FAX: (86) 0991-2825095
POST CODE: 830002

CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT, CHONGQING,
CHINA
SWIFT: BKCHCNBJ59A
TEL: (86) 023-63889234
FAX: (86) 023-63889217
POST CODE: 400013

SHENZHEN BRANCH

INTERNATIONAL FINANCE BUILDING,
2022 JIANSHE ROAD, LUOHU DISTRICT,
SHENZHEN, GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ45A
TEL: (86) 0755-22338888
FAX: (86) 0755-82259209
POST CODE: 518001

SUZHOU BRANCH

128 WANGDUN ROAD,
SUZHOU INDUSTRIAL PARK,
SUZHOU, JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ95B
TEL: (86) 0512-66595566
FAX: (86) 0512-65114906
POST CODE: 215028

NINGBO BRANCH

139 YAOHANG STREET, NINGBO,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ92A
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

QINGDAO BRANCH

59 HONGKONG MIDDLE ROAD,
QINGDAO, SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ50A
TEL: (86) 0532-81859700
FAX: (86) 0532-67755601
POST CODE: 266071

DALIAN BRANCH

9 ZHONGSHAN SQUARE, ZHONGSHAN DISTRICT,
DALIAN, LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ81A
TEL: (86) 0411-82586666
FAX: (86) 0411-82637098
POST CODE: 116001

XIAMEN BRANCH

BANK OF CHINA BUILDING
NO. 40 NORTH HUBIN ROAD, XIAMEN,
CHINA
SWIFT: BKCHCNBJ73A
TEL: (86) 0592-5066417
FAX: (86) 0592-5095130
POST CODE: 361012

HEBEI XIONGAN BRANCH

149 LUOSA STREET,
RONGCHENG, HEBEI PROV.,
CHINA
SWIFT: BKCHCNBJ23B
TEL: (86) 0312-5988023
FAX: (86) 0312-5988023
POST CODE: 071700

BANK OF CHINA INSURANCE COMPANY LIMITED

9/10/11F, NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT, BEIJING,
CHINA
TEL: (86) 010-83260001
FAX: (86) 010-83260006
P.O. BOX: 100032
WEBSITE: www.bocins.com

BANK OF CHINA INVESTMENT MANAGEMENT CO., LTD.

45/F, BOC BUILDING, 200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT, SHANGHAI,
CHINA
TEL: (86) 021-38834999
FAX: (86) 021-68873488
P.O. BOX: 200120
WEBSITE: www.bocim.com

BANK OF CHINA CONSUMER FINANCE COMPANY LIMITED

1409#, BOC BUILDING,
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT, SHANGHAI,
CHINA
TEL: (86) 021-63291680
FAX: (86) 021-63291789
P.O. BOX: 200120
WEBSITE: www.boccf.com.cn
EMAIL: boccfadmin@boccf.com.cn

BOC INTERNATIONAL (CHINA) CO., LTD.

39/F, BOC BUILDING, 200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT, SHANGHAI,
CHINA
TEL: (86) 021-20328000
FAX: (86) 021-58883554
P.O. BOX: 200120
WEBSITE: www.bocichina.com
EMAIL: admindiv.china@bocichina.com

PREPARATION TEAM OF BOC FULLERTON COMMUNITY BANKS

9/F NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT,
BEIJING,
CHINA
TEL: (86) 010-57765000
FAX: (86) 010-57765550
P.O. BOX: 100032
WEBSITE: www.bocfullertonbank.com

BOC-SAMSUNG LIFE INS. CO., LTD.

9/F, NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT, BEIJING,
CHINA
TEL: (86) 010-83262688
FAX: (86) 010-83262777
P.O. BOX: 100032
WEBSITE: www.boc-samsunglife.cn

BOC FINANCIAL ASSET INVESTMENT CO., LTD.

8/F, NO. 110 XIDAN NORTH STREET,
XICHENG DISTRICT,
BEIJING,
CHINA
TEL: (86) 010-83262440
FAX: (86) 010-83262478
P.O. BOX: 100032

MAJOR BRANCHES AND SUBSIDIARIES IN HONG KONG, MACAO AND TAIWAN

BOC HONG KONG (HOLDINGS) LIMITED

24/F, BANK OF CHINA TOWER, 1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 28462700
FAX: (852) 28105830
WEBSITE: www.bocchk.com

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER, 1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 39886000
FAX: (852) 21479065
WEBSITE: www.bocigroup.com
EMAIL: info@bocigroup.com

HONG KONG BRANCH

7/F, BANK OF CHINA TOWER, 1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 28101203
FAX: (852) 25377609

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD CENTRAL,
HONG KONG, CHINA
TEL: (852) 28670888
FAX: (852) 25221705
WEBSITE: www.bocgins.com
EMAIL: info_ins@bocgroup.com

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG, CHINA
TEL: (852) 22007500
FAX: (852) 28772629
WEBSITE: www.bocgi.com
EMAIL: bocginv_bgi@bocgroup.com

BOC GROUP LIFE ASSURANCE CO., LTD.

13/F, CITYPLAZA ONE,
1111 KING'S ROAD, TAIKOO SHING,
HONG KONG, CHINA
TEL: (852) 21608800
FAX: (852) 28660938
WEBSITE: www.boclif.com.hk
EMAIL: enquiry@boclif.com.hk

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO SOARES,
MACAO, CHINA
SWIFT: BKCHMOMX
TEL: (853) 28781828
FAX: (853) 28781833
WEBSITE: www.bocmacau.com
EMAIL: bocmo@bocmacau.com

TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS, d'ASSUMPCAO,
MACAO, CHINA
SWIFT: TFBLMOMX
TEL: (853) 28322323
FAX: (853) 28570737
WEBSITE: www.taifungbank.com
EMAIL: tfbsecr@taifungbank.com

TAIPEI BRANCH

1-5/F, NO. 105, SONGREN ROAD,
XINYI DIST., TAIPEI CITY,
TAIWAN, CHINA
SWIFT: BKCHTWTP
TEL: (886) 227585600
FAX: (886) 227581598
EMAIL: service.tw@bankofchina.com

List of Major Branches and Subsidiaries

MAJOR BRANCHES AND SUBSIDIARIES IN OTHER COUNTRIES

ASIA-PACIFIC AREA

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE 049908
SWIFT: BKCHSGSGXXX
TEL: (65) 67795566
FAX: (65) 65343401
EMAIL: service.sg@bankofchina.com
WEBSITE: www.bankofchina.com/sg

TOKYO BRANCH

BOC BLDG. 3-4-1 AKASAKA MINATO-KU,
TOKYO 107-0052
JAPAN
SWIFT: BKCHJPT
TEL: (81) 335058818
FAX: (81) 335058868
EMAIL: service.jp@boctokyo.co.jp
WEBSITE: www.bankofchina.com/jp

SEOUL BRANCH

1/2/3F YOUNG POONG BLDG.,
41, CHEONG GYE CHEON-RO, JONGNO-GU,
SEOUL 03188
KOREA
SWIFT: BKCHKRSEXXX
TEL: (82) 16705566
FAX: (82) 23996265
WEBSITE: www.bankofchina.com/kr

BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE, & 1ST FLOOR
PLAZA OSK, 25 JALAN AMPANG
50450 KUALA LUMPUR,
MALAYSIA
SWIFT: BKCHMYKL
TEL: (60) 323878888
FAX: (60) 321615150
EMAIL: service.my@bankofchina.com
WEBSITE: www.bankofchina.com/my

BANK OF CHINA (THAI) PUBLIC COMPANY LIMITED

179/4 BANGKOK CITY TOWER,
SOUTH SATHORN ROAD,
TUNGMAHAMEK SATHORN DISTRICT,
BANGKOK 10120,
THAILAND
SWIFT: BKCHTHBK
TEL: (66) 22861010
FAX: (66) 22861020
CUSTOMER SERVICE CENTRE: (66) 26795566
EMAIL: service.th@bankofchina.com
WEBSITE: www.bankofchina.com/th

BANK OF CHINA (HONGKONG) LIMITED JAKARTA BRANCH

TAMARA CENTER 11TH FLOOR,
JALAN JEND. SUDIRMAN KAV. 24
JAKARTA 12920,
INDONESIA
SWIFT: BKCHIDJA
TEL: (62) 215205502
FAX: (62) 215201113/215207552
EMAIL: service.id@bankofchina.com
WEBSITE: www.bankofchina.co.id

BANK OF CHINA (HONGKONG) LIMITED PHNOM PENH BRANCH

CANADIA TOWER, 1ST & 2ND FLOOR,
#315 ANG DOUNG ST.
P.O. BOX 110, PHNOM PENH,
CAMBODIA
SWIFT: BKCHKHPP
TEL: (855) 23988886
FAX: (855) 23988880
EMAIL: phnombd@mail.notes.bank-of-china.com
WEBSITE: www.bankofchina.com/kh

BANK OF CHINA (HONGKONG) LIMITED HOCHIMINH CITY BRANCH

GROUND & 11TH FL, TIMES SQUARE BUILDING,
22-36 NGUYEN HUE STREET, DISTRICT 1,
HOCHIMINH CITY,
VIETNAM
SWIFT: BKCHVNVX
TEL: (84) 2838219949
FAX: (84) 2838219948
EMAIL: service.vn@bankofchina.com

MANILA BRANCH

G/F. & 36/F.
PHILAMLIFE TOWER
8767 PASEO DE ROXAS, MAKATI CITY, MANILA
PHILIPPINES
SWIFT: BKCHPHMM
TEL: (63) 28850111
FAX: (63) 28850532
EMAIL: service.ph@bankofchina.com

BANK OF CHINA (HONGKONG) LIMITED BRUNEI BRANCH

KIARONG JAYA KOMPLEK, LOT NO. 56244,
SIMPANG 22, JALAN DATO RATNA,
KAMPONG KIARONG,
BANDAR SERI BEGAWAN BE1318,
BRUNEI DARUSSALAM
SWIFT: BKCHBNBB
TEL: (673) 2459888
FAX: (673) 2459878

SYDNEY BRANCH

39-41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2SXXX
TEL: (61) 282355888
FAX: (61) 292621794
EMAIL: service.au@bankofchina.com
WEBSITE: www.bankofchina.com/au

BANK OF CHINA (AUSTRALIA) LIMITED

39-41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2AXXX
TEL: (61) 282355888
FAX: (61) 292621794
EMAIL: service.au@bankofchina.com
WEBSITE: www.bankofchina.com/au

BANK OF CHINA (NEW ZEALAND) LIMITED

LEVEL 17, TOWER 1, 205 QUEEN STREET,
AUCKLAND, 1010,
NEW ZEALAND
SWIFT: BKCHNZ22
TEL: (64) 99809000
FAX: (64) 99809088
EMAIL: service.nz@bankofchina.com
WEBSITE: www.bankofchina.com/nz

JSC AB (BANK OF CHINA KAZAKHSTAN)

71B, MICRODISTRICT ZHETYSU-2,
AUEZOV DISTRICT, 050063, ALMATY,
REPUBLIC OF KAZAKHSTAN
SWIFT: BKCHKZKA
TEL: (7727) 2585510
FAX: (7727) 2585514
EMAIL: boc@bankofchina.kz

VIENTIANE BRANCH

NO. A1003-A2003, VIENTIANE CENTER,
KHOUVIENG ROAD, NONGCHAN VILLAGE,
SISATTANAK DISTRICT,
VIENTIANE CAPITAL,
LAO P.D.R.
SWIFT: BKCHLALXXX
TEL: (856) 21228888
FAX: (856) 21228880
EMAIL: service.la@bankofchina.com

KARACHI BRANCH

5TH FLOOR, CORPORATE OFFICE BLOCK,
DOLMEN CITY, HC-3, BLOCK 4,
SCHEME 5, CLIFTON,
KARACHI,
PAKISTAN
SWIFT: BKCHPKKA
TEL: (92) 2133110688
FAX: (92) 2133110600
EMAIL: services.pk@bankofchina.com

COLOMBO BRANCH

NO. 40, YORK STREET, COLOMBO. 001
SRI LANKA
SWIFT: BKCHLKLX
TEL: (94) 0112195566
FAX: (94) 0112118800
EMAIL: service.lk@bankofchina.com

YANGON REPRESENTATIVE OFFICE

08-06, LEVEL 8,
UNION FINANCIAL CENTER (UFC),
CORNER OF MAHABANDoola ROAD &
THEIN PHYU ROAD, 45TH STREET,
BOTATUNG TOWNSHIP,
YANGON,
MYANMAR
TEL: (95) 18610408
EMAIL: service.mm@bankofchina.com

ULAANBAATAR REPRESENTATIVE OFFICE

11TH FLOOR
CENTRAL TOWER,
SUKHBAATAR SQUARE-2, SBD-8,
ULAANBAATAR 14200,
MONGOLIA
TEL: (976) 77095566
FAX: (976) 77195566
EMAIL: service.mn@bankofchina.com

List of Major Branches and Subsidiaries

BANK OF CHINA (DUBAI) BRANCH

LEVEL 11 TOWER 2,
AL FATTAN CURRENCY HOUSE
DUBAI INTERNATIONAL FINANCIAL CENTRE
P.O. BOX 118842,
DUBAI,
U.A.E.
SWIFT: BKCHAEADXXX
TEL: (971) 43819100
FAX: (971) 43880778
EMAIL: service.ae@bankofchina.com

BANK OF CHINA LTD-ABU DHABI

GROUND FLOOR,
MANSOUR TOWER,
AL SALAM STREET,
P.O. BOX 73098,
ABU DHABI, U.A.E.
SWIFT: BKCHAEAAA
TEL: (9712) 4041666
FAX: (9712) 4041668
EMAIL: abudhabi.ae@bankofchina.com

QATAR FINANCIAL CENTRE BRANCH

24TH FLOOR,
ALFARDAN TOWERS-OFFICE TOWER,
BUILDING NO. 12, ZONE 61,
AL FUNDUQ, STREET NO. 814,
P.O. BOX: 5768
DOHA, QATAR
SWIFT: BKCHQAQA
TEL: (974) 44473681/44473682
FAX: (974) 44473696
EMAIL: service.qa@bankofchina.com

BAHRAIN REPRESENTATIVE OFFICE

OFFICE 1502,
AL JASRAH TOWER,
DIPLOMATIC AREA
BUILDING 95,
ROAD 1702, BLOCK
317, MANAMA
KINGDOM OF BAHRAIN
TEL: (973) 17531119
FAX: (973) 17531009
EMAIL: bldbcbs@mail.notes.bank-of-china.com

ISTANBUL REPRESENTATIVE OFFICE

ESENTEPE, BUYUKDERE CD.
NO: 209 KAT: 21, 34394 4.
LEVENT, SISLI, ISTANBUL,
TURKEY
TEL: (90) 2122608888
FAX: (90) 2122798866
EMAIL: service.tr@bankofchina.com

BOC AVIATION LIMITED

8 SHENTON WAY #18-01
SINGAPORE 068811
TEL: (65) 63235559
FAX: (65) 63236962
WEBSITE: www.bocaviation.com

EUROPE

LONDON BRANCH

1 LOTHBURY,
LONDON EC2R 7DB,
U.K.
SWIFT: BKCHGB2L
TEL: (44) 2072828888
FAX: (44) 2076263892
EMAIL: service.uk@bankofchina.com
WEBSITE: www.bankofchina.com/uk

BANK OF CHINA (UK) LIMITED

1 LOTHBURY,
LONDON EC2R 7DB,
U.K.
SWIFT: BKCHGB2U
TEL: (44) 2072828888
FAX: (44) 2076263892
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WEBSITE: www.bankofchina.com/uk

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